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CFO interview:

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Open Fiber (Italy's wholesale telecoms company) recently secured an additional EUR2 billion of funding, supplementing its previously agreed project financing facility of EUR7.2 billion. Analysys Mason Principal, Franco Ferri, talks to Open Fiber's CFO, Andrea Crenna, to discuss the benefits of being a network wholesaler, fundraising events and the secret to Open Fiber's success in managing a large consortium of 34 banks.

The following are edited highlights from their conversation.

Franco Ferri:

Open Fiber has always been a full wholesale operator, with no retail operation. From a financing point of view, what were the benefits and the challenges of this model?

Andrea Crenna (Open Fiber):

Other industries, such as electricity or gas distribution, have been proving the viability of separating the network operator from the service company since at least the 1990s. Telecoms has been a late adopter of this structure.

Open Fiber was set up to fulfil a political goal of having national broadband coverage across Italy. It was never our aim nor a realistic option to become a retailer.

This makes sense macroeconomically and is one of the benefits of the model. Maintenance and improvement of a network requires massive investment. Too many players competing aggressively against each other can result in insufficient returns. By managing an extensive national network as a natural monopoly, wholesale-only companies – even if they compete with a few other players – can balance risk and returns, and sustain investment in the network.

> "Open Fiber is one of the largest nationwide FTTH projects in Europe and represents the largest project financing effort in Europe's fibre broadband sector. Its story offers insights for businesses tackling similar issues in this essential and challenging industry"
>
> Andrea Crenna, CFO, Open Fiber

Selling services is a different business. More competition is welcome there to create downward pressure on prices (as we have seen in Italy). But this can mean more volatility and uncertain returns for the operator, which makes it hard to invest in network modernisation or to obtain the minimum required return on capital.

Yet, wholesale operators face real difficulties and constraints. The single biggest issue is how to improve take-up. Italy is in good shape in terms of rolling out the network but has a long way to go with consumers using the network.

The challenge of being wholesale-only is that we can't push take-up to the levels we'd like to see since we do not engage directly with consumers. Rather, we engage with the players who stimulate consumer demand, the big mobile or telecoms network operators, like Vodafone or Fastweb or Sky.

Franco Ferri:

Open Fiber is present in both urban and suburban areas. When you refinanced, how did you manage the different risk profiles when it came to lenders?

Andrea Crenna (Open Fiber):

Oper Fiber was originally set up to develop a fibre-to-the-home (FTTH) network both in urban areas and in subsidised rural areas that were experiencing market failure.

The financing structure explicitly accommodated a variety of area types and this was built into the project finance documentation in terms of conditions, precedence, undertakings and financial covenants. The performance measures were set at the corporate level for the blended urban and suburban target mix. The model sounds complicated now but was quite straightforward. The lenders understood our approach and were supportive from the outset.

Franco Ferri:

How important was a technical due diligence to help get lenders comfortable with Open Fiber's ability to deliver its plan?

Andrea Crenna (Open Fiber):

It was indispensable. Both aspects – technical roll-out and commercial plans – are complicated, especially for infrastructure of this nature. Projects need to be assessed over long time horizons. You don't deploy and operationalise a network over 3 or 4 years. A decade-long business plan at a minimum is needed.

The best technical and commercial due diligence helps lenders to understand variances, which do occur. Negative variances can raise major problems.

A thorough appraisal at the beginning by a trusted, independent third party with a strong reputation gives banks a clearer understanding of the plan, whether the assumptions made by the company are realistic, and why the plan may not be working in line with original expectations. This is necessary throughout and not just at the beginning.

Franco Ferri:

You had to finance +EUR7 billion through 34 different banks. How did you communicate with all of the banks for such a large package?

Andrea Crenna (Open Fiber):

Co-ordinating and getting approval from 34 lenders was complicated.

Typically, communication is set out in the documentation itself, as reporting obligations. Each month, we sent an agreed set of key performance indicators (KPIs) to be validated by a third-party appraiser who is appointed by the banks. We have just one point of contact, the agent.

But this most recent process was actually a re-balancing of the entire capital structure.

We created a co-ordination committee composed of just over ten banks, chosen by the lenders themselves. It included the original underwriters, and lenders with more significant participation – and thus greater exposure to the loan.

The co-ordination committee did not have the power to make binding decisions on behalf of all lenders. Each lender cast its own vote on proposals. But it reduced the need for protracted negotiations, proposals and ensuing discussions among 34 parties. The key work was done by Open Fiber, our advisers and the co-ordination committee, plus advisers from the banks, legal and financial firms.

That's still not a simple process – the 10+ banks on the co-ordination committee were a lot to manage – but it was streamlined and made a real difference in getting to a positive outcome.

Franco Ferri:

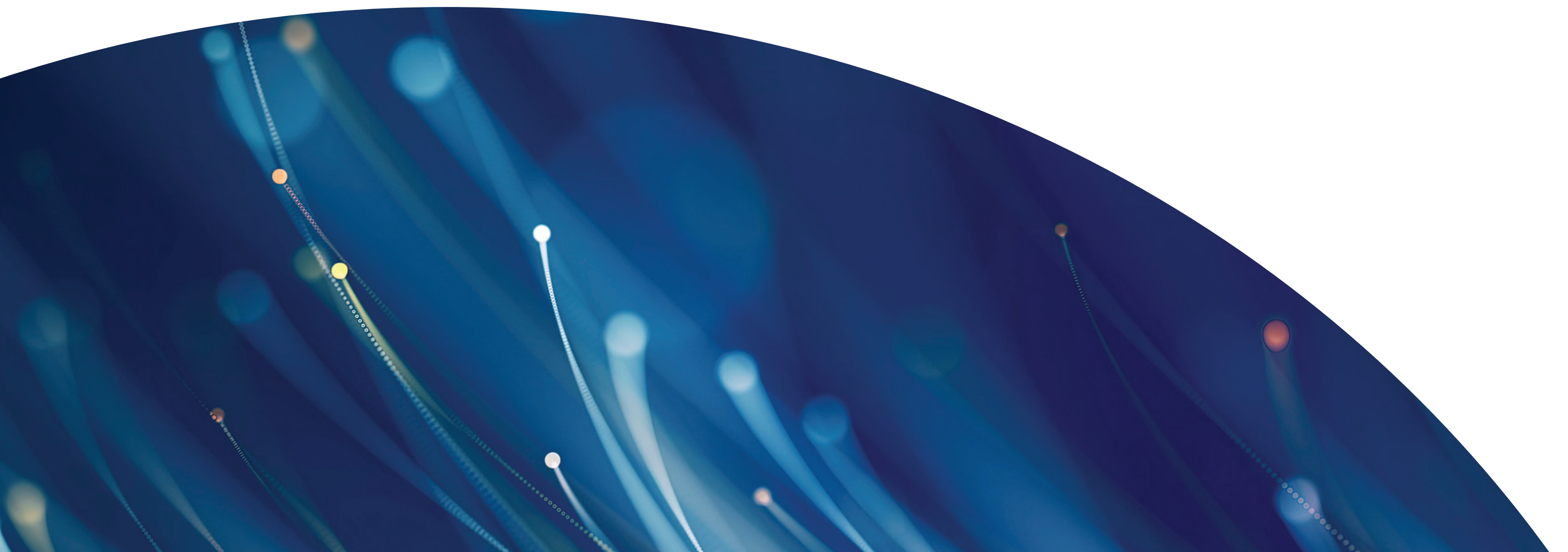
How did covenants change from the previous financing package to Open Fiber's most recent refinancing?

Andrea Crenna (Open Fiber):

The package remained pretty much the same. The refinancing was based on a new business plan, so some covenants were reset to new levels. But many of the original covenants remained.

Two were added. The first was testing the operating profitability on a recurring basis. The second related to the cumulative amount of capex, to monitor the risk of overrun.

Covenants impart greater discipline. They must be set so that the company is not obliged to seek banks' permission for every action. But in the absence of covenants, a business might think it can do whatever it wants. The right covenants give the company sufficient flexibility to run the business and at the same time provide discipline.



Andrea Crenna

Andrea Crenna has significant experience in finance and business administration. He began his career at Citibank N.A. and progressed through senior roles at Omnitel Pronto, Vodafone Omnitel, INDESIT, Terna and A2A. He joined Open Fiber as CFO in 2022.

Franco Ferri

Franco is a Principal based in Analysys Mason's Milan office. With over 25 years of expertise in the telecoms industry, he has played a key advisory role in numerous high-impact telecoms transactions across Europe, including multi-billion euro refinancing due diligence and the development of data-centre platforms.

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