

## KEYNOTE INTERVIEW

# Finding treasure in infrastructure's hidden corners



*Infracapital's **Herman Deetman** appreciates the value to be found in the more complicated areas of the energy transition*

Infracapital is a core-plus investor purely focused on European mid-market investments, with equity sizes of \$50 million to \$300 million. Herman Deetman, managing director at the firm, stresses two key elements to success in the sector: picking your entry point and looking at the more complicated areas of decarbonisation.

**Q What makes the mid-market key to creating the most value in energy transition projects?**

We emphasise the mid-market because

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of its balance of innovation and scalability. Early-stage energy transition companies often operate at higher risk, focusing on innovation. We avoid this initial phase, instead stepping in once companies have proven their business models and demonstrated reliable solutions, which is when they require significant capital to scale their operations.

The mid-market offers a sweet spot for value creation, combining

lower risk than early ventures with high growth potential. By funding growth and building out assets, we help companies mature into entities attractive to larger infrastructure investors. Many of our exits have been to larger players in the market who are not able to access these kinds of businesses until they reach a certain size.

This approach aims to support transformative trends like decarbonisation and electrification while providing robust returns. The mid-market also benefits from less competition and

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### **Q Will the recent €500 billion special finance package in Germany make a difference in accelerating private sector involvement?**

The German energy sector is quite unique in the context of Europe, in that the vast majority of energy companies in Germany, some 800 of them, are owned by local municipalities. That has historically led to quite an inefficient way of funding the energy transition.

While Germany has been at the forefront of decarbonising energy generation through wind and solar, it has lagged behind elsewhere. For example, decarbonising its heat sector, smart metering and the roll-out of EVs and electric trucking. So, I would say in those areas there is a big catch up to be done.

If executed in the right way, I believe generally good infrastructure projects do not need state funding because there is plenty of global capital around looking for attractive investment opportunities. However, where I think the government funding can help is to accelerate some of that private capital coming in. And in that sense, I do think that the new plan can make an important difference if targeted at the right sectors of the economy.



better risk-adjusted returns compared to large-cap investments.

Infracapital has been in the mid-market space for 20 years and has built a strong network which has enabled bilateral deals to occur. We have seen some of our peers start in the mid-market, move out of this space to raise larger funds and subsequently move back into the mid-market more recently to capture this opportunity.

### **Q What do you think of emerging technologies such as hydrogen?**

We monitor these emerging technologies, but we also have a very strong view that the vast majority of them, from the perspective of an infrastructure investor, are still too early stage. There are other pockets of capital around to invest in and develop those, and as a particular sector becomes more established it will start to become appropriate for infrastructure investors.

For us, picking the right point of entry as an infrastructure investor can make a big difference. It is about striking that right balance between not being too early when the asset class

may still be too high-risk or too uncertain, and of course not waiting too long when returns are starting to come down and become less interesting.

### **Q How do you think about which sectors to prioritise within the energy transition?**

Infracapital has invested in the decarbonisation space since 2005 and watched it evolve. Conventional renewables have become very crowded as an investment space and returns have consequently decreased. As a result, we have moved into more niche

areas – the more complicated areas of decarbonisation where we think we can make a much bigger difference, and the risk-return profile is much better aligned to what we are looking for.

We look at three main buckets: transport, energy generation and storage, and industrial decarbonisation. I would highlight industrial decarbonisation as particularly interesting. That can be done in a number of different ways but is ultimately about making industrial processes more energy efficient and reducing the carbon footprint.

We have a couple of portfolio companies that are focused on that. One of them is Cogenio, which is active in Italy and Spain, and is a partnership with the local utility companies, ENEL and Endesa. They are focusing on projects for mid-sized industrial clients, providing co-generation and renewable ways of helping meet their energy needs more efficiently and with a lower carbon footprint.

The other company I would highlight is EnergyNest, which is an earlier stage company that sits within Infracapital Greenfield Partners II, and is aimed at helping industry and industrial facilities reuse the waste heat coming from their processes, through thermal storage solutions.

### **Q Where do you see the greatest opportunities?**

We seek investment opportunities within traditional infrastructure sectors such as ports, transportation and logistics, which typically have significant carbon footprints. Our approach involves integrating decarbonisation efforts into our investment strategy.

Although these companies initially have a high carbon footprint, our goal is to guide them along a decarbonisation path over our holding period, which can typically span six to 10 years. This is an essential aspect of our investment case when evaluating new opportunities.

Transportation in particular is a great area of opportunity. Obviously,

transport in all its different forms is a major contributor to carbon emissions and many of those sectors are quite hard to decarbonise. I think of aviation as being probably the most extreme example of that.

In transportation, what we are focusing on are sectors where decarbonisation is already happening and where significant capital to do that is required. One key investment, Zenobe, is active in the decarbonisation of bus transportation, providing integrated solutions from the battery to the charging infrastructure for buses. Another, Inland Terminals Group, is involved in container transportation on rivers and waterways in the Benelux. These ships

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traditionally are diesel fuelled but we are working with key customers such as Nike and Heineken to move towards zero-emission solutions.

### **Q What support besides equity capital can managers offer to a business?**

We will support the management teams of our portfolio companies as and when appropriate. Obviously, one area of Infracapital's expertise lies in sourcing capital with the best possible conditions. When it comes to things like debt financing or project finance, we will help the management teams with our expertise and our network of relationships in the debt markets. But more broadly, in terms of the business planning and planning of capital expenditure projects, we are as hands-on as needed.

In the case of our UK-based electric vehicle (EV) charging business Gridserve, in addition to capital, we have helped the management team establish processes and procedures to allow it to accelerate its growth trajectory. I think this has been a really successful partnership. There is obviously still a tremendous amount of work to be done in rolling out EV infrastructure in the UK but Gridserve has already established itself as one of the key players in the market.

### **Q How would you view the evolution of the energy transition moving forward?**

Infrastructure investing by definition needs to be quite boring because that is what our investors expect from us. To invest in stable, proven businesses that are going to deliver attractive returns and attractive yields. So, by definition, that cannot be too exciting.

Having said that, the European energy transition will change as policies, technologies and economic conditions evolve. This will present new opportunities for a core-plus investor such as Infracapital to put capital to work and that is exciting in and of itself. ■