



Cripps Sears and Partners
Transport Infrastructure Forum
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Greenfield investments in infrastructure:

Institutional funds / investors are disadvantaged against their emerging market competitors because they are usually constrained by their mandate to invest only in OECD countries and their limited mandate to take foreign currency risk. The emerging market players are used to being more aggressive in general due to the kinds of risk they have to take in their home markets.

The jury is out on whether or not institutional investors can invest in greenfield assets and take development risk under the same platform. Some constraints could be having the right teams and experience in place to carry out development. Other challenges are permitting risk, relatively long development and construction cycles before cash generation, having to partner with construction companies who may have a conflict of interest, and taking venture capital type risks but without the benefit of venture capital returns or creating recognizable value such as intellectual property rights.

Governance:

It is a good idea to define governance between investing partners in as much detail as possible at the outset. Doing so will avoid costly misunderstandings later.

Investors should ensure there is no leakage of value through the O&M contracts. In that context, it would be better to limit Technical Services Agreements to highly specialized technical expertise for a limited duration. One way to ensure fair value on O&M contracts is for other investors to become partners in the operator. It is probably better in the long run to build the O&M capability inside the project company.

Technology disruption at airports:

Two particular risks for the airports to consider are possible shrinking of their parking business (e.g. due to uber) or of their retail business (e.g. due to more people shopping online).

There are technological advances creeping into airports in areas such as security, passport control, and baggage handling but the rate of improvement appears to be slower than one would expect.

Talent/succession planning:

Participants are finding it harder to retain their young talent as the new generation is expecting rewards much sooner than management and/or firms could provide. High turnover in this segment is proving costly for firms.

Digitisation:

A topical conversation is how to introduce digital technology on railroads to move more trains and passengers through the same track. For example, in the UK, this could happen by the UK Government

concessioning a section of the rail network whilst mandating certain types of investment such as digitisation. It is not expected that technology firms would lead such efforts but they would be required to participate with traditional infrastructure players to make it happen.

Brexit Impact on Infrastructure:

Participants feel that there has been negligible impact so far, possibly because the event has not yet unfolded.

Some participants feel anxiety about being able to retain their European staff in the UK. Others feel they are still able to attract foreign talent into the UK, although there may be a demarcation between junior and senior staff, with the latter being more comfortable with any potential Brexit impacts due to their international experience and outlook.

A lot of international infrastructure investments transactions are predicated on English Law where the rules are well-understood and the market players have confidence that there will not be capricious intervention by government authorities. As such, the UK should continue to be an investment center of choice. In particular, London could prove to be resilient given the network effect of having so many international investment experts and service providers in one place.

Budget airline traffic may be hit due to the declining purchasing power of the British pound, but perhaps this will lead to slots opening up for more transit flights. There is considerable unmet demand, especially at London airports, due limitations on runway capacity. In that context, participants feel new runways should be added at both LHR and LGW.

US Infrastructure & Trump Effect:

Participants feel that the Trump effect on private infrastructure may be subdued in the US. There is fragmented decision-making between Federal, State, and local authorities, which lead to multiple starts and stops in privatizing infrastructure and inconsistent rules between similar projects in different states. Community activism also tends to be quite strong, thwarting “unwanted” projects. Given the sheer size of the US market and state of infrastructure in the Country, participants would expect to see a lot more closings than the current deal flow.