KEYNOTE INTERVIEW

A new blueprint for infrastructure

Investing in mid-market infrastructure is more than simply buying well, it demands an active value creation strategy that is able to drive growth, operational improvements and de-risking, say Northleaf's Olivier Laganière and Michael Smerdon

As the infrastructure asset class continues to evolve, there has been a noticeable shift in how asset managers operate these assets and deliver returns. Even so, infrastructure's fundamentals remain largely unchanged – inflation-protected hard assets and essential services with high barriers to entry and historically stable cashflows.

Olivier Laganière and Michael Smerdon, senior members of Northleaf Capital Partners' infrastructure team, discuss how managers can remain disciplined on investment fundamentals while seeking to pursue value enhancement and operational improvements through active value creation plans. Given the breadth and diversity of the mid-market infrastructure opportunity set, managers must balance consistency in their value creation approach with the flexibility to tailor initiatives to each asset's specific needs and circumstances.

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Q What does 'industrialisation of infrastructure' mean to you?

Michael Smerdon: One of the things I've seen through almost 30 years in the infrastructure sector is its constant evolution. With both capital and the infrastructure opportunity set continuing to grow, particularly in the mid-market, the focus has shifted beyond asset acquisition alone.

Buying well remains a critical foundation, but managers are increasingly expected to complement their disciplined underwriting with a deliberate, differentiated and repeatable approach to value creation.

That systematic active management is what we mean by the industrialisation of infrastructure.

Olivier Laganière: The infrastructure landscape as a whole is gradually moving up the risk curve, chasing attractive returns, requiring a more active ownership approach. Typically, a manager's objective is to identify opportunities to create value, while employing strategies to reduce risk. This is a significant undertaking, that requires a breadth of skills and capabilities that can take years to build and refine. For example, Northleaf has built a value creation playbook with four key pillars aimed at value creation – leadership, efficiency, acceleration and fortification. Our underwriting and investment processes utilise components of this framework, resulting in a bespoke plan supported by our in-house capabilities and a roster of operating partners with sectoral and functional expertise.

Q The mid-market is uniquely positioned, with assets that are simple enough to standardise yet fragmented enough to scale. How can investors make the most of this balance?

OL: One of the benefits of the mid-market is the flexibility of building a well-diversified portfolio – asset types are quite varied. In the enterprise value bite size of $1 billion or under, mid-market managers like Northleaf have the ability to pursue opportunities from single-purpose companies that operate in one region to platforms that can scale and grow. Each requires a tailored value creation plan.

While mature, steady-state assets, like fully contracted operating wind farms or toll roads, may lean heavily on the efficiency and fortification levers of our framework (focusing on capital structure, cost controls, contract extensions and preventative maintenance), platforms with growth profiles are more aligned with our leadership and acceleration pillars. The success of these businesses, such as early-stage cell tower and equipment leasing-as-a-service platforms, depends on an ability to assemble experienced teams capable of executing growth strategies and pursuing bolt-on acquisitions to expand into new geographies or industry verticals.

MS: The mid-market often involves assets that are simple enough to standardise through a repeatable value creation playbook, and are within fragmented sectors that offer substantial opportunities for expansion and consolidation. It holds significant potential for active value creation because assets in this category are often less visible and require hands-on operational improvements.

As a mid-market manager, we typically take a controlling position in the investments we make that allows us to be actively involved alongside the management team. For instance, we recently completed an investment in a mid-market sub-metering business within the equipment leasing space. It provides a legislatively mandated

Q Which specific indicators should investors think about when identifying deal targets?

OL: In the mid-market, investors should focus on partnering with undercapitalised founders, developers and industrial corporate partners. Capital dislocation means smaller businesses typically have more limited access to capital compared to large-cap organisations. Managers that take on a more hands-on approach in being a collaborative partner are often best positioned to support management teams and drive meaningful growth and value creation. It's also about remaining disciplined from the start: if there's a lack in conviction that an asset can scale, or if proper structural alignment cannot be established to manage downside risk, it's likely prudent to walk away.

Because leadership is so critical to executing a value creation strategy, it's important to begin structuring and aligning management teams while conducting due diligence. By involving incoming leadership in shaping the business plan prior to the financial close, they're likely to be ready to execute from day one. Where a complete management team isn't immediately available, such as in corporate carve-outs, a roster of operating partners can step in as interim executives to establish core business and reporting frameworks, oversee day-to-day operations, drive the early days of the value creation plan and help establish the go-forward management team.

service with long-term contracts, and CPI-linked escalators, while supporting energy conservation in multifamily residential buildings. We applied the pillars of our value creation playbook to this asset, eventually building out the capability to diversify into new regional markets with extended contract lengths, which we believe meaningfully lowers the asset's risk profile for the next buyer.

Q What does 'de-risking' an asset in the mid-market look like in practice?

OL: While leadership, efficiency and acceleration drive top-line growth and margin expansion, it's the fortify stage of an investment that ultimately seeks to lower risk and volatility. This can give incoming buyers complete confidence in the asset's sustainability, enabling higher exit multiples.

De-risking can take several forms, of course, from extending contracts to facilitating repeatable, predictable cashflow. Building internal capabilities to establish a track record of delivering capex projects on time and on budget is another way of mitigating the risk around these sorts of deals.

Extending off-take or concession agreements so the next buyer isn't underwriting near-term renewal can make assets much more attractive. And professionalising sales and origination processes to demonstrate steady, predictable organic growth rather than lumpy, ad-hoc revenue spikes can significantly reduce volatility.

Optimising an asset's capital structure has long been an important lever for managers seeking to de-risk an investment. We take a highly disciplined and conservative approach to the use of leverage, with leverage levels typically representing only 20-30 percent of the acquisition price. Our assets are generally financed with long-term fixed rate bonds, providing balance sheet flexibility and reducing exposure to fluctuations in interest rates. We typically use leverage conservatively to support value creation, with an aim towards enhancing an asset's exit potential.

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>
> **OLIVIER LAGANIÈRE**

Q How crucial is technology for asset acquisition and management?

MS: Technology is rarely what we acquire per se, but it's certainly a major lever that can improve operational efficiency. We've incorporated digital transformation across a number of our portfolio value creation plans, which we believe can help mitigate inefficient manual processes and improve data collection capabilities and enable us and management teams to make informed operational decisions. For instance, our sub-metering business historically relied on manual data entry for 10,000 customers, but as the customer base grew more than tenfold, we've had to proactively look to digital capabilities.

We also leverage technology to drive data-led operational decisions. Rather than replacing machinery solely because it's reached a certain age, we now collect usage data from the connected equipment on its wear and tear to extend the asset life safely. Additionally, digitising traditionally cash-based or coin-operated equipment through remote digital connectivity can reduce the logistical burden of collecting and processing coins across numerous locations, while supporting more flexible pricing, enhanced operating data collection and improved customer experience.

We're also exploring ways AI can serve as a tool to drive growth and efficiency in our portfolio investments. On the efficiency side, AI-powered sales tools can improve sales representative productivity and reduce the amount of administrative and manual tasks that would otherwise detract them from their main role of selling. On the acceleration side, we see opportunities to use AI to analyse large datasets from widely distributed physical assets to make localised pricing decisions in minutes – a process that previously took days or weeks.

Q How do you view the future of infrastructure investing?

OL: We remain optimistic about the deep opportunity set in the mid-market, particularly in North America, where we continue to see a robust pipeline of investment opportunities. While the definition of infrastructure will continue to expand and assets becoming increasingly operationally complex, the core underwriting focus should remain unchanged: long-lived hard assets and essential services with high barriers to entry and historically stable cashflows that have embedded inflation escalators. We believe the value creation playbook that we've developed and honed over the history of our infrastructure programme provides the tools, expertise and hands-on capabilities to unlock value and drive the performance of our investments going forward. Against this backdrop, we believe the market is well positioned to support continued deployment and long-term outcomes for investors. ■