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Brookfield Infrastructure buying storied but debt-laden U.S. telecom Cincinnati Bell

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Brookfield Infrastructure Partners LP is buying Cincinnati Bell Inc., one of the original U.S. Bell telephone companies, to add to its data-infrastructure portfolio.

Brookfield Infrastructure, an affiliate of Brookfield Asset Management Corp., will pay about US$550-million to acquire Cincinnati Bell’s New York Stock Exchange-listed shares at a 36-per-cent premium to Friday’s closing price. It’ll also take on nearly US$2-billion in Cincinnati Bell debt.

In doing so, Brookfield Infrastructure chief executive Sam Pollock says, it’ll acquire an operator of a fibre-optic network that provides “strong utility-like cash flows with predictable growth.”

It’ll also pick up the company for, arguably, less than the sum of its parts. Just over two years ago, Cincinnati Bell bought Hawaiian Telecom Inc. for US$650-million and Canada’s OnX Enterprise Solutions for US$201-million. Cincinnati Bell borrowed US$800-million to get the deals done – and has faced investor questions about its debt loads since.

Those acquisitions were the latest attempts by Cincinnati Bell to break free from its historic origins and get the markets to see it as more than a traditional "wireline" phone company.

The company started in the late 1800s as a telegraph company, winning the Bell franchise to serve the city of Cincinnati and its outlying communities, which stretched into northern Kentucky and eastern Indiana.

While other regional "Bells" expanded and merged, however, Cincinnati Bell mostly stayed local. During the 1990s tech bubble, it attempted to become a national player under the name Broadwing Communications, but ultimately retrenched. As 2019 came to a close, Cincinnati Bell's market value was less than one-10th its peak in 2000.

In the past 12 months, the 2018 fourth quarter and the first nine months of 2019, Cincinnati Bell recorded revenue of US$1.54-billion and a net loss of US$76-million. The company's EBITDA, or earnings before interest, taxes, depreciation and amortization, was US$392-million, according to S&P Global Market Intelligence, but more than US$300-million of depreciation on its equipment, plus US$140-million in interest charges, threw the company into a loss.

Today, Cincinnati Bell – the last of the Bell operating companies to use the word "Bell" in its name – is investing to bring fibre-optic lines directly to homes and businesses, rather than a past model of delivering services via the legacy copper-based phone wires. Brookfield says Cincinnati Bell has "future-proofed" 50 per cent of its network with more than 17,000 miles of fibre, including the "last mile" lines that go directly to the customer.

Brookfield Infrastructure's data infrastructure segment includes telecommunications, fibre and data-storage businesses across the globe. At the end of 2018, it included approximately 7,000 multipurpose towers and active rooftop sites; 5,500 kilometres of fibre backbone located in France; and 33 data centres totalling about 1.3 million square feet.

In his third-quarter letter to shareholders in November, Brookfield Asset Management CEO Bruce Flatt explained why the company believes data infrastructure should be a Brookfield focus. "Data has been one of the fastest-growing commodities in the world, and we expect this to continue for the foreseeable future," he said.

Cincinnati Bell CEO Leigh Fox said in a statement Monday that the Brookfield Infrastructure acquisition "strengthens our financial position, enabling accelerated investment in our strategic products that is not presently available to Cincinnati Bell as a stand-alone company."

Cincinnati Bell faced queries on its most recent earnings call about its ability to service its debt and whether it might sell assets to improve its position. Sergey Dluzhevskiy of GAMCO Investors. Inc – which owned 7.6 per cent of Cincinnati Bell at Sept. 30 – said “the stock has been obviously under pressure and the valuation in the public market continues to be depressed … what options or alternatives do you see that you believe could be effective in unlocking value …?”

Mr. Fox responded by saying the company saw “a path over the next several years” to reducing its debt levels. “We have plenty of cash to do exactly what we’re doing … Stocks are volatile. They go up, they go down, they go back up again, right?”

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