

Private Investors Take Interest in Open-Access Fiber Networks

As open FTTH networks emerge again in the United States, investors dedicate capital to community networks that will support an array of traditional internet, telehealth and building management services.

By Sean Buckley / *Broadband Communities*

Open-access fiber broadband networks are making headlines again. These networks are now attracting capital investors to provide funding for communities that want faster speeds and a wider array of services and pricing options.

Open-access fiber networks allow multiple operators to provide services. Using a simple online services marketplace, customers can choose services that fit their needs and budgets.

Private investment firms are funding community networks that are either unable or unwilling to use bonds to support network investments. Thomas Capital Group, which assists and guides alternative investment managers worldwide in structuring funds and raising capital, is one of those firms.

“There has been a resurgence with low- and middle-market investment activity in the broadband sector,” says James Wagar, managing director of Thomas Capital Group.

Whether driven by public utility districts (PUDs) in Washington state or municipalities building their own networks, it’s clear that the open-access network movement is gaining momentum. “ISPs such as iFIBER are getting asked by these newly formed providers, who raised or are in the process of raising capital to own these open access fiber-to-the-premises networks, to offer broadband data and other services like telehealth,” Wagar says.

SiFi is one example of an emerging provider working with APG and Whitehelm Capital to secure funding for its open-access fiber projects. Ben Bawtree-Jobson, SiFi’s CEO, says the desire to drive new competition in broadband will attract more investors over time.

“We have been advocates for trying to develop open-access network models in the United States to enable long-term growth,” he says. “APG invested in the smart-city fund, the first dedicated fund of its type, so it was an obvious matchup for what we were doing.”

He adds that in Europe, several investment houses, including Antin and Goldman Sachs, have made investments in companies similar to SiFi.

“This trend will continue as the perception around having these independently operated networks and enabling competition versus monopolies are big political wins,” he says. “You have the political headwind behind the movement and private capital valuing that infrastructure correctly.”

MEDINA FIBER, SIFI STEP UP

Medina Fiber and SiFi are among some of the players tapping into private capital to fund their open-access fiber networks.

The first phase of Medina Fiber’s open-access FTTH network deployment is fully funded and will cost close to \$8 million to construct.

Funding for the additional \$50 million to be invested in the remainder of the buildout will be finalized in early 2020.

David Corrado, CEO of Medina County Fiber, an open-access, middle-mile network owned by the county port authority that will provide transport to Medina Fiber's network, says that though the port authority issued bonds to finance Medina County Fiber, Medina Fiber is using investor funds for its open-access FTTH network.

SiFi, which announced that Fullerton, California, will be the beneficiary of one of its latest smart-city-ready projects, is working with private investors to fund the project. APG and Whitehelm Capital, on behalf of the Smart City Infrastructure Fund, partnered with SiFi to invest more than \$75 million in the Fullerton project.

APG and Whitehelm Capital established the Smart City

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Infrastructure Fund in November 2018 to provide long-term funding for smart-city infrastructure projects.

Bawtree-Jobson wants to apply the approaches that Europe has taken with open-access projects in the United States.

"We developed a three-layer model, which consists of the separation of physical infrastructure, operations, and service provisioning into a 100 percent private model," he says. "For the past two years, we have been working with private investors on what thresholds are acceptable to attract institutional capital into the private market."

FIBER INFRASTRUCTURE NEEDS

How big is the open-access fiber opportunity? Take into consideration that today 19,000 U.S. cities have fewer than 100,000 people. At some point, these cities will need fiber infrastructure.

Communities build their own networks where incumbents are unwilling – providing access to homes and local town and city buildings such as the city hall.

Brian Snider, CEO of Lit Communities, a partner in Medina Fiber, says forward-looking

MULTISERVICE SUPPORT

As an open-access network comes online, it enables a host of providers to offer services to residential and business customers. An open-access network provides a variety of choices for such consumer applications as internet access, telehealth and home automation.

Operating what it calls an open-application model, Lit Communities allows multiple revenue streams unassociated with the traditional triple play of internet, phone and TV services.

With its community assessment program, Lit Communities focuses on how much a network costs and how much a community can make through a proper demand aggregation campaign.

The company claims it can create viable business cases for fiber optic network deployments on behalf of communities whose incumbent providers cannot, and then actually make those networks a reality by building them themselves.

Lit Communities has completed these tasks in Breckenridge and Bloomfield, Colorado; New Orleans; Medina County, Ohio; and Lampasas, Texas.

"We can put together a state-of-the-art network where we will own the infrastructure and connectivity to the home and business, and allow different providers

to offer services across it," says Brian Snider, CEO of Lit Communities. "This will include broadband ISPs such as iFIBER, telehealth providers and solar energy providers such as Vivint offering smart home solutions."

Additional ISPs and other applications, such as smart-home services, will be added to the Lit Store as Medina Fiber expands throughout Medina County.

The telehealth provider Docity, for example, partners with communities and ISPs to bundle telehealth access with the products and services that households already buy and use every month. It has set a goal to eliminate 30 percent of all in-person visits by 2030 at 30 percent of the cost.

SiFi cites a similar trend. Set on driving smart cities, the company sees opportunities to use its fiber networks for various uses. In 2020, SiFi will construct networks in multiple other cities.

"For us and our investors, it's about making transformative investments, so it's not just about FTTH and providing internet service," Bawtree-Jobson says. "You need that, but the way we set up our business is it's about everything else, including creating a network to support 5G, smart-city applications, and dedicated health care or education networks throughout cities."

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communities will lead fiber installations. “We will then raise capital through local banks and private equity groups to bring money into a project, then we’ll eventually build out the entire county last-mile network,” he says.

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Any investor looking to take aim at open-access fiber networks needs to have a different mentality.

Investors can’t think about take rate the same way that a traditional telecom would, particularly in rural areas that lack dense subscriber bases. On any open-access network, different subscribers could access different services.

“The whole take-rate concept has to be thrown out the window,” Snider says. “Take rates have been one of the hurdles with investors, which have that old-school mentality of ‘I am just investing in the telco, not the infrastructure.’”

Wagar says investors see open-access networks as assets with growth potential because multiple entities can use them. Investors have dedicated financing amounts ranging from \$35 million up to \$250 million.

“There is institutional capital being committed – usually directly by a fund manager or by an intermediary – to this sector,” Wagar says. “People view

a fiber network as a digital toll road, particularly an open-access one, where as the network owner, you can bring in various types of providers offering services and get a piece of the action.”

SECURING ANCHOR TENANTS

When an operator initially launches a network, it needs to find a group of network partners to deliver service and provide revenue sources. By having a set of anchor service-provider tenants, an open-access provider can build a diversity of customers and revenue streams.

City Utilities of Springfield (CU) announced plans to expand its fiber network, SpringNet, by more than 1,000 route miles to enable affordable, high-speed broadband services to all of Springfield (See: “Springfield, Missouri, and CenturyLink Expand Fiber Network,” page 30). Despite having some similarities with other community networks, SpringNet is not a traditional open-access network. This gives CenturyLink de facto exclusivity for the majority of SpringNet’s residential customers.

The fiber will be made available for private broadband providers to lease. CenturyLink will be the first customer, bringing its fiber internet service to every home and business in Springfield.

Other operators, such as Medina County Fiber, which serves businesses and anchor institutions, already have established a list of partners. On the business services side, the provider

has 13 carrier partners, including large carriers such as AT&T, CenturyLink, Cogent Communications and GTT Communications.

The Medina Fiber FTTH network is taking a similar path. Initially, Medina Fiber’s network will offer traditional broadband data services from iFIBER and Docity, a telehealth provider.

Corrado says having a density of providers is key. “Open access at first seemed to be extremely difficult because you don’t have control over the total price,” he says. “At the beginning, when you have two or three carriers, it’s a bit more difficult, but once we got to 10 carriers and started looking at fiber to the home, the pricing became more competitive.”

By having a larger density of providers, Medina County Fiber can enhance its revenue stream and drive economic development. The provider found that 72 percent of all economic development in the last three years in Medina County was from companies that use Medina County Fiber.

“When you start getting that coverage, the open-access network starts working for you. You’re able to work with small customers and international customers because you have carriers that provide services in all those areas,” Corrado says.

Similarly, SiFi chose GigabitNow and Ting Internet, providers that have been rolling out FTTH on their own in various cities.

“Ting is a great ISP with good people and a good vision,” says Bawtree-Jobson. “The important thing is it demonstrates a long track record. GigabitNow is a 20-year ISP.”

Kelly Ryan, CEO of iFIBER, says that the key element to include is an ISP that can work with local customers.

iFIBER has a well-established track record of providing service across PUD-based open-access networks. By creating a sticky environment with various services, the service provider has maintained a yearly customer churn rate of 12–14 percent.

The ISP is in discussions with various open-access providers across multiple states, including Ohio, California, Florida, Texas, Alabama and Utah.

“These new players can come to the table with money and can then partner with an operator that can go and fix fiber, but the missing component in all of this is an anchor service provider,” Ryan says. “We’ve seen this happen, especially for PUDs that have no control over who their service providers are.”

Still, service providers participating in open-access networks need to maintain a good reputation of customer service and support.

“As this moves from a PUD and an electric cooperative-type funded situation to something where you have for-profit commercial partners, it becomes even more crucial to have an anchor tenant because those investors are accountable to other investors, who

are looking at them to generate a return on their investment,” Wagar says.

DIFFERING VIEWPOINTS

Not all investors are convinced that open access is a perfect target yet. Though not ruling out the potential, other investors would like to see the model advance further.

Grain Management, an investment firm that’s purchasing regional fiber assets, is focused on acquiring traditional last-mile and metro providers such as Ritter and Summit.

The equity firm recently considered an open-access network but decided it was not a fit.

“The open-access model is still evolving,” says Chad Crank, managing director at Grain Management. “We did take a look at something that fits that category in California, but we ended up not pursuing it.”

Crank adds that open access is a

model worth keeping an eye on for potential future investments.

“Before we jump in, we would like to see that model evolve a little more around the economics and the returns it delivers,” he says. “We will continue to follow it.”

As for private equity, UTOPIA Fiber (See “UTOPIA Fiber: A Model Open-Access Network,” page 26) has not pursued that strategy yet. The municipal open-access provider has funded its network primarily via municipal bonds.

“We have not gone down the private equity road because we have a good history with the bonds,” says Kim McKinley, vice president of marketing for UTOPIA. “Private equity also wants higher interest rates than what we can get on the bond market.” ❖

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