



# GRAIN MANAGEMENT: GENERATING ALPHA IN THE NEXT GENERATION OF BROADBAND TELECOMMUNICATIONS

The Largest Network of Diverse- Owned  
Private Equity Firms and Hedge Funds

*In 2006, David Grain had just wrapped up a stint as the President of Global Signal, where he led the company out of bankruptcy and ran its operational turnaround that culminated in the 2006 acquisition of the business by Crown Castle International (NYSE: CCI) for just under \$6 billion. Following that transaction, he decided to launch Grain Management, a sector-focused private investment firm investing across the telecommunications industry.*

Grain Management typically invests in telecommunications businesses and assets with low volatility uncorrelated to debt and equity markets, predictable and recurring revenue and unique, risk-mitigating capital structures. The team then adds value by leveraging its industry network -- which provides a three-dimensional view of the market, its analytical tools, and a knowledge base -- to determine the trajectory of growth and value. It is basically a pairing of science and analytics with the muscle memory that comes with decades of industry experience to uncover opportunities.

While those of us in large city centers may not see the growth potential in the digital infrastructure space, broadband speeds tail off significantly outside of these metropolises as the equipment needed to deliver high-speed connectivity is relatively dispersed. And even in urban centers, there remain areas where connections drop or lag. This has become an even more glaring issue when one considers the massive increase in demand in 2020 for virtual learning and videoconferencing.

### **CLOSING THE DIGITAL DIVIDE**

Among the companies in the firm's portfolio is Great Plains Communication, a Midwestern telecommunications provider with a 13,500-mile fiber network reaching 11 states; Ritter Communication, a century-old Arkansas-based provider of internet, phone, video services and cloud solutions; Summit Broadband, a Florida-based internet, television, and phone solutions provider; and Hunter Communications, a regional fiber connectivity provider and one of the largest private telecommunications operators in Oregon.

"Connectivity through broadband and digital infrastructure is a very relevant topic at the moment given most of us continue to work virtually through the pandemic," points out Kathlika Fontes, Grain Management's Director of Investor Relations. "Grain's focus has and continues to be on sourcing and acquiring assets and companies that are derived from the broadband communications ecosystem."

In a world where broadband connectivity is a core utility in nearly all developed economies, the focus on this has become an essential platform for economic growth across multiple industries, including energy, transportation, healthcare, education, entertainment, and others. And that focus and realization have certainly come to the forefront as a result of the pandemic. Several countries are currently jostling for 5G leadership, including America. Most have prioritized the regulation that enables and encourages ubiquitous connectivity and building out these critical networks.

### **AN AWARD-WINNING DEAL**

Grain Management's strategy in action -- an investment in wireless spectrum licenses owned by Cincinnati Bell -- resulted in a home run exit and an NAIC Deal of the Year Award. Back in 2014, Cincinnati Bell was looking to exit its wireless business to focus resources on the more traditional wireline and high-speed internet service business at the time. As a result, the Cincinnati Bell Wireless

division engaged an investment banker to find a buyer for nine spectrum licenses it owned in Ohio, Kentucky, and Indiana. While several carriers expressed interest in individual licenses, none were interested in acquiring them as a bundle.

Grain invested \$10 million, including an \$8 million equity investment from Grain Infrastructure Fund II, L.P., to acquire spectrum licenses owned by regional wireless service provider Cincinnati Bell Wireless (CBW), a subsidiary of Cincinnati Bell, for a purchase price of \$194 million. Through this transaction, Cincinnati Bell executed the divestiture of the non-core CBW business to Grain, who acquired CBW's spectrum licenses, and Verizon Wireless, who took over lease obligations to CBW wireless towers, equipment, and other assets.

Concurrent with the spectrum acquisition, Grain executed a lease of the majority of the licenses to Verizon and a bond offering secured by the Verizon lease cash flow stream, which significantly reduced the amount of capital required from Fund II investors. Grain sold the licenses not leased to Verizon to T-Mobile in February 2015 for a return to Fund II investors of over 5x invested capital. Residual cash flows from the securitized Verizon lease payments brought the total return to Fund II investors to 8x.

### **A LONG WAY TO GO**

There is an increasing focus on high-speed solutions such as fiber networks resulting from employees looking to maintain productivity remotely, to students involved in e-learning, consumers engaged in home entertainment, and enterprise clients looking to manage remote workers' cloud applications. The deployment of fifth-generation networks is expected to enable a broad set of new use cases derived from the internet and its application and the digitization of entire economic sectors. That includes smart grid utilities management, factory automation, telemedicine, intelligent management of port operations and logistics, smart agriculture, and the like.

In the meantime, Grain Management will continue to work toward implementing the cutting-edge backbone for today and tomorrow's communications needs in a world where there is a growing urgency for increased connectivity.