

The UK nuclear supply chain offers significant opportunity for investors

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A market preparing for a second stage of growth

In the recent past, the UK nuclear supply chain has been the beneficiary of increased government funding for wide-scale decommissioning of the UK's civil nuclear estate. This funding is administered by the Nuclear Decommissioning Authority (NDA) and continues to be a source of growth for companies in the sector.

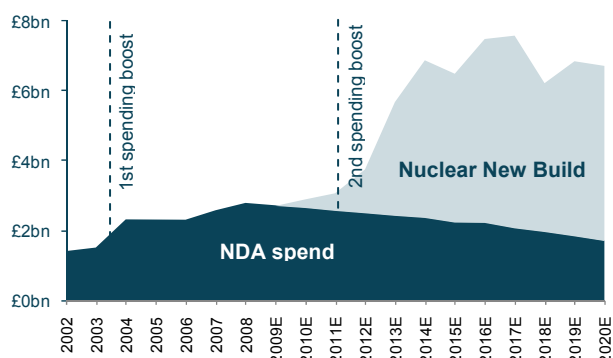
However, the market again stands to be boosted by a substantial investment in new nuclear power stations over the next two decades. Up to a dozen new plants are each envisaged at a capital cost of £5-8bn and a construction period of 4-6 years. This suggests that the nuclear supply chain could be presented with a market up to three times its current size from 2015 onwards, and one with significantly greater stability than that afforded by the NDA market.



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Estimated yearly spend on UK nuclear sites to 2020



Source: NDA, PMSI Research and Analysis

Although the ownership of new plants and their construction is to be managed by foreign companies, the use of the UK supply chain is strongly encouraged.

"This is not going to be something that is to be done on its own with armies of Frenchmen or Germans marching across to deliver this. This programme will be delivered by British suppliers providing major support."

Robert Davies, Director at AREVA UK in recent interview

Significant base of companies with direct and indirect access to the market

Nuclear expertise is often unique – this uniqueness in conjunction with strong historic relationships and the

industry's 'strategic status' accounts for very high entry barriers. The nuclear supply chain operates a well-defined 'tier' system. SMEs in the lower tiers are often members of larger consortia providing technical expertise to sizeable projects. Overall an attractive proposition!

Potential growth market for support services firms

The nuclear market offers significant long-term contracts for support services firms offering hard & soft facilities management, logistics, security, mobile plant & equipment hire, recruitment and others.

A strong investment rationale

Strong market growth expected

Market is expected to expand driven by the renewal of the nuclear power plant fleet

Highest barriers to entry

Nuclear experience and accreditation, long lead times and relationships create some exceptionally high entry barriers

Long term revenue visibility

Contracts often last for decades with clear advantages for the incumbent or OEM and high switching costs

Limited competitive landscape

A strong and active 'Nuclear Club' limits new entrants

Strong legislative drivers

Dealing with the nuclear liability is a priority for government; as is achieving cost-effective, low-carbon energy generation

Attractive exit opportunities

The UK is the first of many countries to renew their nuclear power plant fleet in such a large scale and companies involved will be at the cutting edge of technology worldwide

PMSI has valuable experience

PMSI's commercial due diligence team has recently completed two transactions in the nuclear segment and has significant experience in the related specialty engineering and environmental services sectors.



KDC is a specialist decommissioning company involved in multiple projects across the nuclear estate. KDC received a £12.5m investment from Barclays Ventures in January 2008.



NESL is a specialist nuclear engineering company with a unique skill-set working on high hazard clean-up projects as well as at operational nuclear power plants. NESL received a £6.5m investment from LDC in April 2009.

Please contact: **Costi Karayannis**
Associate Director
T: +44 (0) 208 3473510
E: ckarayannis@pmsi-consulting.com

Eduardo Junco
Senior Consultant
T: +44 (0) 208 3473504
E: ejunco@pmsi-consulting.com

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