

**The core mission of Gore Street Capital's energy storage fund is simple - keeping the lights on. But raising the money to finance that goal proved less straightforward.**

ALMOST a third of UK power generation is expected to come from renewable energy by 2020. It may be good news for the planet, but storing this intermittent source of electricity presents a challenge.

When the wind blows and the sun shines, the grid can struggle to cope with the resulting surges in energy, while periods of inertia jeopardise a reliable power flow. Gore Street Energy Storage Fund offers an answer – investment in energy storage facilities that use lithium-ion batteries to control the power supply, maintaining stable grid frequency and managing peak demands.

The fund set out to raise £100 million to acquire a portfolio of projects in the UK, North America and Western Europe, appointing Stockdale Securities as sponsor and sole broker. Following preliminary test marketing late in 2017, Gore Street announced its intention to float in March 2018.

Its unique nature quickly captured the imagination of investors. Stockdale embarked on a lengthy roadshow around Britain, visiting 16 different locations and organising

around 120 meetings. Initial interest was strong, with potential backers keen to understand more about this novel fund and flotation.

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Such enthusiasm was easy to understand. Demand for energy worldwide is growing. Renewable energy usage is on the rise, with the National Grid predicting a sharp increase in energy storage demand in Britain. Coal and oil-fired power plants are closing in line with the UK Government's commitment to reduce greenhouse gases by 80% by 2050. Lithium-ion batteries are capable of very fast injections or withdrawals of power, ensuring a smooth, dependable source of energy despite a fluctuating supply.

Of course the investment proposition carried some risk. Gore Street's business is largely dependent on contracts with National Grid, a well-recognised and respected partner. National Grid contracts were set at four years when Stockdale test marketed the flotation. By spring 2018, contract terms had moved to two years, with the possibility of yet shorter contracts in future. The price of lithium-ion batteries has also fallen, which could lower contract prices but also capex costs.

A degree of uncertainty had been priced in to the relatively high internal rates of return from these projects, estimated to be around 10 to 12%. The fund expected, too, to pay a generous dividend yield of 7% of net asset value from early 2019.

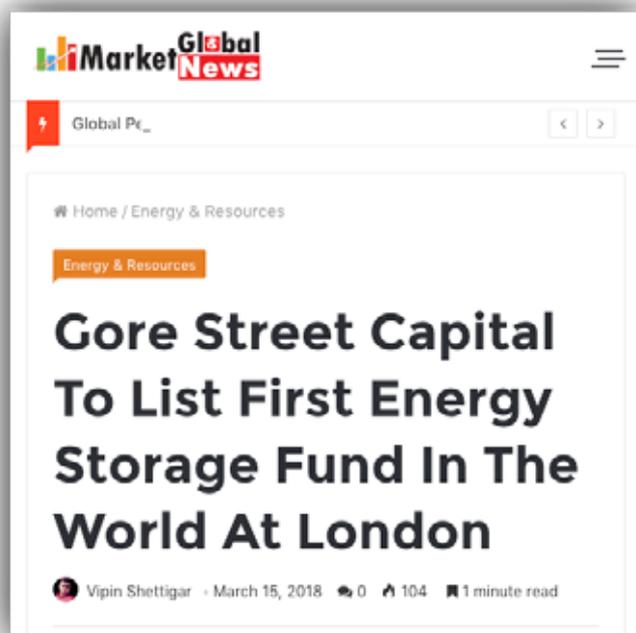
However, further obstacles emerged. Stock market conditions deteriorated markedly. The Gore Street fund was not on its own - many IPOs were suffering as a result of volatile and increasingly risk-averse markets. After initial high hopes for the Gore Street float, efforts to secure commitments for investment were proving difficult. Would-be investors now expressed reservations about backing such an unfamiliar proposition, particularly one that depended on a landscape that was still shifting.

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By April 2018, it was clear the original £100 million target was beyond reach. A revised total of £35 million was announced, with a vow to pursue further fundraisings in future. Applications closed on May 16 with £30.6 million raised. Despite the sum having fallen considerably short of the magic figure of £100 million, both Gore Street and Stockdale were relieved and satisfied with the achievement of getting on the market in the face of so many hurdles and such market adversity.



Gore Street secured £14 million from its cornerstone investors NEC Energy Solutions and Nippon Koei. About £2.4 million came from Gore Street Capital directors and affiliates. Winning a place on leading platform Hargreaves Lansdown was a great endorsement, opening up the deal to thousands of retail investors. Net proceeds of the issue were around £30 million, over half of which has now been used to fund the acquisition of four projects with a total of 27MW of storage capacity. Further projects in Belgium, Germany and the UK are in the pipeline, while opportunities in vanadium flow batteries, a technology less prone to degrade than lithium-ion cells, are also being explored.



This flotation was challenging, but it was reflective of Stockdale's approach to doing business. Stockdale Securities' name is inspired by the US Admiral Jim Stockdale who spent seven years held as a prisoner of war by the Viet Cong. After his release, he said: "You must never ever confuse the need for absolute, unwavering faith that you can and will prevail in the end, regardless of the difficulties, with the need for the discipline to confront the brutal facts of your current reality, whatever they might be."

The Gore Street Energy Storage Fund IPO reflected this paradox – the need for belief in one's ability to achieve a goal, while not flinching from the harsh reality of circumstances. It is a deal that stands out for being the first in its field, but also for the sweat and determination needed to bring it about. Gore Street's success brings a low-carbon future a step closer. And Stockdale Securities, in its own way, has played its small part in keeping the lights on.

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