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CASE STUDY: AUSSIE PE STARTS BIG INFRA PLAY WITH ACUMEN

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Pacific Equity Partners and Landis + Gyr's acquisition of Origin Energy's Acumen smart metering business ushered in a new kind of GP to infrastructure in Australia, writes Shaun Drummond.

Australia & NZ

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Australia's largest private equity house, Pacific Equity Partners (PEP), has typically focused on leveraged buyouts with 20%-plus investment returns. It has done deals across numerous sectors, including education, financial services and food manufacturing.

It has long had an interest in infrastructure assets also. In 2010 it managed to buy 84% of then ASX-listed Energy Developments Pty Ltd which it sold to DUET Group in 2015. It also unsuccessfully bid for Pacific Hydro, which IFM Investors sold in 2015 to China's State Power Investment Corp.

More recently, PEP is understood to have bid against MIRA to be Genessee & Wyoming's partner in its offer for Glencore's Grail coal haulage business in NSW Hunter Valley. MIRA ultimately won that right and the pair were the winning bidders.

PEP is not alone in losing out to global bidders with a lower cost of capital as demand has outstripped supply in the infrastructure arena. But PEP was convinced it needed to change its approach if it wanted to be a competitive investor as the price for long-term assets has been bid up.

In May 2017 it hired Paul Foster, a former head of infrastructure for Australia and New Zealand at AMP Capital. He is now a managing director of PEP.

Later that year it started the process of raising its first infrastructure fund targeting AUD 750m (USD 555.2m) with an AUD 1bn hard cap, to be known as the Secure Assets Fund (SAF). The metering sector was a clear candidate as the manager began scoping for its first investment.

Metering businesses had become valuable with national "power of choice" legislation requiring analogue meters be replaced with digital ones if faulty or worn out. Following

AGL's sale of its ActiveStream business in late 2017, Origin's Acumen was the next one coming up.

Acumen

Project Spark, as PEP's bid was dubbed internally, was kicked off early in the new year as Origin's sale of Acumen, advised by Bank of America Merrill Lynch, got underway.

PEP's bid quickly accumulated a large internal and external team as it was a new area for it to invest in and required a joint venture with a trade partner.

Led by PEP managing director, Cameron Blanks as well as Foster, the bid team included directors Andrew Charlier and Evan Hattersley. Advisers included Tom Butcher, Credit Suisse's head of infrastructure, power and utilities, Michael Sied of Ironstone Capital and Alan Young from Highbury Partnership.

Unlike traditional passive infrastructure investing, PEP's strength as a private equity house is in its experience getting directly involved in running and improving businesses.

Many infrastructure GPs are much more active managers of assets now, but PEP's SAF is also differentiated from the big infrastructure funds in targeting relatively small investments of less than AUD 500m in the non-core infrastructure space. It targets a hold and return on investment level between private equity and infrastructure: typically around a 14-year hold and around a 15% annualised return.

Fittingly, Acumen presented a deal that is somewhere between project and corporate finance, as it is a business providing a service to an infrastructure sector with capital investment in real assets required.

It is also tapping into a sector that will see strong growth in the next few years. As well as the legislative impetus, metering technology is at the centre of major disruption now occurring in the power sector.

PEP quickly identified Landis+Gyr (L+G) as an experienced and willing partner for PEP's equity as it was looking to acquire growth in the Australian market and had bid unsuccessfully on AGL's ActiveStream. But it took several trips to the meter specialist's Swiss HQ to agree on the partnership.

L+G executives were then added to the bid team in the loop. These were L+G's global CEO Richard Mora; Asia Pacific vice president Ellie Doyle; and Adrian Clark, CEO of South East Asia, Australia and New Zealand.

Following initial bids in early March, three final bids were lodged on 14 May. These were culled to two - including New Zealand's Vector with KKR-owned Calvin Capital, a specialist financier of metering - with a 21 May final re-submission deadline. PEP and L+G were told its intelliHUB joint venture was the preferred candidate late on 21 May.

Finance structure

The nature of the financing was an important part of PEP's bid, which it is claiming as a first in the Australian market for this sector.

Typically in meter asset bids in the past in Australia, the smart meter financiers and owners are separate to the smart meter operator.

According to a source close to the deal, these "asset financing structures" require the payments from the energy retailers for use of the meters to be divided between the meter owner and meter operator as the banks only have recourse to the meter owners portion of the cash flows.

This can limit the level of debt that can be raised and banks usually require a further direct contractual relationship with the energy retailer, which imposes additional obligations on the retailer that may affect the commercial terms the retailer and metering service provider are willing to agree.

PEP and L+G's proposal keeps the meters on the balance sheet of the intelliHUB business as it is both owner and operator of the smart meters. This allowed the joint venture to raise a larger amount of debt to fully fund the roll out of the smart meters over the next three to four years as the banks have security over both the meters and the operating profits of the intelliHUB business.

This was said to be attractive to Origin, who will be Acumen's chief customer initially, which wants to maintain a rapid roll out of smart meters.

Sources close to the deal say, as a result, the debt backing it is relatively large for the size of the intelliHUB business, although the split with the equity investment for the acquisition (of AUD 267m, including around AUD 100m from PEP's SAF) is said to be about 50:50.

There are eight banks involved: ANZ Bank, BNP Paribas, Commonwealth Bank, Clean Energy Finance Corporation, Investec, NAB, MUFG Bank, and SMBC.

Total debt is understood to be AUD 270m with a term of five years, according to *Inframation deals.* This includes a AUD 50m term loan; a AUD 200m capex facility (which is likely to be the component financing the meter rollout); and AUD 20m a working capital loan.

As it was not a pure project finance deal, PEP and L+G were dealing with their lenders leveraged finance as well as project finance teams. The debt will fund the installation of about 400,000 meters for Origin and other retailers over the next three to four years. Origin has contracted for 750,000 meters over a maximum roll out period of nine years and it is likely intelliHUB will need to add to and extend the debt for the rest of the contract.

Next steps

Once PEP and L+G had won the deal, a pre-prepared 90-day program began as there was a requirement to begin the smart meter installation quickly.

Financial close was announced on 20 June - a relatively short period for such a transaction - when the new CEO, and COO were announced. Clark at Landis+Gyr became intelliHUB's new chief and Peter Birk, the founder of intelliHUB within L+G, is the new COO.

PEP and L+G's legal advisers included Clayton Utz, Baker McKenzie and Herbert Smith Freehills. Their banks legal adviser was Allens.

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