



Alkane Energy PLC

Acquisition and Fundraising

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Alkane Energy PLC

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Alkane Energy plc ("Alkane", "the Group" or "the Company")

Acquisition and Fundraising: Acquisition of 49MW of Power Response Sites and £8.0 million Fundraising

Highlights

Alkane Energy plc, the independent gas to power company, is pleased to announce that it has agreed to acquire three power response companies, Darent Power Limited, Leven Power Limited and Rhymney Power Limited (together the "Power Response Sites") from Carron Energy Limited and Dragon Generation Limited (together "Carron Energy") (the "Acquisition").

The total consideration for the acquisition of the Power Response Sites is £11.75 million, comprising approximately £10.68 million payable in cash, along with the adoption of approximately £1.07 million term loan facility with Lombard North Central plc ("Lombard") at Rhymney Power Limited. An additional £0.17 million will be payable in relation to a debt service reserve account in place and £0.15 million payable in relation to working capital taking the total transaction value to approximately £12.06 million.

The Acquisition will add 49MW of power response generating capacity to Alkane's portfolio of generating assets, placing the Company in a strong position in the Short Term Operating Reserve ("STOR") market where participants are paid premium rates during the year when called upon by the National Grid to meet temporary supply shortages. In addition, the Acquisition will provide additional revenues from peak winter pricing at a time when the UK faces growing challenges relating to declining generating capacity and the inherent risk of power shortages. Leven

Power Limited in particular benefits from a long term STOR contract running to 2025.

Alkane is also pleased to announce a successful placing of 22,222,222 new ordinary shares of 0.5 pence each in the capital of the Company ("Placing Shares") at a price of 36 pence per new ordinary share (the "Placing Price") raising gross proceeds of £8.0 million (the "Placing") through the issue.

The consideration for the Acquisition will be funded through an extension of existing bank facilities along with the net proceeds of the Placing. Excess financing will be used to provide additional working capital to support the continued investment by the Group in its core gas to power activities.

The Acquisition and the Placing are conditional on certain matters, including *inter alia* the admission of the Placing Shares to trading on AIM, which is expected to occur on or around 21 July 2014.

The Acquisition

- Acquisition of the Power Response Sites for total consideration of £11.75 million, with approximately £10.68 million payable in cash and the adoption of approximately £1.07 million Lombard term loan facility at Rhymney Power Limited. There are additional payments relating to the debt service reserve account in place and working capital totalling approximately £0.32 million
- The Acquisition provides Alkane with 49MW additional capacity (93MW of total power response capacity and 140MW installed generating capacity in total) and broadens the Company's geographical presence in the South of England and Wales
- Enhances Alkane's existing strong position in the power response market, with STOR currently estimated to be worth c.£100 million per annum in the UK
- Increases the Company's potential to benefit from new National Grid initiatives, such as payments under the Capacity Market, as standby power becomes more important to the grid in low capacity margin scenarios
- The Acquisition is expected to deliver an immediate EBITDA contribution and be EPS accretive in its first full financial year
- The Acquisition brings:
 - an increase in the Company's power response generating capacity to 93MW;
 - a STOR contract at Leven Power Limited (25MW of capacity) with a long term, attractive availability rate and contracted revenues until 2025;
 - Darent Power Limited and Rhymney Power Limited (combined 24MW of capacity) will be able to target winter peak and Triad (the three highest half hour peaks between November and February which attract premium payments) periods in addition to operating under STOR contract fixed running to October 2015;

- Carron Energy management estimates of audited revenue and EBITDA related to the businesses being acquired of c. £2.3 million and c.£1.0 million, respectively, for the year ended 31 March 2014 although it should be noted that the Darent site was only operational for 5 months during the year
- As part of the financial arrangements at the time of, and conditional upon the completion of, the Acquisition, Alkane has extended its Group banking facilities by £6.6 million, as set out below:
 - a £5.5 million fixed rate five year term loan with a mortgage against the Leven Power Limited and Darent Power Limited assets from Lloyds Bank PLC ("Lloyds"). The interest rate for the term loan is approximately 4.6%
 - in addition Alkane has rolled over £1.07 million term loan facility with Lombard on Rhymney Power Limited
- Alkane has today announced a successful equity fundraising via a cash box placing. Details of the Placing, which is conditional, inter alia, upon the admission of the Placing Shares to trading on the AIM market of the London Stock Exchange ("Admission"), include:
 - the issue of 22,222,222 Placing Shares at a Placing Price of 36 pence per share raising gross proceeds of £8.0 million; and
 - Significant commitment of existing and new institutional shareholders, extending the breadth of Alkane's shareholder register

Neil O'Brien, Chief Executive Officer, commented on the Acquisition:

"Alkane continues to invest in strategic assets as the UK electricity market faces an increased risk of an energy gap over the coming years. These Power Response Sites are important additions to our business offering attractive rates of return and with some significant long term contracted revenues."

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Alkane is one of the UK's fastest growing independent power generators. The Company operates mid-sized "gas to power" electricity plants providing both base load and fast response capacity to the grid. Following the Acquisition, Alkane will have a total installed generating capacity of approximately 140MW and an electricity grid capacity of 160MW.

Alkane's base load operations, where power is generated 24/7, are centred on a portfolio of coal mine methane ("CMM") sites. Alkane has the UK's leading portfolio of CMM licences, enabling the Company to extract gas from abandoned coal mines.

As CMM declines at any one site, Alkane retains valuable generating capacity and a grid connection which can be redeployed to power response. Power response sites are connected to mains gas and produce electricity at times of high electrical demand through peak running, or in order to balance the electricity grid through participation in the National Grid's short term operating reserve programme ("STOR"). Participants in STOR are paid premium rates when called upon by the Grid to meet temporary supply shortages. Alkane now operates 93MW of power response on mains gas.

The Group operates from 27 mid-size (up to 25MW) power plants across the UK, 15 CMM only, 8 mains gas only, 3 using both fuel sources and 1 using kerosene only. Alkane uses standard modular reciprocating engines to generate the electricity and sells this power through the electricity network. The engine units and other plant are designed to be flexible and transportable allowing additional capacity to be brought onto growing sites and underutilised plant to be moved to new sites to maximise efficiency.

Alkane has a range of core skills encompassing the entire project development cycle including planning and permitting, sourcing plant and managing the build and commissioning stage. This has enabled Alkane to establish a design, build and operate ("DBO") business for third party clients in the biogas and oil & gas industries.

More information is available on our website www.alkane.co.uk.

Alkane Energy plc
("Alkane", "the Group" or "the Company")

Acquisition and Fundraising:
Acquisition of 49MW of Power Response Sites and
£8.0 million Fundraising

Introduction

Alkane Energy plc, the independent gas to power company, has agreed to acquire three power response companies, Darent Power Limited, Leven Power Limited and Rhymney Power Limited (together the "Power

Response Sites") from Carron Energy Limited and Dragon Generation Limited (together "Carron Energy") (the "Acquisition").

The total consideration for the acquisition of the Power Response Sites is £11.75 million, comprising of approximately £10.68 million payable in cash and the adoption of approximately £1.07 million term loan facility with Lombard North Central plc ("Lombard") at Rhymney Power Limited. £0.2 million of the total consideration noted above will be paid into an escrow account at completion and will be released to Carron Energy on the completion of certain operational milestones during the 12 months after the Acquisition. An additional £0.17 million will be payable in relation to a debt service reserve account in place and £0.15 million payable in relation to working capital taking the total transaction value to £12.1 million.

Power response comprises peak load running and participation in National Grid's Short Term Operating Reserve Programme ("STOR") and builds on Alkane's core gas to power skills. Power response uses identical engine types to those used in Alkane's coal mine methane ("CMM") sites and these are operated by the same Alkane team ensuring both capital and operational flexibility. As power response uses bought in mains gas to run the engines, Alkane gains its margin by operating at periods of peak pricing. This includes the winter evening periods and contracting into the STOR programme. Alkane offers fast response, flexible and reliable capacity to this market.

STOR market output has been growing over recent years and the Company announced in its trading update of 1 May 2014 that activity for the first quarter of the year had been encouraging, with contracted STOR capacity increasing from 21MW at the start of 2014 to 36MW for the coming winter period. The Company has delivered on its previously announced target of reaching 50MW of installed capacity within 12 months.

The Power Responses Sites will provide an additional 49MW of operating assets to the Alkane portfolio split between Darent Power Limited (14MW), Leven Power Limited (25MW) and Rhymney Power Limited (10MW). The Acquisition will provide Alkane with a substantial increase in the scale of the Group delivering immediate operational assets and cashflow in a way which avoids the development lag of between 9-18 months between Alkane identifying, developing and funding the construction of new sites prior to them generating revenue which is inherent in the Group's organically developed sites. The Acquisition is expected to be earnings enhancing in the year ending 31 December 2015.

The Acquisition will be financed by arrangements to add additional banking facilities, which combined with the Group's existing facilities, total £21.6 million (a £6.6 million net increase in facilities) to be provided by Alkane's current lending bank, Lloyds Bank PLC ("Lloyds") and the adoption of a £1.07 million Lombard term loan facility on Rhymney Power Limited. In addition the Company has, raised £8.0 million (gross) (the "Placing") through the issue of 22,222,222 ordinary shares of 0.5 pence each in the capital of the Company ("Placing Shares") at a price of 36 pence per share (the "Placing Price").

Background to, and reasons for, the Acquisition

Alkane is one of the UK's fastest growing independent power generators. The Company operates mid-sized gas to power electricity plants providing both predictable and fast response capacity to the grid. As at 30 June 2014, Alkane had a total of 91MW of installed generating capacity and an electricity grid capacity of 111MW.

Alkane's stated strategy has been to grow its installed base of gas to power electrical output whilst developing scale in its complementary businesses, such as power response. Power Response sites are connected to mains gas and produce electricity at times of high electrical demand or in order to balance the electricity grid.

Over the past three years the Group has acquired and successfully integrated Seven Star Natural Gas Ltd in May 2011, Greenpark Energy Ltd in April 2012, Maltby CMM asset in May 2013 and Wheldale power response site in February 2014. These transactions added to Alkane's market leading position growing its STOR portfolio six fold over this period.

The Acquisition will provide Alkane with significant further increase in the scale of the Group.

Information on the Power Response Sites

Darent Power Limited, Leven Power Limited and Rhymney Power Limited are all wholly owned subsidiaries of Carron Energy Limited, a privately owned independent power company.

In April 2008, Carron Energy acquired First Energy (Redditch) Power, in Redditch, Worcestershire which was later renamed to Leven Power Limited. The power plant is 25MW open cycle gas turbine, capable of achieving full load within 10 minutes of National Grid instruction and power is subsequently sold to Smartest Energy, with whom Alkane have an existing relationship. The site is utilised for fast start peaking power and under a long term STOR contract with the National Grid running to 2025. This contract guarantees a minimum £1.1 million index-linked annual revenue with a considerably greater price and term than the current STOR market norm.

In 2012, Carron Energy developed and built Rhymney Power Limited in Cardiff, consisting of 4 Jenbacher gas engines totalling 10MW of output. Alkane management believe there is scope to operate the site within the peak running regime in addition to operating it for Triad capture, as at present. The site is able to achieve full load within 8 minutes of instruction by National Grid and with electricity sold to British Gas.

Darent Power Limited, in Sandwich, Kent entered into operation in November 2013 following a refurbishment programme which included new plant and equipment. The 14MW power plant comprises two former gas powered CHP plants and is capable of achieving full load within 8 minutes of National Grid instruction and with electricity sold to British Gas.

Details of the Acquisition

An agreement was conditionally entered into on 16 July 2014 (the "Acquisition Agreement") and will complete on admission to AIM of the

Placing Shares. The consideration payable, by the Company pursuant to the Acquisition Agreement is as follows:

- cash proceeds payable to the vendors of the Power Response Sites (the "Vendors") of approximately £10.68 million, payable on Completion subject to £0.2 million being held in a retention account and subject to certain operational milestones;
- a payment in relation to stock, fuel and working capital acquired at Completion estimated to be £0.15 million which is subject to a post completion true-up; and
- a payment of £0.17 million in relation to a debt service reserve account in place in respect of the Lombard facility

Completion of the Acquisition Agreement is conditional upon, *inter alia*, admission of the Placing Shares.

The Acquisition Agreement contains warranties and certain indemnities typical for a transaction of this type including, *inter alia*, indemnities relating to certain employment matters. The warranties and indemnities are subject to certain limitations including time and financial limitations.

Funding of the Acquisition

Bank facility

The Acquisition is partly being financed by arrangements to extend and add additional banking facilities to be provided by Alkane's current lending bank, Lloyds. When combined with the Group's existing facilities, the Group's aggregate debt facilities available will be £21.6 million. Lloyds have provided a £5.5 million fixed rate five year term loan with a mortgage against the assets of Leven Power Limited and Darent Power Limited. The interest rate for the term loan is approximately 4.6%

Covenants for the extended facilities will remain consistent with the existing facilities with covenants in place in respect of growth of net worth, EBITDA levels relative to outstanding debt, interest cover, minimum electricity pricing levels and the proportion of output under contract. All other bank facilities and hire purchase arrangements remain unchanged.

In addition Alkane has assumed a £1.07 million term loan facility with Lombard on Rhymney Power Limited.

The Placing

The Company is pleased to announce that the Company's joint brokers, Liberum and VSA Capital, have, on behalf of the Company, successfully raised £8.0 million (gross) via the Placing. The Placing has been supported by a combination of existing and new institutional shareholders, extending the breadth of Alkane's shareholder register.

The 22,222,222 Placing Shares will be placed at a Placing Price of 36 pence per share. The Placing Price represents an 8.9% discount to the closing mid-market price of 39.5 pence per ordinary share on 16 July 2014 (being the last practicable date prior to the date of this announcement). The Placing Shares represent approximately 15.2% of the issued share capital as enlarged by the Placing. The Placing is not

underwritten and is subject to, inter alia, Admission. Completion of the Acquisition is also conditional upon, inter alia, Admission.

Roger McDowell, Non-Executive Chairman of the Company, has subscribed for 180,000 Placing Shares at the Placing Price. Following this subscription, Roger McDowell now has a beneficial interest in 995,000 ordinary shares in Alkane, representing 0.68% of the enlarged issued ordinary share capital of the Company following the Placing.

The Placing will be effected by way of a cash box placing which means that the statutory pre-emption rights contained in section 561 of the Companies Act 2006 will not apply. The Placing Shares will not be issued for cash and so are not required to be issued on a pre-emptive basis.

The issue of the Placing Shares is to be effected by way of a cashbox placing which works in the following manner. The Company and VSA Capital have subscribed for or will subscribe for new ordinary shares in a newly formed subsidiary ("Newco") of the Company incorporated in Jersey. Monies received by the brokers from the placees pursuant to the Placing shall be used by the brokers to satisfy their undertakings to subscribe for redeemable preference shares in Newco. The Company will allot and issue the Placing Shares to the placees in consideration of the brokers transferring their respective ordinary shares and redeemable preference shares in Newco to the Company. Accordingly, instead of receiving cash as consideration for the issue of the Placing Shares, the Company will own the entire issued share capital of Newco, whose only asset will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Placing.

The net proceeds of the Placing, along with the additional bank facilities extended at the time of the Acquisition, will be used to finance the Acquisition, and, provide additional working capital to support the continued investment by the Group in its core gas to power activities.

The Placing Shares will be issued credited as fully paid and will rank pari passu in all respects with the existing ordinary shares, including as to the right to receive and retain all dividends and other distributions declared after Admission.

Application has been made to the London Stock Exchange for Admission of the Placing Shares. It is expected that Admission will become effective and that dealings in the Placing Shares will commence at 8:00 a.m. (London time) 21 July 2014.

Following Admission, the issued share capital of the Company will be 146,459,501 ordinary shares of 0.5 pence each in the capital of the Company.

Related Party Transaction

Under the AIM Rules for Companies (the "AIM Rules"), a non pre-emptive issue of shares to a related party which exceeds a specified percentage in any of the class tests under the AIM Rules is subject to certain disclosure requirements. Due to its holding of over 10% of the Company's voting ordinary shares, the proposed participation in the Placing by Henderson Global Investors Limited ("Henderson"), which has previously notified the Company that its aggregate holding was

18,633,725 Ordinary Shares, representing approximately 14.9% of the Company's voting Ordinary Shares), is deemed a transaction with a related party under the AIM Rules. Henderson has agreed to subscribe for 3,920,000 Placing Shares under the Placing, such that it will hold approximately 15.4% of the voting Ordinary Shares following the Placing. The Directors of the Company consider, having consulted with Liberum, the Company's Nominated Adviser, that the terms of the Placing are fair and reasonable insofar as the Company's shareholders are concerned.

Financial Effects of the Acquisition

The Acquisition is expected to be EPS accretive for the year ended 31 December 2015.

For the year ended 31 March 2014, audited results of the Power Response Sites show revenue and EBITDA related to the businesses being acquired of approximately £2.3 million and approximately £1.0 million, respectively although it should be noted that the Darent site was only operational for 5 months during the year. Audited adjusted net assets which are the subject of the Acquisition are approximately £5.9 million.

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