

December 2018

# *ROME INVESTMENT FORUM 2018*

Financing Long-Term Europe

Lorenzo Bini Smaghi, Chairman of Société Générale

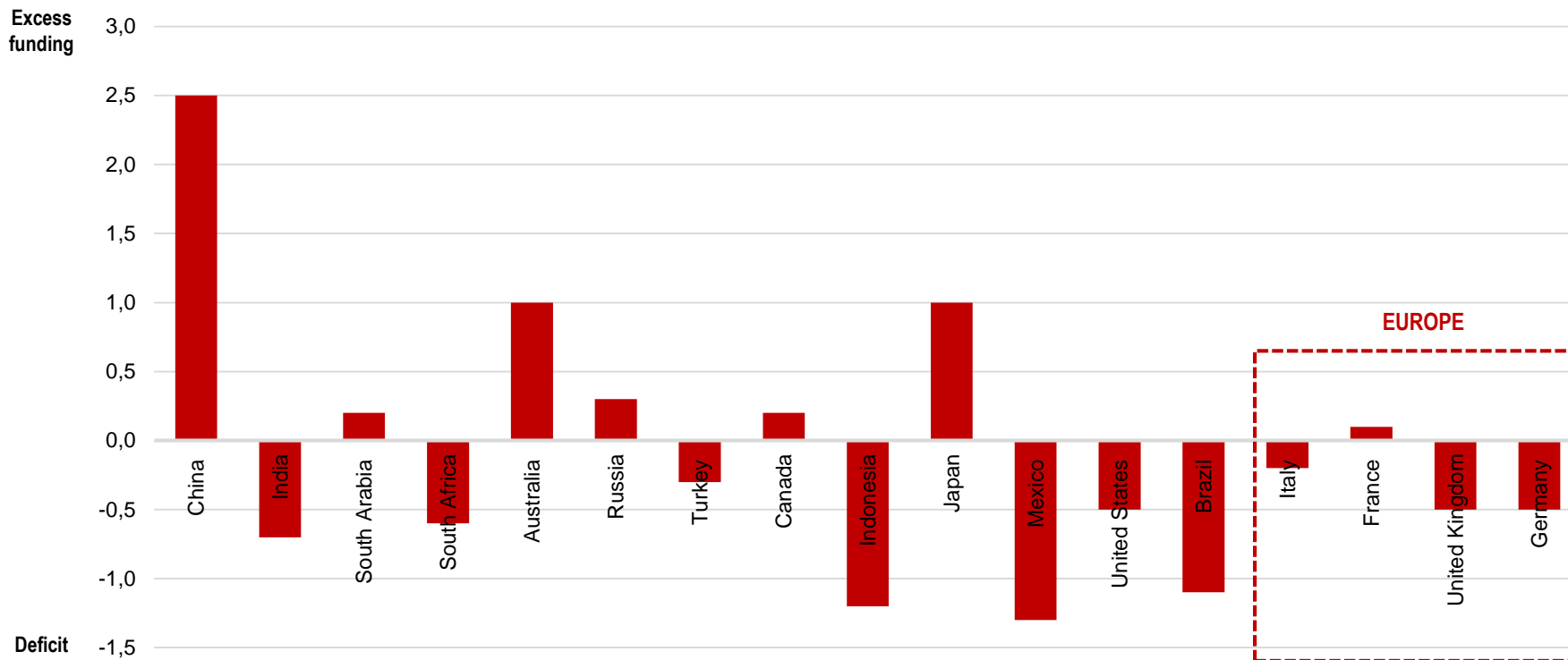
BUILDING TEAM SPIRIT TOGETHER



**SOCIETE GENERALE**  
Corporate & Investment Banking

# INFRASTRUCTURE SPENDING AND NEEDS: A CONTRASTED GLOBAL PICTURE...

Gap between spending and estimated infrastructure needs, % of GDP (2017–35)

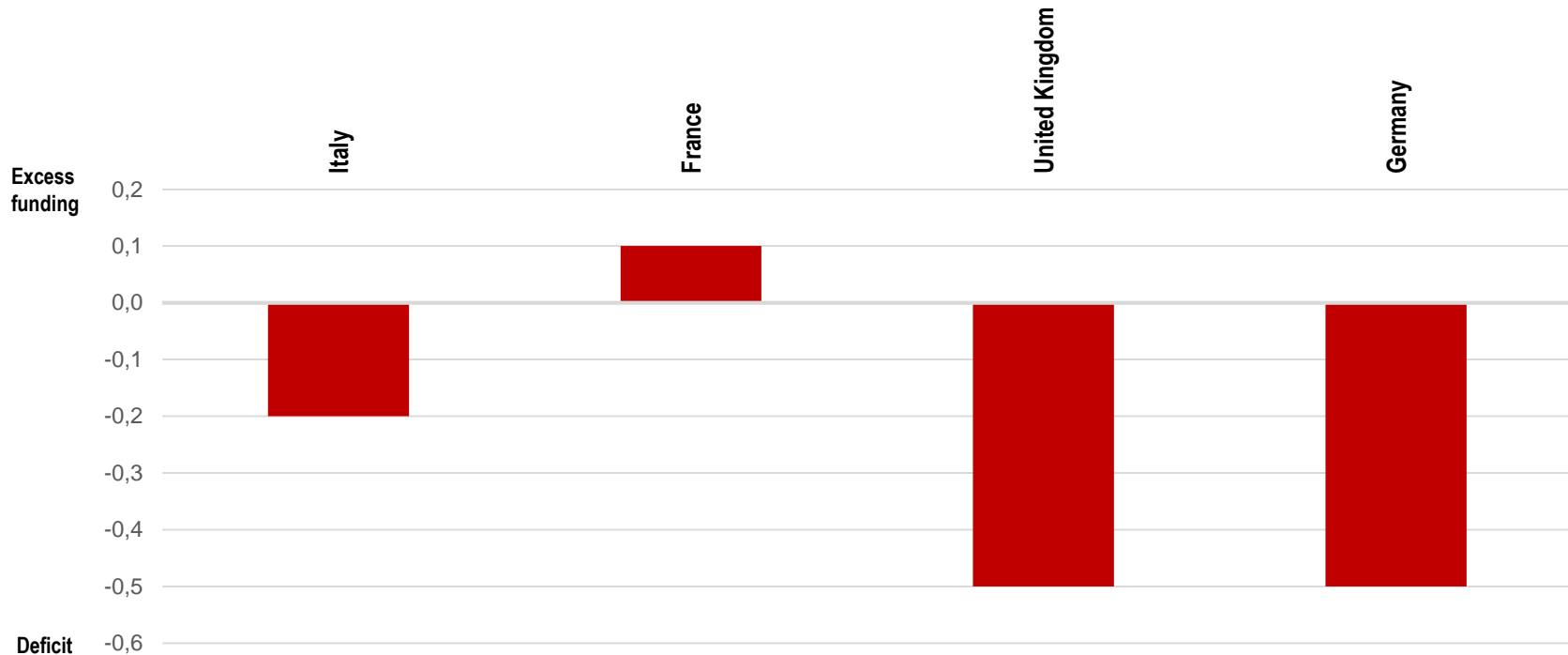


Source: McKinsey Global Institute, bridging infrastructures gaps - Has the world made progress? October 2017

- Whilst most countries are expected to experience a gap between infrastructure spending and needs, China, Australia and Japan are positive outliers...

## ... WITH EUROPE AND ITALY IN PARTICULAR SHOWING A NEGATIVE GAP

Gap between spending and estimated infrastructure needs, % of GDP (2017–35)



Source: McKinsey Global Institute, bridging infrastructures gaps - Has the world made progress? October 2017

- Italy spent approx. 2,3% of yearly GDP on average in the period 2010-2015
- The projected gap between spending and needs is approx. 0,2% per year which in absolute terms corresponds to €3.3bn per year (approx. €60.0bn cumulated for the period up to 2035)

## WHICH ARE THE MAIN CHALLENGES FOR ITALY?

### Where are we in Italy?

- An uneven infrastructure endowment strongly correlated to economic development
- Public investments in infrastructures suffered a major decline since 2008
- Some major Italian infrastructure projects present an uneven distribution between risks and returns
- Political uncertainty undermines investors appetite as infrastructure projects are highly exposed to political and regulatory risks

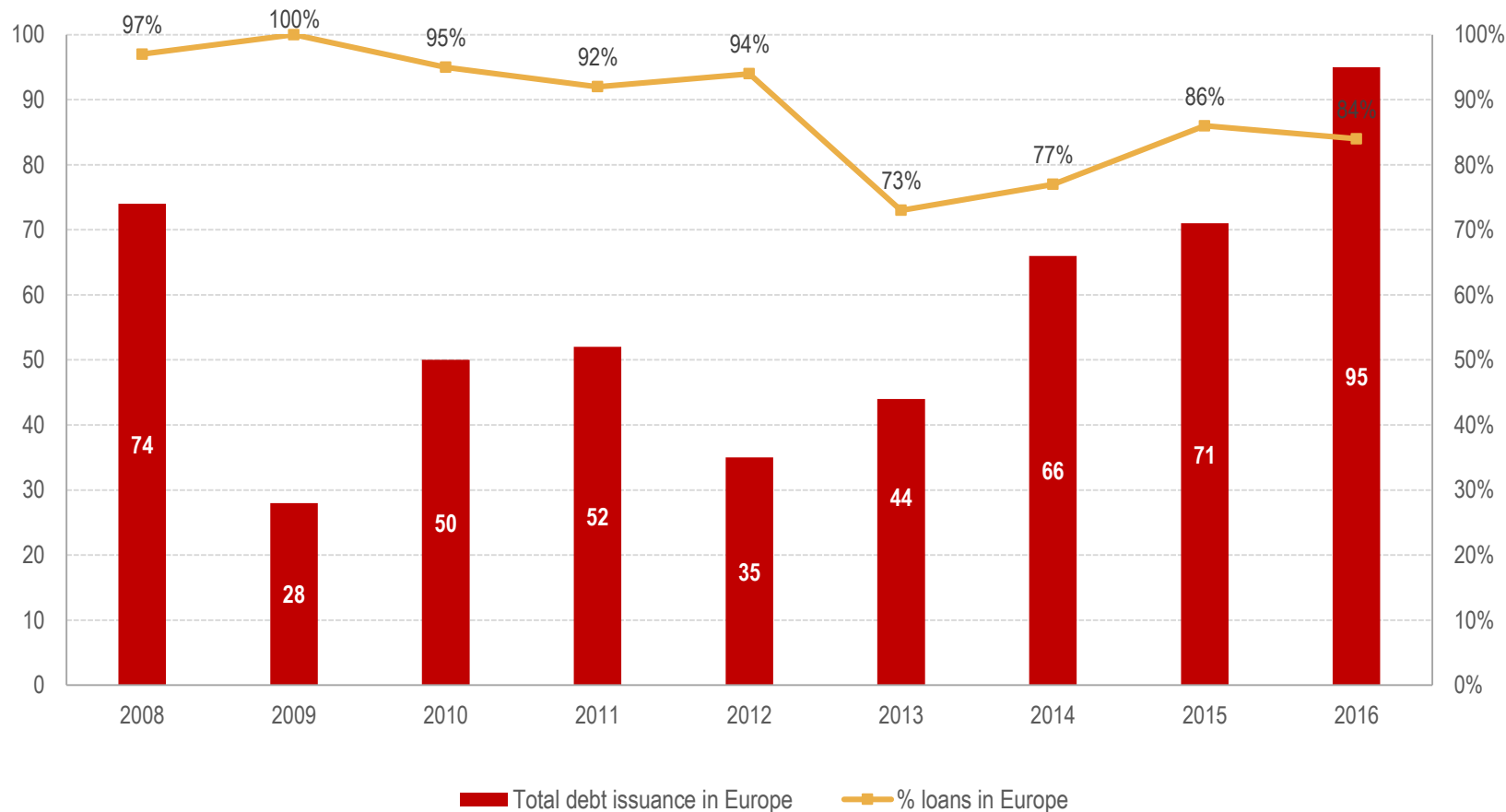


### Main challenges/actions

- Investment in infrastructures is key as it contributes to reducing inequalities
- Due to existing governmental budgetary constraints it is essential to attract private investors
- Develop a pipeline of projects in line with global IRR targets (10%-12%)
- Define a sustainable and long-term strategy to reassure investors

# DISINTERMEDIATION IN EUROPE WITHIN THE INFRASTRUCTURE SPACE IS EXPECTED TO PLAY A POSITIVE ROLE IN SOLVING THE FUNDING GAP...

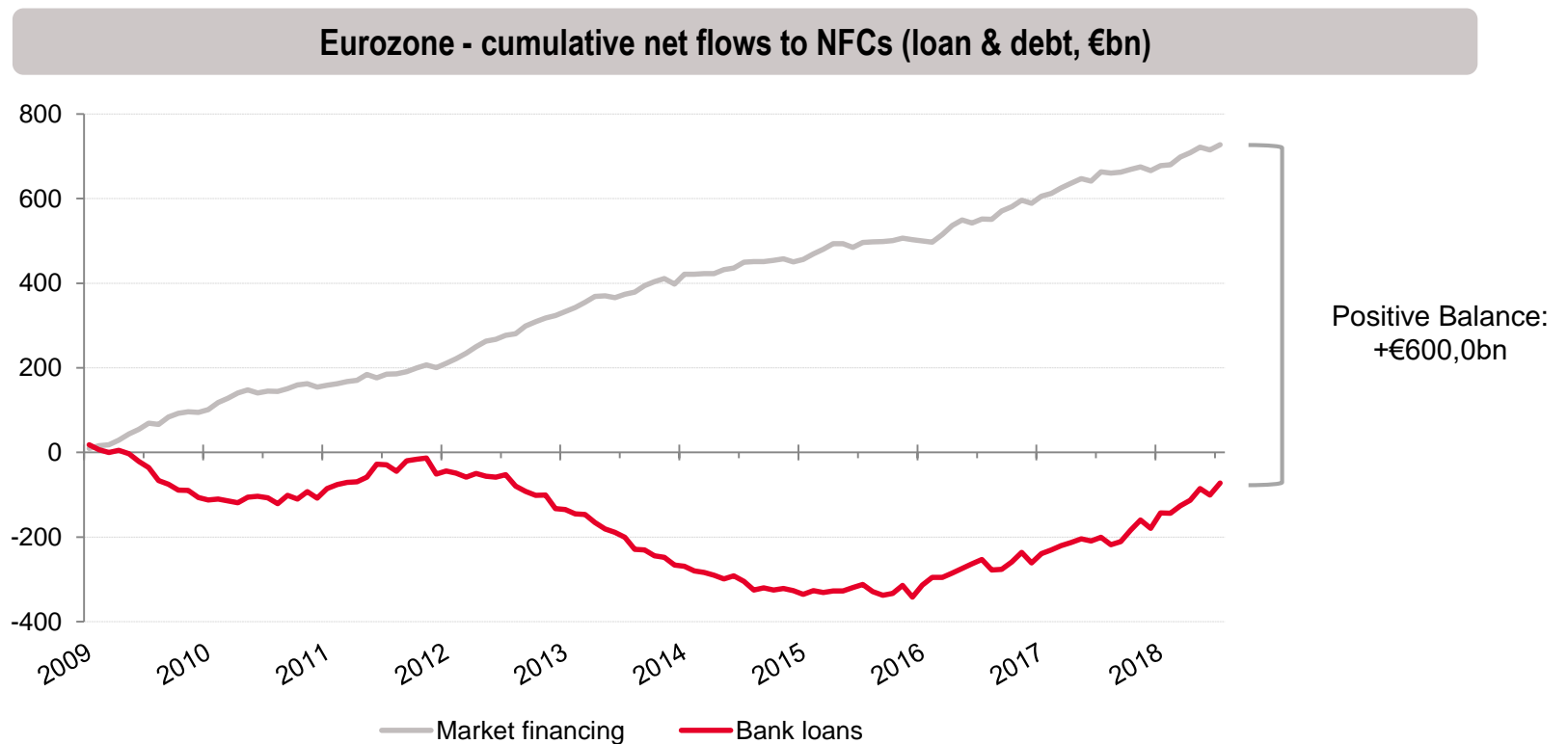
Total debt issuance (€bn)



Source: Thomson Reuters Project Finance International (PFI) League Tables

- The European economic and sovereign crisis played a pivotal role in fostering the banks' disintermediation process

## ... IN LINE WITH A GENERAL DISINTERMEDIATION PATTERN ...

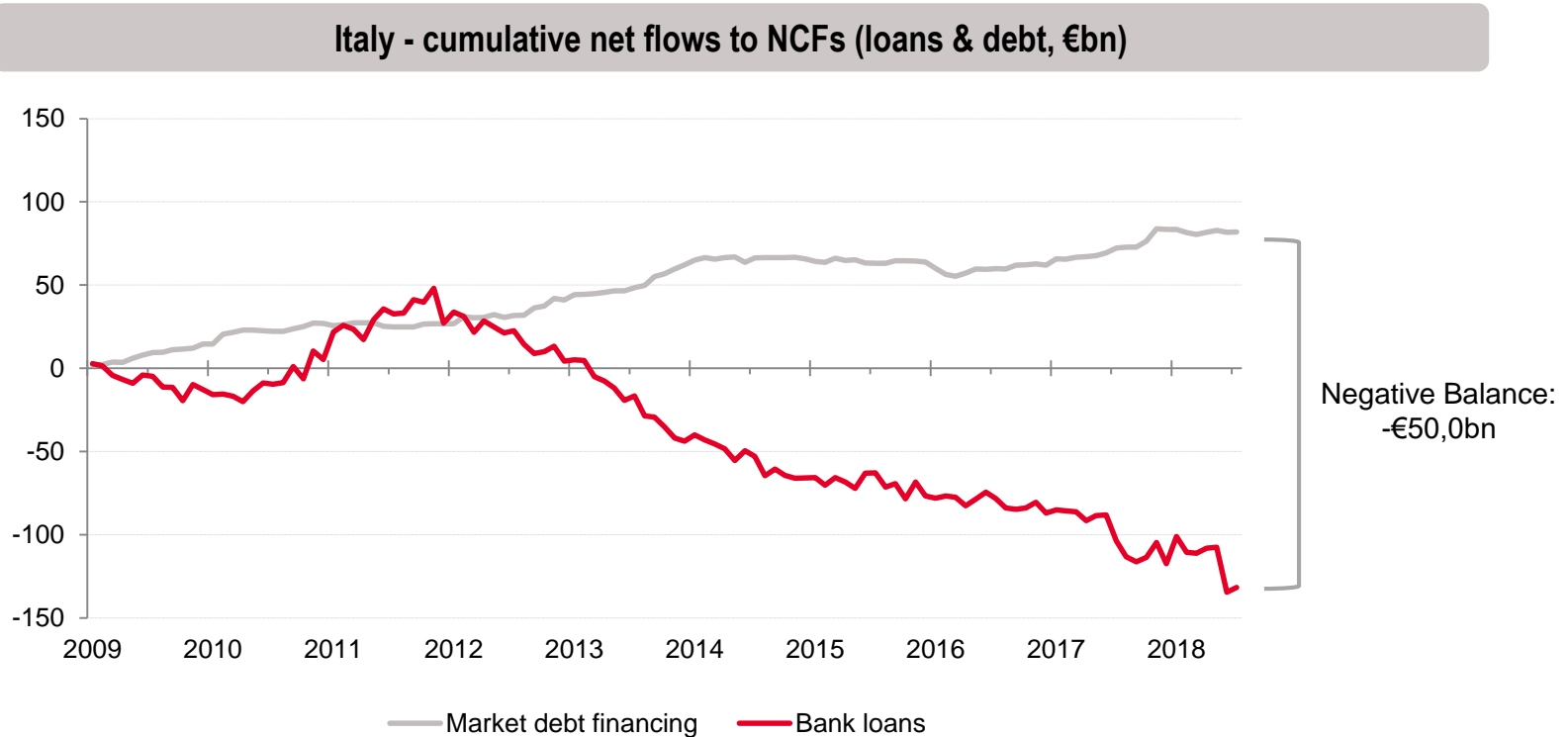


Source: SG Cross Asset Research / Global asset allocation

- Cumulative net flow is underpinned by a neutral contribution from the banking sectors and strong involvement of institutional investors

# ...ALTHOUGH THE SITUATION VARIES BETWEEN CORE EUROPE AND SOUTHERN COUNTRIES

## The case of Italy: a net negative flow

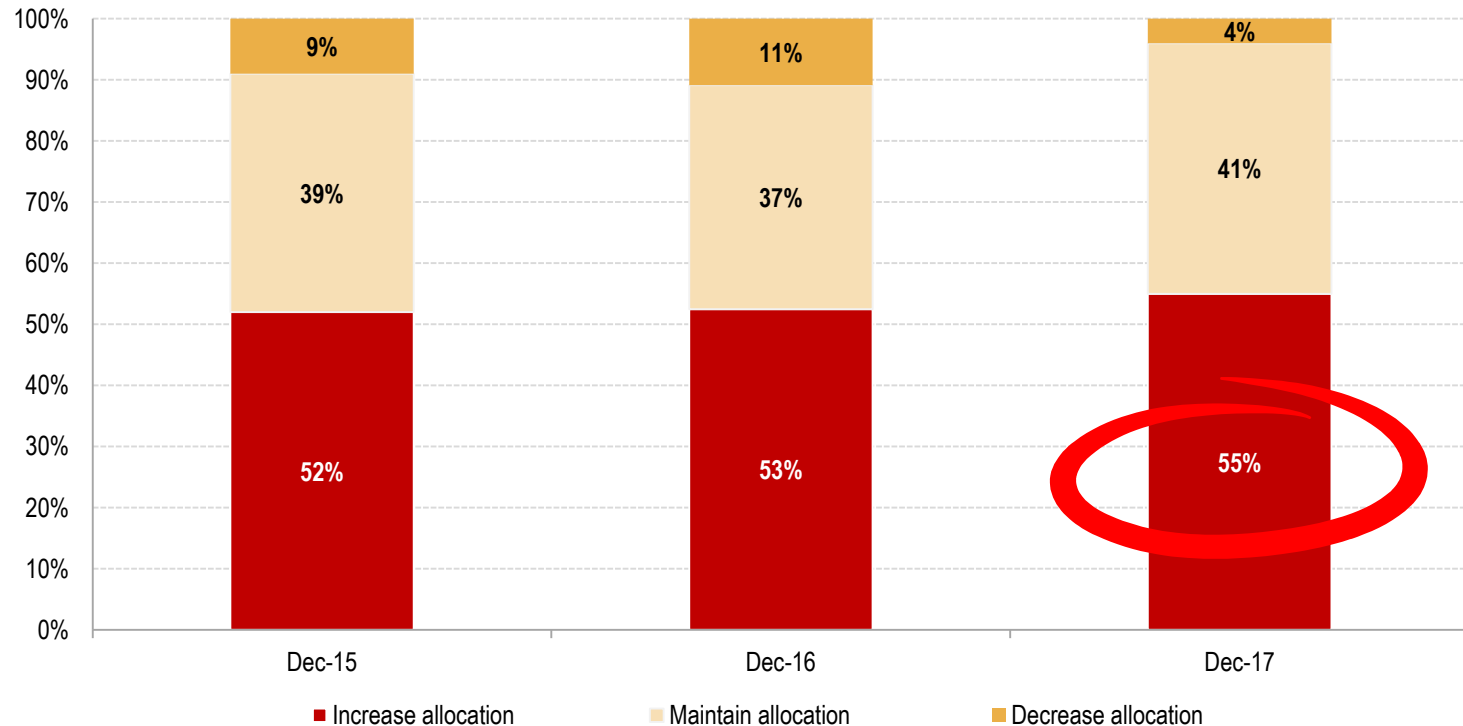


Source: SG Cross Asset Research / Global asset allocation

- In Italy the situation is more challenging with bank loans decrease not compensated by capital markets activity

# INSTITUTIONAL INVESTORS AND BANKS WILL PLAY A MAJOR ROLE GOING FORWARD...

## Investors' intentions towards Infrastructure allocations in the Long Term



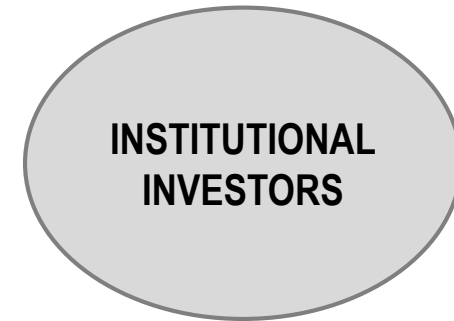
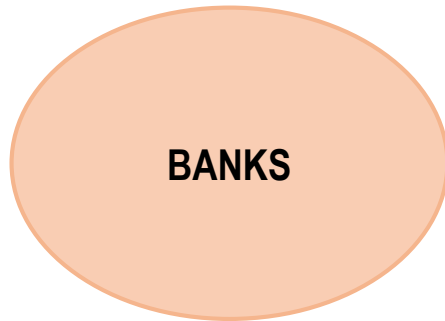
Source: Preqin Investor Interviews, December 2015 - 2017

- Institutional investors have been showing strong willingness to devote more resources towards infrastructure investments



## ... ALTHOUGH MAJOR CONSTRAINTS STILL EXIST

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1) Basel III and IV

1) Standardization

2) Greenfield vs. brownfield projects

2) Creation of a new and liquid asset class

# AS AN ACTIVE PLAYER IN THE INFRASTRUCTURE SECTOR, SOCIETE GENERALE HAS IDENTIFIED KEY AREAS TO FOCUS ON ...

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## ➤ Regulatory

- **Banks:** Ad hoc regulation and carve outs under Basel IV regulation incentivizing infrastructure investments (lower floors) and prevention from capital misallocation (risk adjusted return neutrality)
- **Institutional investors:** Capital relief for insurers and tax incentives for pension funds

## ➤ Policy making

- ✓ National infrastructure plans
- ✓ PPPs units: French example
- ✓ Project preparation
- ✓ Stakeholder management and approvals

# ... AND ACTED AS ADVISOR AND FINANCER OF VERY VISIBLE PROJECT FINANCE TRANSACTIONS IN ITALY



## DEAL SUMMARY

- Construction of **Milan underground line 5** (2007- 2015)
- Strong **interest** from banks and institutional investors:
  - ❑ Institutional investors tranche of **€150.0m**
  - ❑ Project bank financing tranche of **€430.0m**
- **Amortizing floating rate note unrated** (maturity 2035)
- Mix of bank and institutional tranche solution offers **higher returns** and **more visibility** for the equity investors

## POLICY MAKING

- **Key** infrastructure for the Expo 2015 in Milan
- No formal PPP unit but **combination** of funding sources (banks and institutional investors)
- Thorough **Due diligence** carried out estimating usage/traffic impact and social impact
- **Involvement** and approval of central government, regional government, local municipality and citizens

## DEAL SUMMARY

- Roll-out of the **national fiber-optic broadband network**
- Total investment in excess of **€6.0bn** over 2018-2023
- **€510.0m** Bridge Financing signed on July 2017 with 3 banks including Société Générale
- **€3,5bn** Jumbo Financing with the 3 banks as **advisor** and **underwriter** of the **financing package** aimed at funding the entire 7 years investment plan

## POLICY MAKING

- **Key** infrastructure to reduce the digital divide in Italy
- No formal PPP but presence of an Authority AGICOM and a grantor for the areas under a concession regime Infratel strongly contributing to **reducing regulatory/political risks**
- Thorough **Due diligence** carried out
- **Involvement** and approval of central government, regional government, local municipality, EIB, Authority and Grantor