

Seaborn CEO: Laying the foundations for subsea ECA support

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On the sidelines of TXF's Export, Agency and Project Finance conference in Rome, Max Thompson caught up with the CEO of Seaborn Networks to find out more about the first ever ECA-backed subsea cable, Seabras 1.

Trade & Export Finance (TXF): Larry, can you explain why Seabras-1 was such a unique project finance deal?

Larry Schwartz (LS): Seabras-1 showed what it takes to get an ECA-backed project over the line. The challenge is that most financial institutions are not familiar with subsea cables, and generally speaking telecom operators and OTTs are not familiar with non-recourse or limited recourse project finance structures. Seaborn Networks bridges that knowledge gap because we bring together as Seaborn Networks project finance expertise together with extensive subsea cable developer/operator expertise.

Although Seaborn Networks is a new company, our team previously developed and brought into operation many of the world's largest subsea cable systems, including one of the largest existing routes between the US and Brazil. We were also owner-operators of one of the largest fleets of cable ships in the world, and we've also successfully closed a wide variety of large-scale project finance transactions across a variety of asset classes. As a result, we understand what it takes in terms of financial model discipline, anchor tenant requirements, sales projections, and development capital you have to put in ahead of time because a lot of these projects simply run out of money before they get far off the ground. In short, we are uniquely positioned to take advantage of opportunities in this sector and it is one that for a lot of reasons I think there are more routes for us to develop.

TXF: Seabras-1 was a deal that saw a flurry of firsts. Can you talk me through them?

LS: It is the first direct route between the US and Brazil. And, it is also the first ECA-backed project financing of a subsea cable.

TXF: Was ECA involvement key to getting this project over the line?

Absolutely. Coface played a very important role around the project to give the other parties confidence. Of course that adds to the workload for the developer, but we have a very good working relationship with Coface, and we are very appreciative of their support here.

In any institutional project financing, no one wants to necessarily pioneer something without having a conservative and thought-through approach. But I think the lenders, Partners Group, Coface, and we were able to appropriately allocate and mitigate project risks to get it over the goal line. And we at Seaborn

Networks certainly took a lot of risk up front because we put in approximately \$30 million of development stage capital before the project was even fully funded, which in its own right is quite daunting for most sponsors.

TXF: And then you closed the deal in January, right?

LS: We announced the full project funding of \$500 million in January 2016, but we actually closed in the end of December 2015. This funding structure is fundamentally for the benefit of our customers and that, perhaps more than anything else, is what makes this so unique in the telecom industry. Not only is the project fully funded, but also from a customer's perspective the ECA support provides a *de facto* credit profile for the project that is better than that of many of the world's largest telcos. Another benefit of this approach is that there is no risk that we reallocate cash from this project to something unrelated to Seabras-1. We are a uniquely qualified team with highly-specialized expertise and we are dedicated to the development and operation of subsea cables.

TXF: Are there more subsea cables to come from Seaborn Networks?

LS: Yes. We are a platform play and certainly we and our equity from Partners Group see this as a repeatable model for other select routes around the world that can leverage our unique expertise and access to capital.

TXF: What does a subsea cable between New York and Brazil mean in real terms for businesses?

LS: Well I think it's a few things. By having the first direct point-to-point route between those two locations we are able to take our customers between New York and Sao Paulo without any interim landings in between. That means we take our customers from a data centre in metro New York (or metro Sao Paulo) to metro Sao Paulo (or metro New York) directly.

As a result, we have fewer active elements on the system, which means by definition fewer things that can go wrong, which in turn means it's a more reliable cable. And it also means that upgrades of capacity of the system end up costing less from a unit cost perspective. In addition, avoiding interim landings in other countries also reduces political risks. Lastly, the sheer size of the system is also a real competitive advantage. The initial maximum design capacity is 72 terabits per second, which is a significant multiple over the older, existing systems designed from the late 1990s that are the primary paths today.

The best analogy is to consider what type of Internet connection, and what sort of capacity needs, you had in your house back in the late 1990s. For most people, that was probably one desktop PC with a dial-up connection for periodic use. Now parents and children all have multiple devices that require high-quality video streaming and other always-on capabilities. Certainly the same can be said for large and small enterprises, which in turn drives demand for carriers, content providers and others.

TXF: How do customers buy access to the fibre optic cable?

LS: We sell wholesale, so we are selling to those carriers, content providers and other large purchasers who build out their own global network infrastructure. Most of our customers right now are very long-term focused, with contract terms of 15 years or more. But we also sell shorter-term deals, which are typically for smaller amounts of capacity.

TXF: Will small and medium-sized enterprises (SMEs) be able to gain access to this subsea cable?

LS: Well they gain access to it indirectly by virtue of the fact that our customers include the carriers, who in turn package that up and offer global network capabilities in a broader set of services to SMEs. Obviously if an SME wants to buy wholesale and build their own global network infrastructure, they are free to do that. For example, it wasn't that long ago that the content providers did not buy wholesale and now they typically do. As a result, there is certainly an evolution and a broadening of who buys wholesale, and we expect that trend to continue.

TXF: Can you explain what you meant by “next generation” systems?

LS: As a starting point, the prior generation of cables on the US-Brazil route use technology from 1997 were designed around 1999 and then built in 2000 to 2001. Obviously technology has not stood still, and there have been huge technology improvements since then. Seabras-1 is a beneficiary of this latest technology. Part of that benefit is around the quantity of capacity, and part of it is also being able to run a route directly over 10,800km without interim landings. That simply wasn't technically feasible back in the late 1990s.

In addition, the average life expectancy of a transoceanic subsea cable worldwide is 22 years. By the time our Seabras-1 system goes live, those older cables are about 17 years old. So if you are a large consumer of bandwidth and you are looking to solve your long term planning needs of 15-plus years, a system with an expected life of only five more years isn't looking very attractive.

TXF: So that 72 terabytes is almost too much capacity, will that ever be filled?

LS: Well we think it's just enough demand for our long-term forecasts and allows us to take advantage of economies of scale that reduce unit costs for our customers and ourselves. Given the expected demand forecasts for the route, we actually expect that over the life of the cable the maximum design capacity ends up being increased to a multiple of 72Tbps.

TXF: What was interesting about the financing structure of Seabras-1?

LS: I think really just the fact that it is the first asset class of this type to accomplish a true ECA-backed project financing. Having some of the world's top tier financial institutions around the project also adds to the significance of the project.

TXF: So has that paved the way for future deals?

LS: Yes. Many of our customers and vendors have told us they expect this to be the preferred model for subsea routes going forward.

TXF: Did you think the subsea cable market was at risk of tanking like it did in the in the 90s?

LS: There was certainly an overbuild of fibre optic systems, both terrestrially and subsea, in the US and in a lot of markets around the world during that era, and that overbuild in turn led to the collapse. But there was no overbuild inside of Brazil. And even though Brazil has a number of challenges right now in terms of its economy and some other factors, the reality is that there are still underserved areas in the telecom world inside of Brazil, eg they still need more data centres. They still need more metro projects. They still need more cell towers. And we believe they needed more subsea capacity to connect Brazil to the rest of the world. So this route really is a key route not just for Brazil to the US, but for South America to the rest of the world.

TXF: We were talking earlier about the future of Seaborn Networks. What is your vision?

LS: The vision is that it is a repeatable model and that we are best positioned for Seaborn to be a unique developer and operator on these subsea routes. We don't compete with our customers; we don't have data centres; we don't have pay TV objectives; and we don't have mobile networks. We are simply the subsea operator. And we think there is a role for a party like us to be an independent cable operator that provides the capacity that is needed by wholesale purchasers on the route. And, given how many systems we have brought into operation prior to forming Seaborn, we believe we can provide that capacity in a way that provides greater certainty and confidence than most other subsea start-up efforts.



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