

Powering growth

UK Power Reserve (UKPR) supplies flexible power generation to the National Grid to help it balance the system. In 2015, Inflexion backed management to turbo-charge the business's growth and sold our investment in 2018 to Singapore-headquartered Sembcorp Industries. We talk with Tim Emrich (TE), co-founder and former CEO, and Jon Addis (JA), CFO, about the partnership.



Inflexion, like us, are big believers in resource and investing in people to ensure the business has the bandwidth to achieve what we want to achieve. They were supporting rather than obstructing us in our plans. Inflexion were a real breath of fresh air compared to other backers.

JA: The UK energy system is extremely unpredictable because of renewables – for example when the sun doesn't shine or the wind doesn't blow, then the National Grid has a shortfall in terms of the energy in the system. Our software systems allow them to remotely fire up our power stations and bridge the gap to balance the system.

TE: UKPR is basically a 'firehouse' for electricity. When National Grid is in a time of crisis and needs power immediately, UKPR answers that call.

Finding the right partner

JA: We were looking for backers to invest money and expertise into the business. We marketed UKPR as having multiple revenue streams, a significant construction build, and operating in a rapidly changing and evolving regulatory market – which brings with it risks as well as opportunities. We attracted lots of private equity interest, but most thought "it's a bit too complicated for us to get our heads round." Inflexion really took the time to understand the key drivers of the business and the market dynamics surrounding it.

As soon as the partnership with Inflexion and Equistone commenced, the backers brought real momentum to the table. We sat down together and agreed the key actions and started to tick them off. They brought clarity around the strategy, as well as banking and funding options to the table. This was crucial for optimising our funding, and their relationships with the lenders were extremely helpful in achieving this.

TE: Inflexion is one of four private equity firms I've worked with, and they were the perfect partner. Inflexion as a business isn't very old, and I could see parallels of how they were growing their business in how we were growing ours. They, like us, are big believers in resource and investing in people to ensure the business has the bandwidth to achieve what we want to achieve. They were supporting rather than obstructing us in our plans. Inflexion were a real breath of fresh air compared to other backers.

Growth during Inflexion's investment

JA: The National Grid needed more generation and new assets coming onto the energy system in the UK. To this end, they issued long-term, 15-year capacity market contracts to build out new power stations. This provided us with fixed revenues and allowed us to access new markets with highly responsive new assets, which is what really drove the growth during the period Inflexion were invested.

UKPR has also been able to extract value outside of the National Grid market. Because National Grid only need our capacity during peak periods (morning and evenings), we had flexible capacity in the non-surge pockets

(usually the middle of the day). Our commercial team built a very sophisticated IT platform to support that. It was able to remotely start and stop the plant, diagnose faults, and then extract value from the market where usage gaps exist and where prices get spikey. It's a layer of additional profit we can generate by being commercially astute and having the IT systems to allow us to access those opportunities.

TE: Inflexion knew where to be supportive – and they knew where to step out of the way and let us get on with it. They have an appreciation for what it takes to grow a business significantly and successfully.



Inflexion knew where to be supportive – and they knew where to step out of the way and let us get on with it. They have an appreciation for what it takes to grow a business significantly and successfully.

In good times and challenging ones

TE: During our partnership, the business witnessed the most significant regulatory upheaval the sector had experienced for decades. What this meant was that there would be a fundamental change in the sector over the coming five to ten years.

The changes meant it was more difficult to know the company will make money, and how much. But I always believed we'd continue to grow. Inflexion had the judgement to know that changing times could also be profitable times. I think other firms could have wilted in the sunlight.

During our partnership, Inflexion could have softened the rate of growth or pulled back a bit until they saw the outcome of these changes. Instead they invested time with our management team to understand, do the cost-benefit analysis together and conclude that continuing with the original plan was the absolute right thing to do.

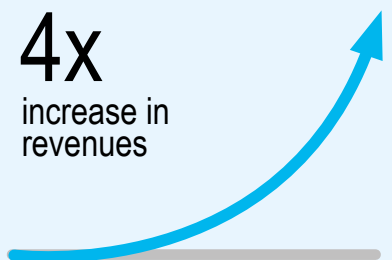
There was always a risk they'd say "can we take things more slowly" but that didn't happen.

To Inflexion's credit, they had absolute conviction in what we were doing together. They were able to apply a greater level of independent and fresh thinking, more so than a larger, institutional backer would have done.

JA: It paid off. During our time together, a massive capex programme saw us treble our capacity to over 500MW from 32 rapid-response power stations across England and Wales. To put it in perspective, that is enough to power 375,000 homes in local communities. We invested in human resource, more than doubling headcount from 70 to 150, and all this meant our revenues grew from c. £20m to over £80m during the partnership. The growth attracted interested parties, with Singaporean trade buyer Sembcorp Industries purchasing UKPR in May 2018.

TE: It was a family, with testing times and testing exchanges, but ultimately it made the relationship stronger. If they'd have me again, I'd be very pleased to be part of another Inflexion management team.

4x
increase in
revenues



2x
increase in
employees

