

How Private Capital Can Help with the Three Ds:



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Europe's need for private capital

Europe stands at a critical crossroads. With rapid technological advancements reshaping industries, climate change demanding urgent action, and security challenges evolving in unprecedented ways, we are facing a unique set of pressures that require a robust, coordinated response.

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The green transition is not just an environmental necessity, but an economic imperative. Trade tensions between the US and China create a complex backdrop for European businesses, adding layers of uncertainty. The outcome of the next US election could further impact transatlantic relations and global stability. Meanwhile, Russia’s ongoing war in Ukraine highlights the fragile nature of peace in Europe and the need for a strong, unified defense strategy.

In addressing these multifaceted challenges, private capital emerges as a crucial player. Strategic investments can drive innovation, scale sustainable technologies, and bolster defense capabilities. Private capital can significantly contribute to the three Ds, ensuring that Europe not only navigates, but also thrives in these unprecedented times.

Competitiveness as a central theme for Europe

Competitiveness is and will continue to be a key theme for Europe. For private capital, it means investing in and building companies that can become European or even global champions.

Private equity firms have the resources and expertise to identify promising technologies and businesses, providing them with the necessary capital and strategic guidance to scale. This not only drives economic growth but also contributes to broader societal goals.

Private capital investors are well-positioned to support the EU’s goals by investing in promising and transformative sectors and companies. Their ability to source, pool, and efficiently allocate private, long-term capital across European value chains gives them a deep understanding of the industry at large.

The recent geopolitical developments further underscore the importance of private capital in Europe. The European Union’s focus on security and competitiveness is likely to be a central theme in the European Commission’s agenda. A more geopolitical Europe, one that is resilient and competitive, will require substantial investments in digital infrastructure, green technologies, and defense capabilities. And private capital can play a pivotal role in this transformation.

Especially in an increasingly competitive global landscape for private capital, Europe must get things right in building a productive and sustainable economy. This includes ensuring that private investors see themselves as welcome partners in developing a Single Market and Capital Markets Union, providing efficient access to capital.

Accelerating innovation and efficiency

In the current global economy, digital transformation is not just a competitive advantage; it is a necessity. The rapid advancement of technologies such as artificial intelligence (AI), the Internet of Things (IoT), and 5G connectivity is reshaping industries, creating new business models, and redefining the way societies function. For Europe to remain competitive on the global stage, it must accelerate its digital transformation efforts.

Digital transformation enhances efficiency, reduces costs, and opens up new revenue streams. It enables businesses to innovate rapidly, respond to market changes, and meet customer demands more effectively. Moreover, it is crucial for technological sovereignty, ensuring that Europe can develop and control critical technologies rather than relying on external powers.

Private capital is instrumental in driving digital transformation. It can provide the necessary funding to develop and scale digital technologies and infrastructure. Private capital brings not only financial resources but also strategic expertise and industry connections, enabling businesses to implement cutting-edge solutions and expand their market reach.

For instance, KKR has been actively investing in digital infrastructure and technology companies. Recent investments in firms like Fibercorp and Hyperoptic illustrate a commitment to enhancing digital connectivity and infrastructure. These investments are crucial for building the backbone of a digital economy, ensuring that businesses and consumers have access to high-speed, reliable internet services.

KKR also recently closed the acquisition of the fixed network infrastructure of TIM. As a result, FiberCop has launched an open-access wholesale telecommunications network in Italy, providing end-to-end connectivity services nationwide. The company, formed by incorporating Telecom Italia's fixed line network and owned by a group led by KKR and the Italian Ministry of Economy and Finance, aims to accelerate the transition to fiber-optic infrastructure and support Italy's digital transformation. This strategic partnership between the Italian government and KKR reflects the shared commitment to fast-tracking the digital transition in Italy and represents the significant role private capital can play to support economic and social development.

Another example is KKR's investment in ODF in the Netherlands, a company specializing in data centers and cloud services. Data centers are the backbone of the digital economy, providing the necessary infrastructure for cloud computing, big data analytics, and AI applications. By supporting ODF, KKR is helping to build a robust and scalable digital infrastructure that can meet the growing demands of businesses and consumers.

Overall, Europe's large, developed market and its status as a hub of innovation make it an attractive destination for private capital including from foreign investors. The continent's world-leading R&D, particularly in critical sectors like technology, green energy, and healthcare, alongside its robust infrastructure and skilled workforce, offer vast investment opportunities.



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Driving the energy transition

Europe has set ambitious goals for reducing greenhouse gas emissions and achieving climate neutrality by 2050. The European Green Deal outlines a comprehensive strategy to transform the EU into a modern, resource-efficient, and competitive economy, decoupling economic growth from resource use.

Achieving these goals requires substantial investments in clean energy technologies, sustainable practices, and green infrastructure. The transition to a low-carbon economy is not only an environmental imperative but also an economic opportunity, creating new jobs, industries, and markets.

Private capital plays a critical role in financing the energy transition. Public funding alone is not enough to meet the massive investment needs for developing and deploying clean energy technologies. Private capital can bridge this gap by providing the necessary capital and expertise to scale innovative solutions.

Private capital can support a wide range of projects, from renewable power generation and energy efficiency improvements to sustainable agriculture and circular economy initiatives. By investing in these areas, private capital contributes to reducing emissions, conserving resources, and promoting sustainable development.

For instance, KKR’s investment in Albioma, a renewable energy company, is one example of recent investments behind the energy transition. Albioma specializes in biomass and solar energy, producing clean electricity from renewable sources. By supporting Albioma, we are helping to reduce dependence on fossil fuels and promote sustainable energy production .

Another notable example is KKR’s investment in Encavis, a leading independent power producer focused on renewable energy. Encavis owns and operates solar and wind farms across Europe, contributing to the EU’s renewable energy targets. Private capital will further enable Encavis to expand its portfolio, increase capacity, and enhance operational efficiency.

Whilst there has been good progress over recent years, in order to foster a deeper integration of private capital into the overall investment landscape, the European Union must create incentive structures that attract private funding. Policymakers need to ensure the right interplay between public and private funding, realizing that public funding alone cannot meet the needs of the energy transition.

Enhancing security and technological capabilities

Europe faces a complex and evolving security landscape. The conflict in Ukraine has highlighted the importance of a strong and united European defense capability, capable of responding to both traditional and emerging threats.

Strengthening defense capabilities, enhancing technological innovation, and fostering strategic partnerships are essential to continue to ensure security and stability for Europe and beyond.

Defense projects often require substantial investments in research and development, testing, and deployment.

By investing in defense technologies, private capital can help bridge the gap between military needs and technological advancements. This includes areas such as cybersecurity, artificial intelligence or unmanned systems. Such investments not only enhance security but also contribute to economic growth and technological leadership.

Private capital investors, with their long-term perspective, are crucial in building a resilient and prosperous Europe. Their ability to take a long view beyond immediate crises positions them as central pillars in addressing ongoing challenges like climate change and digital transformation, alongside newer security concerns.

The path forward

It is crucial for policymakers to recognize the pivotal role of private capital in meeting Europe's challenges. This will require sustained public policies, coupled with smart deployment of private capital at scale. By working together, the public and private sectors can build a stronger, more competitive, and sustainable Europe. ■



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