

# **Top-IX Unlocking Local Value in Piemonte and Beyond – An Investment Opportunity for a Private Equity Partner**

*Executive Summary*

*v1.0*

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## Executive Summary

### The Value Proposition

Top-IX offers a €20million project opportunity requiring a €12million investment, resulting in a Net-Present Value (NPV) of €8million. This proposition is based on expanding Top-IX' current telecommunications broadband network of 33 Points-of-Presence (POPs) by a further 50 POPs in Piemonte and surrounding areas.

The key financial results of this proposition are an Internal-Rate-of-Return (IRR) of 12% and a payback of 7 years. As this is a “brown field” proposition (expanding an existing network), the operation will be EBITDA positive from year 1.

Top-IX is a non-profit consortium with 85 members including both, public and private participation. Top-IX is run by a team of 19 professional employees and 6 external collaborators. Its mission is to boost innovation and unlocking local value by leveraging access to broadband infrastructure.

Top-IX is currently the only Open-Access-Network player in the Piemonte region. The regional broadband expansion enabled by Top-IX has created a huge market demand for more backhauling solutions. Large industrial users and their ecosystem of SMEs will benefit from a direct connection to a backhaul network enabling them to provide Industry 4.0 services. The progressive diffusion of IOT-related services will further trigger a huge demand for a new generation of network (cyber) security architectures and solutions.

We expect that Top-IX in its current unique position of bringing together a wide range of different stakeholders will be the lever for further increasing economic growth. Fixed-Wireless-Access (FWA) operators in the consortium already expressed their interest in expanding Top-IX coverage to provide better and wider backhaul services. While reaching business users with fiber-access networks, nearby residential households can be easily connected through fiber or wireless access technologies.

The broadband telecommunications market in Italy in general and Piemonte in particular offers strong opportunities: In Italy, alternative telecoms operators still rely with more than 84% on reselling or repackaging Telecom Italia's DSL-based copper-lines. Only 16% implement future-oriented fiber or Fixed-Wireless-Access technology. In Piemonte, outside the Torino area, less than 40% of households have the possibility to get broadband access of more than 30Mbps.

Following a recent Credit Suisse Forecast, the market for ultra-broadband services in Italy, served by alternative operators is expected to grow 3 to 4 times until 2021 (see Figure 1 più sotto). A similar market growth is expected for the Piemonte region and Top-IX is in a very strong position to exploit this market growth.

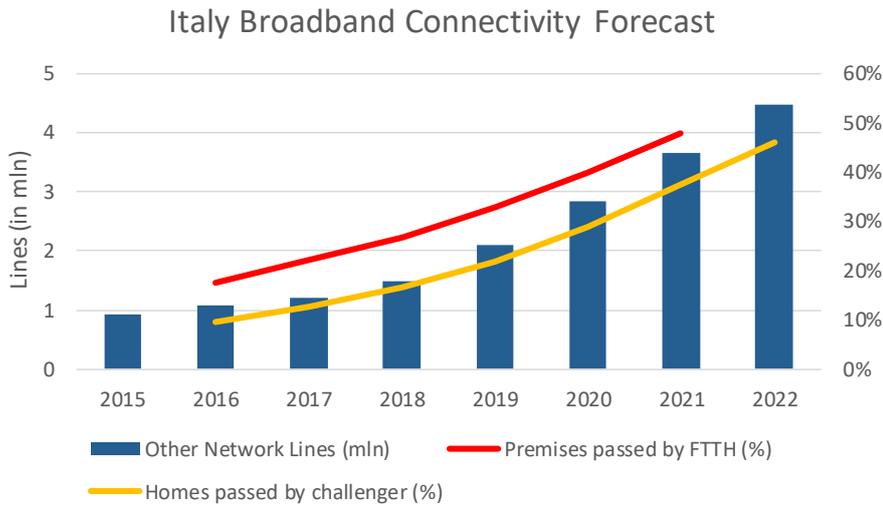


Figure 1: Forecast for Italian broadband market served by alternative providers (Source: Credit Suisse)

In this space, Top-IX already made a major impact over the past years: With its 33 POP broadband network infrastructure, representing €9million of assets under management, Top-IX enabled other ISPs to bring broadband connectivity to more than 200,000 households (around 10% of Piemonte), enabling an estimated bandwidth of 7Tbps.

While Top-IX alone generates close to €3million of revenues a year, its ISP clients generate close to €60million of annual revenues and investments of close to €30million a year. With this contribution to the broadband community, Top-IX had an estimated impact on GDP of €1.6billion (or 1.3% of total GDP in Piemonte)<sup>1</sup>.

### The Base Case Financials

Top-IX made conservative assumptions in projecting the base case financials. Prices for backhaul services are set at 30% below current market prices and services included in the base case focus on backhaul and FWA provision only. The rollout of 50 additional nodes is spread over 5 years and organized in 6 regional clusters. The yield of the unlevered firm is set at 5% and the debt/equity ratio is set at 2:1.

The projected revenues, EBITA and Cash Flow are shown in Figure 2 and key economic indicators can be found in Table 1 più sottobelow.

<sup>1</sup> The GDP impact has been estimated using multipliers from a study by: Qiang, C. Z., & Rossotto, C. M. (2009). Economic Impacts of Broadband, 2009: Extending Reach and Increasing Impact, 35–50. Washington, DC: World Bank.

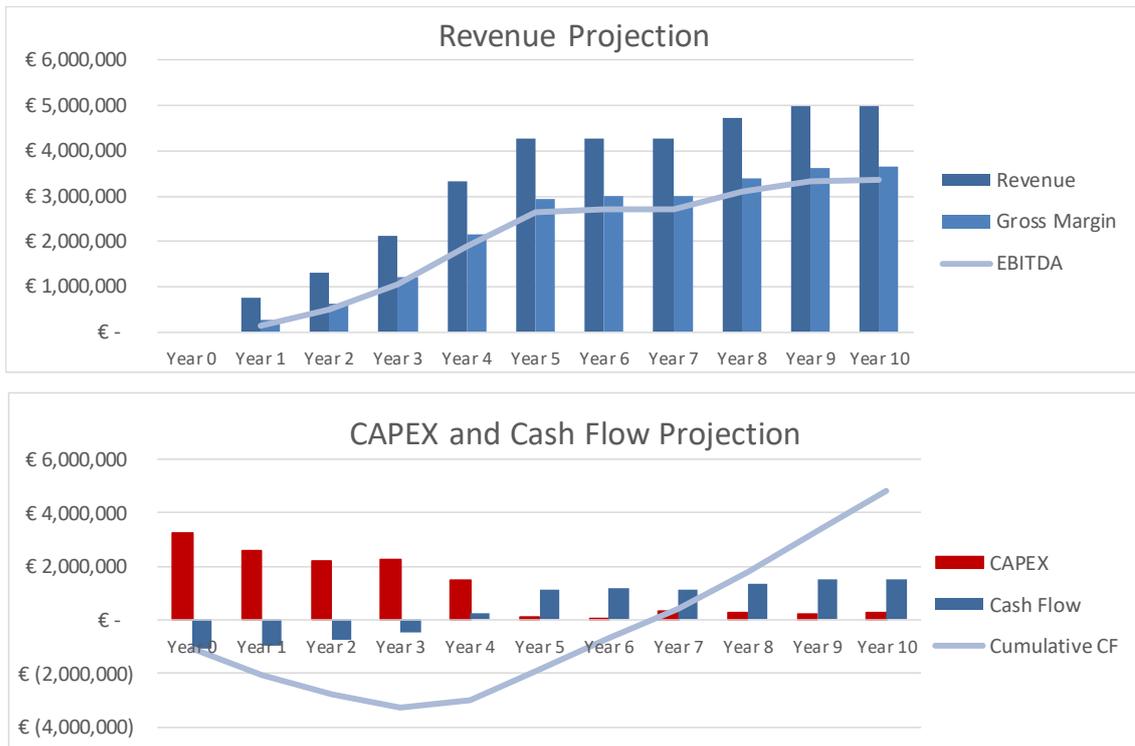


Figure 2: Base Case – Projected Revenues and Cash Flow

Key Economics		
PROJECT VALUE	€	20,290,614
INITIAL INVESTMENT	€	(12,102,838)
NPV	€	8,187,776
PAYBACK YEAR		7
BREAK EVEN YEAR		3
IRR		12.0%
Equity	€	4,563,500
Debt	€	9,127,000
Non discounted Capex	€	13,690,500
Revenue at full capacity	€	4,979,000
Opex at full capacity	€	1,619,120

Table 1: Base Case – Key Indicators

### Three Potential Upsides

While the base case focuses on backhaul and FWA provisioning services only, there are tremendous upsides from three areas:

- Value-Added-Services (VAS) include classical colocation services or the extension of layer-3 Internet connectivity, e.g. to schools or other institutions. These VAS can unlock a further €400k in annual revenues.
- Metro-Area-Networks (MAN) will include an expansion of backhauling and colocation services in city areas, including cooperation with utility-companies and municipalities facilitating the commercialization of their telecoms assets. Requiring an additional investment of €500k, these services can generate an additional €300k of revenues per year.
- Mobile Network Operators (MNO): support the backhauling needs for increasing capacity of mobile operators, especially in the upcoming transition to 5G networks. These services are estimated to generate an additional €500k per year.

Table 2 shows the key results for each of these three upsides and a combined “best case”, when all three upsides are realized together: overall project value increases to €27million with a 6-year payback and an IRR of close to 16%.

Key Economics	VAS	MAN	MNO	BEST CASE
PROJECT VALUE	€ 22,068,580	€ 22,245,635	€ 23,469,875	€ 27,202,860
INITIAL INVESTMENT	€ (12,102,838)	€ (12,557,433)	€ (12,102,838)	€ (12,557,433)
NPV	€ 9,965,741	€ 9,688,201	€ 11,367,037	€ 14,645,427
PAYBACK YEAR		7	7	6
BREAK EVEN YEAR		3	3	3
IRR		13.1%	12.9%	14.2%

*Table 2: Key Economics of Upsides Compared*

### Risks and Risk Mitigation

This project faces two main strategic risks. First, the integration with the national broadband policy. Italy decided to leave the development of broadband access on a nation-wide level to a single provider, namely Open Fiber. Top-IX may lose its opportunity, if this national policy of single broadband provision is rapidly implemented through Open Fiber. Top-IX can mitigate this risk by focusing on a complementary roll-out strategy in co-ordination with Open Fiber, rather than in direct competition.

Second, the loss of IRU-Capacity in 2-years’ time: With the expiration date for the current IRU-bandwidth approaching in 2 years, Top-IX faces a potential loss of its backbone capacity (a full replacement may result in an extra cost of €2 to €2.5million). Top-IX can mitigate this risk by initiating the IRU renewal process now with a potential upside opportunity of negotiating a full ownership transfer of the IRU asset to Top-IX.

Top-IX faces further (manageable) risks, such as:

- **Operational Risk:** Significant network expansion requires major changes in operational setup, which needs to be carefully managed and executed
- **Technological Risks:** Fast technological progress may leave Top-IX with stranded investments
- **Commercial Risk:** Incumbent operator (Telecom Italia) may impose strong pressure on pricing; this has already been mitigated by very conservative pricing assumptions in Top-IX model

Taking the strategic risks into account, time to market will be critical and Top-IX has a unique window of opportunity for unlocking local value now.

### **The Private Equity Opportunity**

This project offers a win-win for both, Top-IX and a Private Equity Partner. Through such a partner, Top-IX will gain rapid access to capital, allowing for an accelerated network rollout. More importantly, Top-IX will highly benefit from the managerial, operational and commercial expertise of the Private Equity Partner.

The Equity Partner will benefit from the massive growth potential in an underserved market. There are clear exit scenarios after a 3 to 5-year time period:

- **Exit Scenario 1:** Sell the business to another operator, for example, Open Fiber. While Open Fiber has been identified as a potential threat under the risk assessment above, Top-IX will focus on a complementary roll-out strategy, which will then offer the opportunity for a long-term partnership after the main network expansion.
- **Exit Scenario 2:** Sell to an institutional investor (with a long-term yield focus): After the initial ramp-up, Top-IX will continue to provide a steady stream of return on investment, which is of strong interest for institutional investors.
- **Exit Scenario 3:** IPO of Top-IX. This is a less likely scenario, as Top-IX may still lack the scale and appeal of a larger (national or international) operator.

In summary, there is a clear time-window for a Private Equity Partner of 3 to 5 years to benefit from the exponential growth phase of Top-IX and the broadband market in Piemonte and beyond.