Alternative social infrastructure offers new opportunities – but let's not lose sight of what actually makes an infra deal.

Jean-Francis Dusch
Global Head of Infrastructure & Structured Finance,
Edmond de Rothschild

Audrey Colin-West
Head of Transport & Social Infrastructure Finance,
Edmond de Rothschild

The definition of infrastructure has broadened considerably over the last decade. One part of the market gaining growing traction among both equity and debt players is alternative social infrastructure, encompassing businesses that are outside the trodden infrastructure paths and yet provide essential services in sectors including healthcare, education and logistics. Edmond de Rothschild's Audrey Colin-West and Jean-Francis Dusch argue that infra debt lenders can access a range of attractive opportunities in this space, as long as they remain disciplined in financing only businesses that truly offer infrastructure-like services.

EDMOND
DE ROTHSCHILD

Part 1

Ten years ago, when we thought of infrastructure, we would think of an airport, of a motorway, of a power plant. But the boundaries of what can be defined as infrastructure have been pushed outwards. Whilst the robustness of the physical assets remains paramount, the markets attribute increasing importance to the criticality of the services.

As the definition of infrastructure has evolved, one area that is emerging as a major investment opportunity is alternative social infrastructure. This sits at the intersection between business services and traditional infrastructure.

It encompasses businesses that exhibit many of the traditional characteristics of infrastructure businesses, the most important of which is that they provide services that are critical to the functioning of society. Further, they need to offer predictable long-term cashflows, very often supported by a regulatory framework, and they need to hold a monopolistic or quasi-monopolistic position in their market.

Healthcare, education and beyond

Investing in alternative social infrastructure provides an opportunity to support the 'S' in 'ESG', particularly when it comes to financing businesses in sectors where there is under-funding from the public sector.

In much of continental Europe, pharmacies are a prime example of alternative social infrastructure. They play a key role in the healthcare system as the first port of call when people are looking for medical advice, vaccinations and medications.

Diagnostic imaging is another example from the healthcare sector of a service that is essential to the functioning of society. Early diagnosis saves lives. It is something that the population literally couldn't live without, so there is scope for businesses operating in the sector to display infrastructure-like characteristics.

Education is also a sector that is chronically under-funded by the state in many countries, which means there are opportunities for infrastructure players to finance private education, notably at kindergarten level. Certain countries, such as Finland, provide a legal and contractual framework for private education in the form of school vouchers, and this very strong support from the government supports long-term predictable cashflows.

Avoiding pitfalls

The most important task for an infra debt lender when approaching alternative social infrastructure is to remain disciplined about sticking with the infrastructure definition.

Alternative social infrastructure, beyond the above-mentioned examples of healthcare and education, can also encompass businesses operating in sectors including logistics, cold storage and water / wastewater treatment equipment. But it is possible to go too far in pushing the boundaries of infrastructure. An undisciplined lender might be tempted to start financing businesses that provide services that are important, venture out into new investment territories but do not truly offer infrastructure-like characteristics.

It comes back to essentiality and criticality. To constitute an alternative social infrastructure asset worth investing in, the asset needs to provide services that are truly essential and critical to society.

Mitigating risks

The emergence of this new asset class is partly the result of society evolving, in the context of mega trends such as an ageing population, digitalisation, the energy transition and globalisation. With the state not able to properly fund all the services that society requires, there is a growing role for the private sector to step in.

An additional driver is the compression of returns for equity sponsors in traditional infrastructure. That has helped motivate both equity and debt players to push the boundaries of infrastructure and look for sub-sectors that can provide better returns and better margin for the lenders.

> *"An infrastructure debt lender will always need to carefully assess risks and ensure mitigations are in place."*

An infrastructure debt lender will always need to carefully assess risks and ensure mitigations are in place. Alternative social infrastructure is no different. When businesses are exposed to some degree of market risk it becomes especially important to understand the dynamics of the market in which the business operates and where its cashflows come from.

For example, pharmacies in Italy are highly regulated, with certain distances required between pharmacies. That ensures pharmacy businesses offer quasi-monopolistic characteristics being also the only selling points of medicine, which helps to ensure long-term, predictable revenues. On top of this, most medications are reimbursed from the public healthcare provider, so there is high degree of government backing. Those factors don't necessarily apply to the pharmacy segment in other countries, hence the importance of having a very granular understanding of what drives the resilience of revenues for a given project.

Future outlook

There is more work to do to build market awareness of alternative social infrastructure. Some LPs are not yet fully familiar with the concept. For them, it's important to understand how a potential transaction in the alternative infra segment still offers infrastructure-like characteristics.

Investors do understand that the definition of infrastructure is expanding. For example, a decade ago, investing in offshore wind farm maintenance vessels (SOVs) would have been considered a very niche strategy. Now, however, it would be considered a conventional core infrastructure play.

Alternative social infrastructure will follow the same pattern. More and more players in the market will become comfortable with investing in alternative social infrastructure as the concept gains traction, and transactions will become increasingly commoditised. Until then, a

strong "out of the box" sourcing capacity paired with a sharp eye for what makes a robust infrastructure investment, should enable investors to achieve above-average returns whilst strengthening essential but often overlooked services for society.

Part 2

The infrastructure debt practice at Edmond de Rothschild is cautiously embracing alternative social infrastructure, having completed transactions in the healthcare, education, logistics and water sectors.

In many cases, Edmond de Rothschild is one of the few infra debt firms that examines a potential transaction in the alternative social infrastructure space. On several occasions, the firm has been able to lend on a bilateral basis.

However, an increasing number of players are entering into the emerging alternative social infrastructure asset class as the boundaries of infrastructure are pushed outwards. The growth in appetite, both from private equity infrastructure investors and from debt providers, reflects the ability to capture stronger margins compared to in more established infrastructure sectors.

An attractive risk-return equation

Alternative social infrastructure is somewhat more remunerative than traditional infrastructure. Returns are higher than for core infrastructure, and certainly higher than for a typical PPP transaction.

Edmond de Rothschild would typically target returns in the 300 basis point range for a transaction with a diagnostic imaging operation or a logistics operation, for example.

> *" The most important priority for the firm in every potential transaction is to ensure that the services provided by an alternative social infrastructure business can be justified as essential and critical."*

The most important priority for the firm in every potential transaction is to ensure that the services provided by an alternative social infrastructure business can be justified as essential and critical. The business's provision of services that are critical for the functioning of society is a pre-requisite to establishing the conviction that the business is providing a service that can be defined as infrastructure.

Edmond de Rothschild also ensures that the cashflows of the business are stable and resilient. A monopolistic or quasi-monopolistic position is key to mitigating volume risk and pricing risk. The churn rate of the business must not be excessive. A strong alternative social infrastructure business would typically have a very small churn rate, because it will be a well-established company with a strong brand and strong foundations in its communities.

Case study: Water and wastewater handling equipment

An example of a recent transaction in which Edmond de Rothschild has been involved is the refinancing of the operator of water and wastewater pumping services in the UK and the Netherlands.

Water utilities subcontract many of their water pumping and wastewater processes and capabilities to specialist companies that can provide the necessary equipment, both for day-to-day operations and for emergency situations. Water utilities cannot fail in providing clean water to the population, meaning that the water pumping sub-contractor provides a service that is essential and critical.

The business that Edmond de Rothschild has financed has been operating for more than 50 years and is one of the largest and most established players in the market. Although it is contracted by the utilities only on a short to medium-term basis, it has a quasi-monopolistic presence in the market. There are very strong barriers to entry due to the expense and complexity of its equipment.

In the UK, the spending on this equipment is regulated and supported by the government, which mandates that water utilities need to be able to contract the necessary equipment to deal with an emergency situation. As a result, the water and wastewater handling business has very stable and predictable cashflows.

Conservative structuring

When Edmond de Rothschild considers a transaction for alternative social infrastructure, the firm is typically more conservative in how it structures a covenant to reflect the degree of market risk. The maximum level of leverage would be 3x to 4x revenues in a typical transaction, and a very strong interest coverage ratio would be maintained.

Most of these transactions are short term, of between five and seven years duration. There is no amortising profile, so the infrastructure debt practice relies on the refinancing of the transaction. However, any risks are mitigated because the businesses concerned are mature and hold long life assets. There is no issue in terms of assuming refinancing risk, while overall risk is mitigated by the conservative stance on the leverage level. The firm also runs 'failed refinancing 'case sensitivity to ensure that the business can repay the outstanding debt in a short and appropriate manner.

Edmond de Rothschild is conservative, cautious, and disciplined in how it justifies the definition of infrastructure. That puts the firm n a prime position to be a leading player in financing the most attractive opportunities in alternative social infrastructure.

Disclaimer

Advertising communication: This is a marketing communication.
September 2026. This document is issued by the Edmond de Rothschild Group. It has no contractual value and is designed for information purposes only.
This material may not be communicated to persons in jurisdictions where it would constitute a recommendation, an offer of products or services or a solicitation and where its communication would therefore contravene applicable legal and regulatory provisions. This material has not been reviewed or approved by any regulator in any jurisdiction.
The information about the companies cannot be assimilated to an opinion of Edmond de Rothschild Asset Management (France) on the expected evolution of the securities and on the foreseeable evolution of the price of the financial instruments they issue. This information cannot be interpreted as a recommendation to buy or sell such securities.
The figures, comments, opinions and/or analyses contained in this document reflect the Edmond de Rothschild Group's view of market trends based on its expertise, economic analyses and the information in its possession at the date of preparation of this document and may change at any time without notice. They may no longer be accurate or relevant at the time of publication, particularly in view of the date of preparation of this document or due to market developments.
This document is intended solely to provide general and preliminary information to those who consult it and should not be used as a basis for any investment, disinvestment or holding decision. The Edmond de Rothschild Group shall not be held liable for any investment, disinvestment or holding decision taken on the basis of such comments and analyses.
The Edmond de Rothschild Group therefore recommends that all investors obtain the various regulatory descriptions of each financial product before investing, in order to analyse the associated risks and form their own opinion independently of the Edmond de Rothschild Group. It is recommended to obtain independent advice from specialised professionals before entering into any transaction based on the information contained in this document, in order to ensure that the investment is suitable for the investor's financial and tax situation.
Past performance and volatility are not indicative of future performance and volatility and are not constant over time and may be independently affected by changes in exchange rates.
Source of information: unless otherwise indicated, the sources used in this document are those of the Edmond de Rothschild Group.

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)
47, rue du Faubourg Saint-Honoré, 75401 Paris Cedex 08
Société anonyme governed by an executive board and a supervisory board with capital of 11.033.769 euros - AMF Registration number GP 04000015 - 332.652.536 R.C.S. Paris

www.edmond-de-rothschild.com