ENABLING SMARTER SOLUTIONS

Smart Metering Systems plc
Annual Results for the year ended 31 December 2018

AGENDA

- Overview
- Market update
- Financial results
- Strategy
- Q&A

OVERVIEW

EXECUTIVE SUMMARY

- SMS provides a turnkey end-to-end service proposition which enables origination of long-term inflation-linked recurring revenues
  - Smart meters are an attractive infrastructure asset class, predominantly owned by infra funds
- Progress to year-end 2018
  - 3.1m meter and data assets generating £75.3m ARR. As at 1 April 2019 ARR stood at c.£80m
  - Demonstrated track record of strong growth: 964 staff, 12 UK-wide locations and 2 academies
- Continued strong growth in 2018
  - Revenues +24% to £98.5m and pre-exceptional EBITDA +28% to £51.6m
- Smart meters are SMS' fastest growing asset portfolio
  - Domestic smart meter portfolio grew 100% to 846K in 2018
  - Strong momentum in contract wins: 4 (Utilita, Shell Energy, Good Energy and Bristol Energy) in 2018 and 3 (Co-op, Octopus Energy and SSE) in the first quarter 2019
  - c.6.0m opportunity under existing framework agreements now with 12 suppliers for domestic smart: c.2.0m order book and an additional c.4.0m in-scope
- Installation capacity
  - Investment in training academies increases potential capacity from 63K (March 2019) by an incremental c.20K per month
- Strong platform to deliver on the smart meter rollout and originate new asset classes
  - Data and data analytics
  - Clean-tech and emerging low-carbon asset classes

SMS ORIGINATES ATTRACTIVE ASSET CLASSES

Attractive end-to-end proposition enables origination of long-term inflation-linked recurring revenues

End-to-end proposition

- SMS provides a turnkey end-to-end service proposition, including all aspects of installation and asset financing, for both metering and data services
- Partnering with SMS enables our energy supplier customers to achieve their mandated roll-out targets whilst focusing on their core businesses
- Our origination platforms enable asset ownership
- Significant barriers to entry

Attractive asset class

- The proposition enables SMS to originate attractive asset classes which enjoy long-term inflation-linked recurring revenues
- Smart meters are now an attractive infrastructure asset class, predominantly owned by infra funds
- Smart meters accelerate development of new asset classes enabling transition towards lower carbon economy
- Smart meters are expected to provide £40bn* of benefits to the UK by 2050

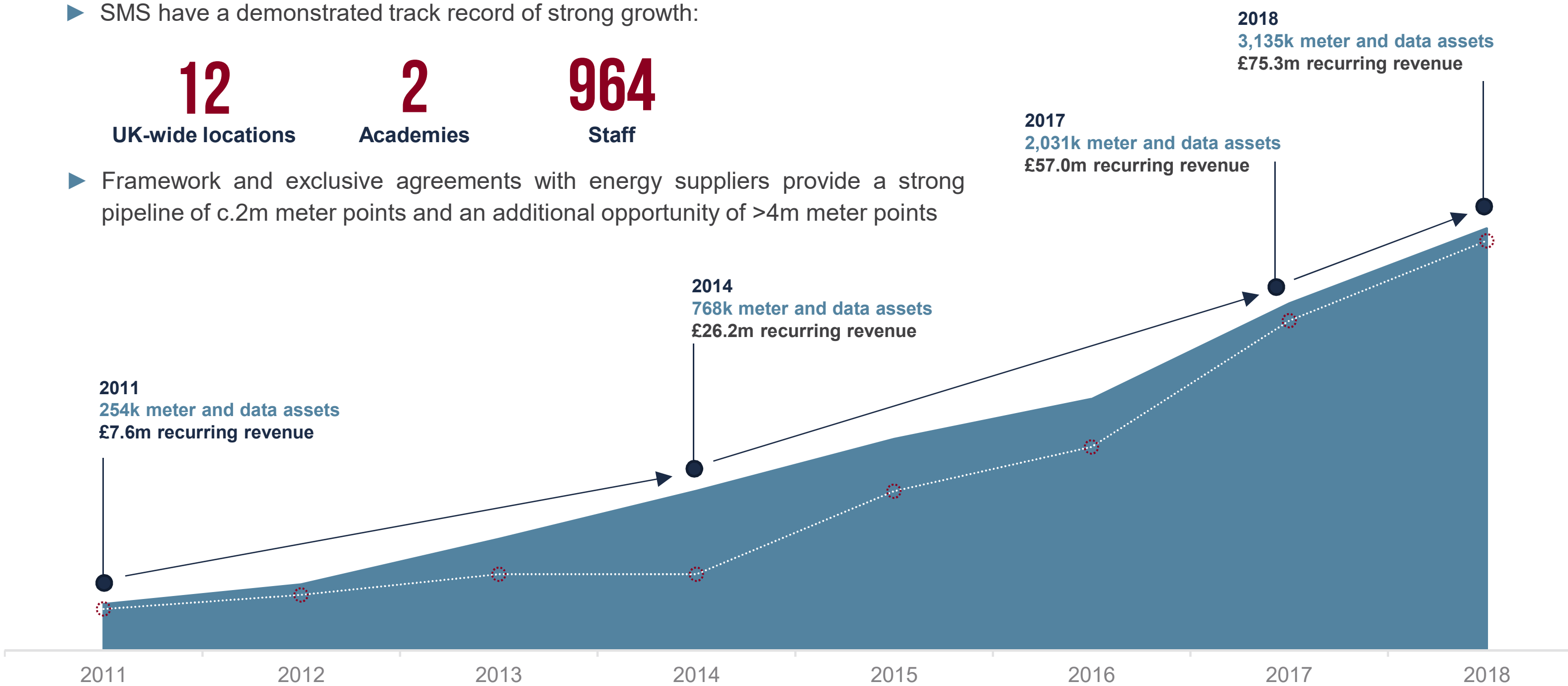
* Source: BEIS

OUR PROGRESS TO DATE

- Since 1995 SMS have transitioned from an energy services business into a diversified asset installation and ownership infrastructure business
- SMS have a demonstrated track record of strong growth:

12	2	964
UK-wide locations	Academies	Staff

- Framework and exclusive agreements with energy suppliers provide a strong pipeline of c.2m meter points and an additional opportunity of >4m meter points

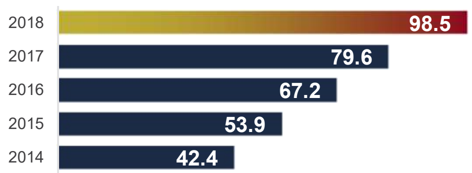


Recurring revenue and asset portfolio growth since IPO in 2011

FINANCIAL HIGHLIGHTS

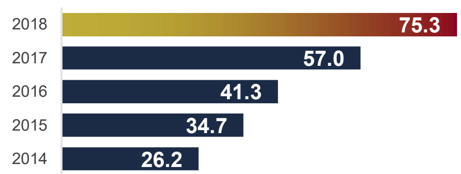
Revenue (£m)

£98.5 +24%



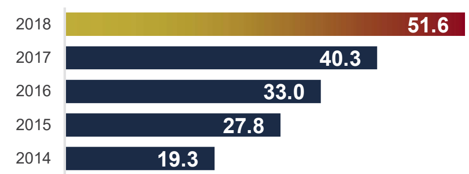
Annualised Recurring Revenue[1] (£m)

£75.3 +32%



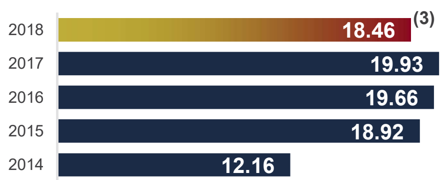
Pre-exceptional EBITDA (£m)

£51.6 +28%



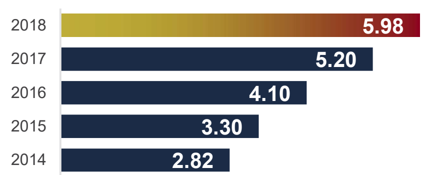
Underlying earnings per share[2]

18.46p +11% CAGR



Total dividend per share

5.98p +21% CAGR

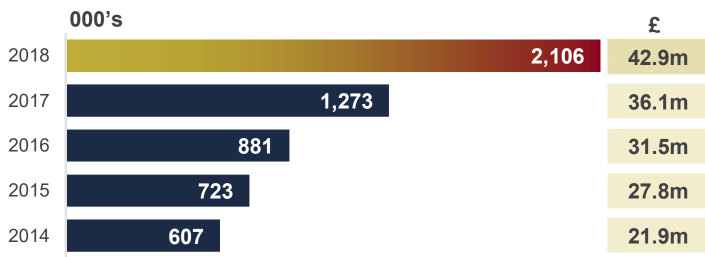


1 Annualised recurring revenue - the annual index-linked revenue from our meter and data income streams at a point in time
2 Underlying EPS is before deduction of exceptional items (2018: £17.1m; 2017: £2.0m), and intangible amortisation (2018: £2.6m; 2017: £2.2m)
3 Decrease in underlying EPS largely reflects issue of new shares in the year to 31 December 2017

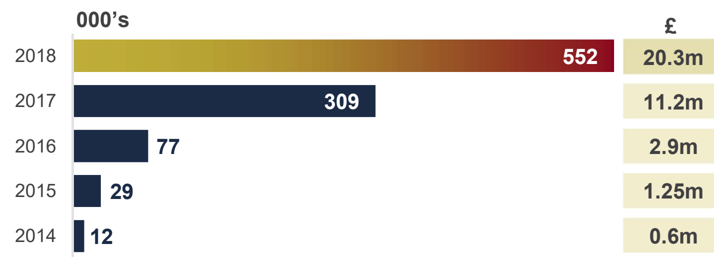
GROWTH IN ASSETS UNDER MANAGEMENT

- Total meter and data assets under management at 31 December 2018: 3.1m
- Total smart meter portfolio: 846,000

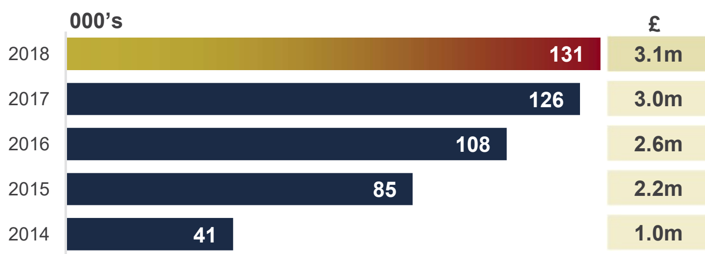
Gas meters 2.11m assets* / £42.9m recurring revenue



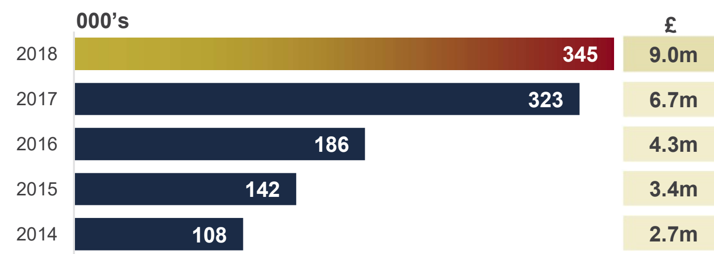
Electricity meters 552k assets / £20.3m recurring revenue



Gas data 131k assets / £3.1m recurring revenue



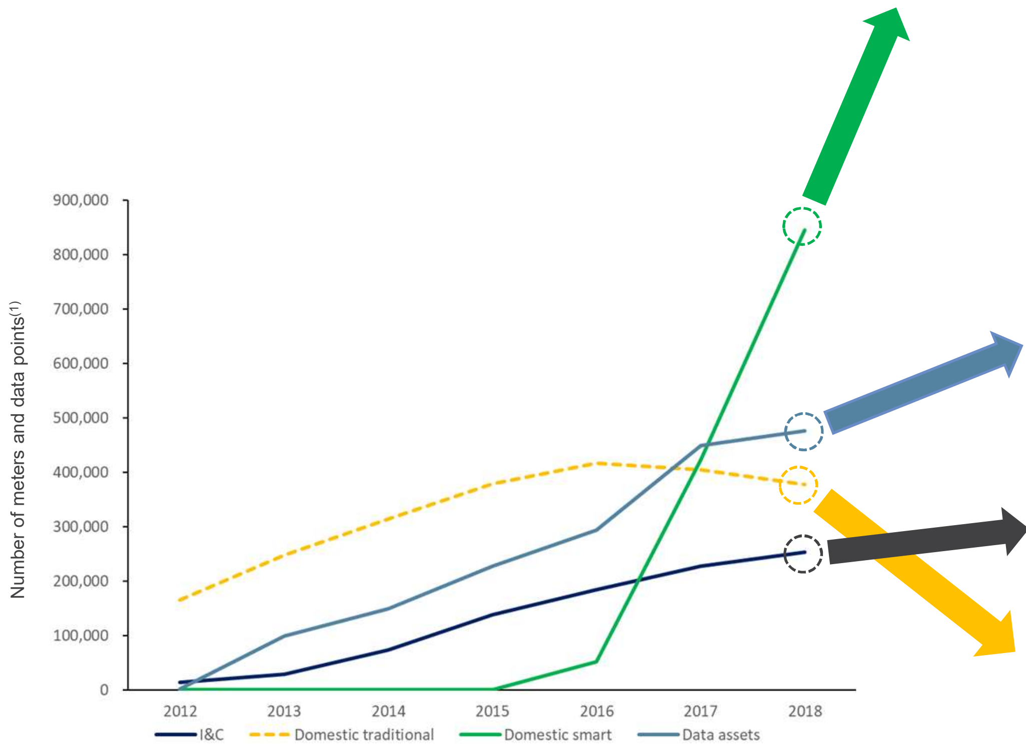
Electricity data 345k assets / £9.0m recurring revenue



* Includes third party managed assets

SMART METERS ARE SMS' FASTEST GROWING ASSET PORTFOLIO

Government 2020 roll-out target paves way for exchanging legacy traditional meters with smart



- 846K smart meters (at Dec 2018)
- +2m order book
- +4m in-scope from existing framework agreements

- New **data** market opportunity to support half hourly (HH) data, unlocked from the deployment of smart meters and ADMs

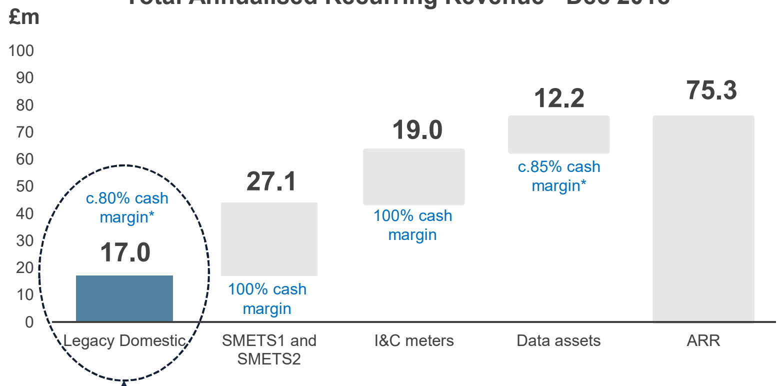
- **I&C meter** growth portfolio to stabilise and expected to grow at low single digit percentage(2)

- Domestic **traditional meters** to reduce to nil as replaced with domestic smart meters
- Government mandate to have smart meters offered by 2020

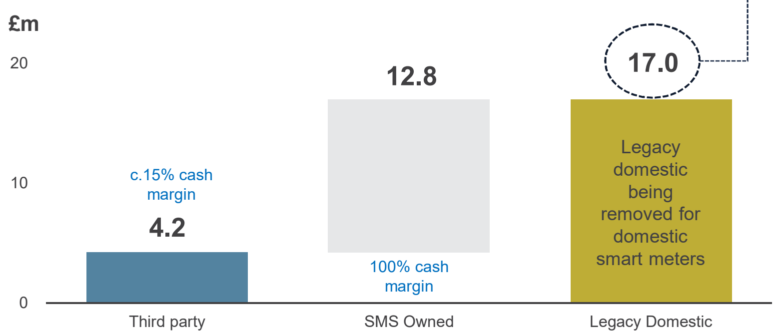
(1) does not include 1.2m third party managed assets
(2) only assumes I&C meters with non-domestic specifications

ANNUALISED RECURRING REVENUE

Total Annualised Recurring Revenue - Dec 2018



Legacy Domestic Annualised Recurring Revenue - Dec 2018



- Legacy traditional meters exchanging to smart meters as exceptional accounting items during exchange phase:
  - Mandated roll-out by end of 2020
  - Expected roll-out by end of 2022
- £17m ARR to be removed through traditional meter removal
  - NBV of £43m to write off 377k SMS assets (£12.8m ARR)
  - Termination fee received on removal but timing outside SMS control.
  - No debt or interest on this portfolio
  - No cash impact other than reducing rental
  - NBV (£43m) depreciates over remaining 4 years on straight line basis to zero (to end of 2022)
- End-March 2019 ARR of £77.7m increased to c.£80m, in line with 3.35% RPI applicable from 1st April
  - Average RPI indexation over last 9 years 3.1%

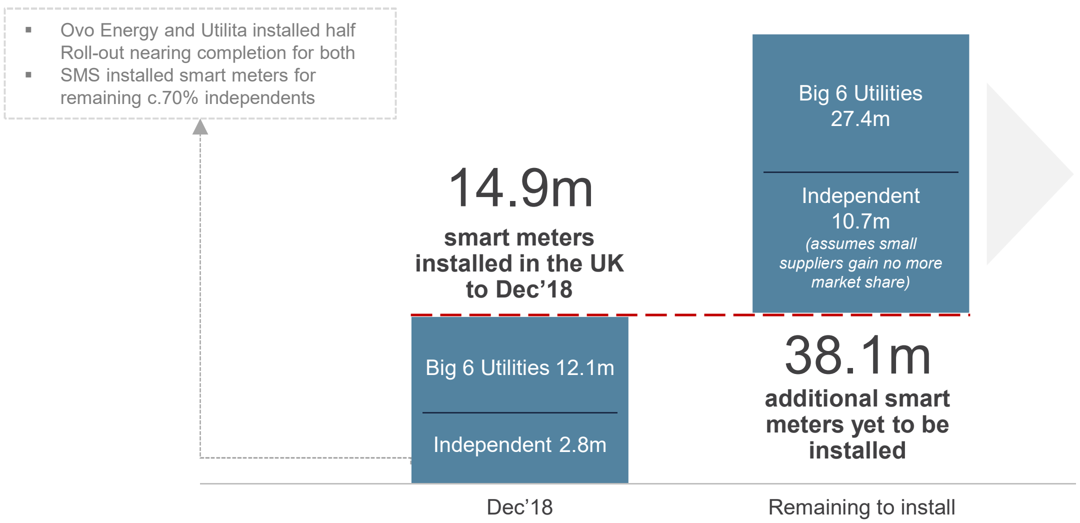
* Cash cost of sales relates to data costs and sim card costs

MARKET UPDATE

DOMESTIC SMART METER MARKET PROGRESS

Supportive regulatory backdrop

- ▶ **By end of 2020, the UK Government and OFGEM expects 80% of households and businesses to be offered a smart meter**
- ▶ **The programme requires 53m meters to be installed. SMS is well positioned to provide end-to-end installation and ownership services to energy suppliers**
- ▶ **Independent suppliers market share ~25%, and growing**



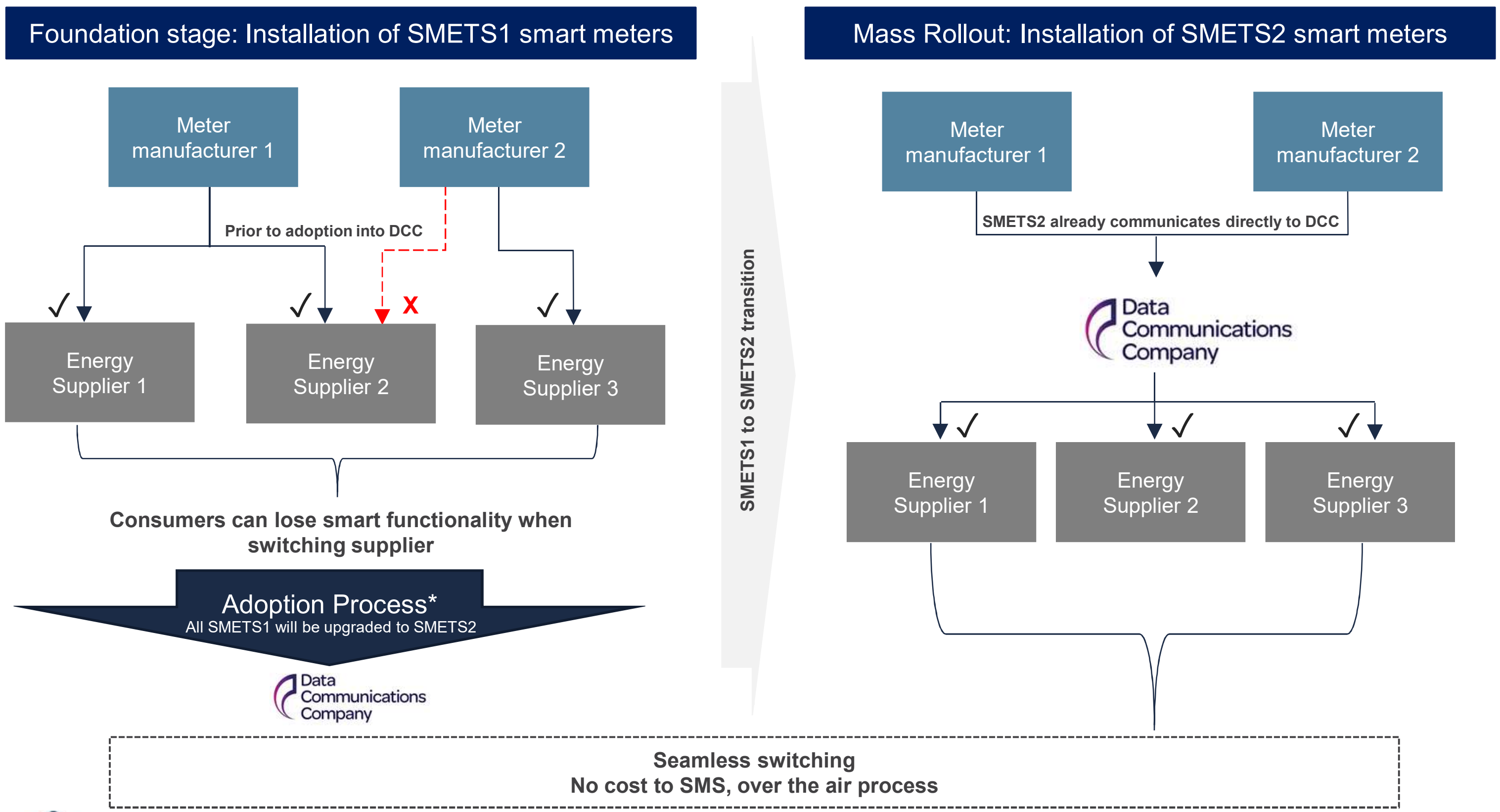
SMS progress to date:

- ▶ **~6.0m** (12 independent suppliers) have framework agreements with SMS
- ▶ **~2.0m** currently released for installation from existing framework agreements with additional **~4.0m** in scope
- ▶ Exclusive framework contracts with Shell Energy and Good Energy
- ▶ Contract with SSE (Big 6) secured for 0.2m meter points

Significant opportunity as market leader amongst independent energy suppliers

SMETS1 TO SMETS2 "INTEROPERABILITY AND ADOPTION"

BEIS Mandate: All SMETS1 to be enrolled into DCC over next 18 months



* https://www.smartdcc.co.uk/smart-future/enrolment-and-adoption/

OVERVIEW OF INSTALLATION CAPACITY

	Jan-Mar 2019	April to June 2019, and beyond
	SMETS1 to SMETS2	SMETS2
Capacity	63K / month	▪ No constraint on SMETS2 availability foreseen post June 2019 ▪ Training centre's current capacity for 180 trained engineers per month, equivalent to >20K incremental domestic smart meter installations per month
Run-rate	25K (40% utilisation)	
Labour	500 engineers	
Potential training capacity	120 engineers / month	

- Direct labour increased whilst sub-contractors reduced. Adequate training capacity available for the volumes anticipated, not third party dependent
- Very high levels of direct labour retention: upper quartile salary, annual bonus, health and safety bonus, share incentive scheme
- Our training academy has the vision to create "An Energy Centre of Excellence"
- We have invested significantly in our training centre, both technical capacity and creating a centre of excellence for customer service, to support the business in extending capabilities to include new products and services, including EV installation, battery storage and solar PV

FINANCIAL RESULTS

INCOME STATEMENT

	2018 £m	2017 £m	
Revenue	**98.5**	79.6	24%
Annualised recurring revenue	**75.3**	57.0	32%
Gross profit (excl. depreciation)	**61.9**	53.7	15%
Gross margin (excl. depreciation)	**63%**	68%	(5%)
Pre-exceptional EBITDA	**51.6**	40.3	28%
Pre-exceptional EBITDA margin	**52%**	51%	1%
Underlying PBT	**25.1**	22.2	13%
Underlying earnings per share	**18.46p**	19.93p	(7%)

- Revenue increased driven by revenue-generating asset portfolio to 3.13m (2017: 2.03m)
- Annualised recurring revenue growth weighted towards electricity asset due to historical gas-weighted portfolio
- Margin reduction of 5 percentage points arising mainly from changing mix of external sales activity in Installation and Energy Management businesses, despite underlying profitability growing in absolute terms
- EBITDA growth driven by increasing profitability in meter and data rental portfolio
- Decrease in underlying earnings per share reflects increase in issued share capital in November 2017 to fund additional growth

BALANCE SHEET

	Dec 2018 £m	Dec 2017 £m
Assets		
Non-current	**374.4**	279.9
Current	**45.3**	42.3
Cash at bank	**30.0**	150.6
Total assets	**449.7**	472.8
Liabilities		
Bank loan < 1 year	**172.0**	23.2
Current liabilities	**39.4**	48.2
Bank loan > 1 year	**—**	163.9
Non-current liabilities	**12.2**	9.9
Total liabilities	**223.6**	245.2
Net assets	**226.1**	227.6

- Strengthened balance sheet following equity placement of £150m in November 2017
- Increase in non-current assets arising mainly from increase in revenue-generating assets. Our portfolio reached 3.13m metering and data assets by December 2018
- Increase in current assets reflects growth in trading levels
- Increase in Bank loans < 1 year due to signing of new RCF on 21 December 2018 providing access to £420m RCF for 5 years, with more flexible terms
- Cash cycle carefully managed with net debt at £142.0m at December 2018
- Post year end £277.0m of available cash and unutilised facility after the first drawdown under the new facility

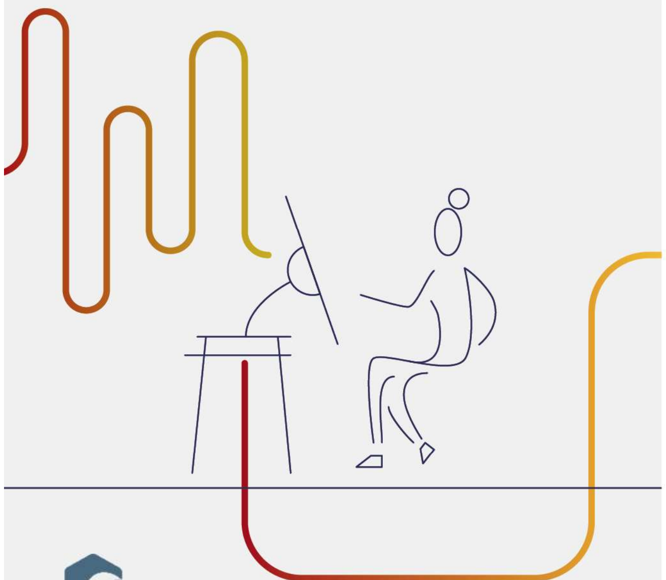
CASH FLOW

	Dec 2018 £m	Dec 2017 £m
Operating profit (excl. exceptional items)	**27.2**	24.1
Exceptional items	**(16.1)**	(1.5)
Operating profit	**11.1**	22.6
Depreciation and amortisation	**24.4**	16.2
EBITDA	**35.5**	38.8
Working Capital	**(11.9)**	2.4
Other (non-cash exceptional items)	**16.4**	0.4
Operating cash flow movement	**40.0**	41.6
Tax	**0.4**	(1.0)
Net interest	**(4.6)**	(4.5)
Net outflow for intangible and fixed assets	**(134.7)**	(122.0)
Cash outflow	**(98.8)**	(85.9)
Dividends	**(6.1)**	(4.0)
Changes in equity	**-**	148.0
Net cash flow	**(104.9)**	58.1
Net cash flow in borrowings	**(15.7)**	84.9
Net decrease in cash and cash equivalents	**(120.6)**	143.0

	Dec 2018 £m	Dec 2017 £m
Net decrease in cash and cash equivalents	**(120.6)**	143.0
Cash flow from movement in debt	**15.7**	(84.9)
Other non cash movement in debt	**(0.6)**	(0.4)
Changes in net debt arising from cash flow	**(105.5)**	57.7
Net debt at beginning of period	**(36.5)**	(94.2)
Net debt at end of period	**(142.0)**	(36.5)

SEGMENTS: ASSET MANAGEMENT

Investing in assets and providing remote reading solutions

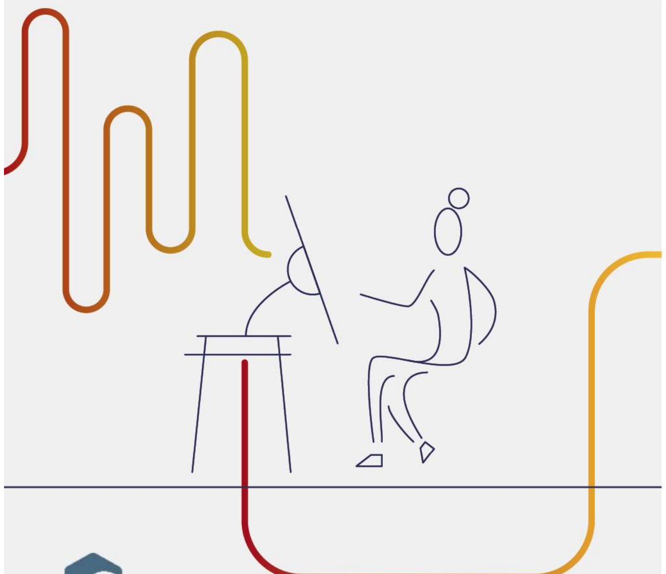


	Dec 2018 £m	Dec 2017 £m	Reported change
Revenue	**65.5**	48.7	+35%
Cost of sales	**(25.7)**	(19.0)	+36%
Gross profit	**39.7**	29.7	+34%
Gross profit margin	**61%**	61%	

- Revenue and annualised recurring revenue increased on prior year with revenue up 24% and annualised recurring revenue up 32% to £75.3m
- Additions of c.1.1m metering and data assets in 2018 under asset management

SEGMENTS: ASSET MANAGEMENT (CASH MARGIN)

Investing in assets and providing remote reading solutions

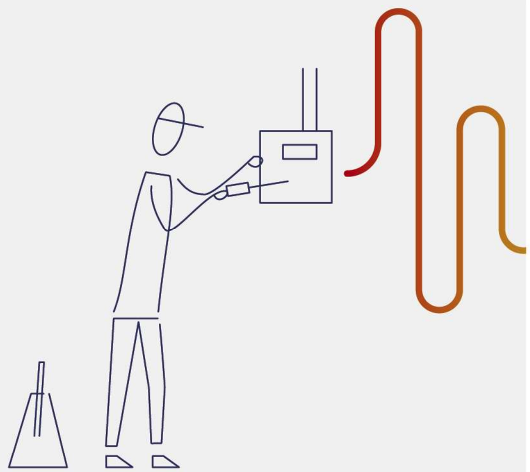


Cash Margin	Dec 2018 £m	Dec 2017 £m	Reported change
	Total	Total	
Revenue	**65.5**	48.7	+34%
Cash cost of sales	**(5.4)**	(5.7)	-5%
Cash gross profit	**60.1**	43.0	+40%
Cash gross margin	**92%**	88%	

- Meter asset depreciation is included within cost of sales, in line with other operators in the industry
- The above table removes £20.4m (2017: £13.3m) of depreciation to provide cash gross margin
- Cash cost of sales relates to data costs, sim card costs and 3rd party meter management costs
- Cash gross margin continues to grow - benefits from investment in portfolio and index linkage

SEGMENTS: ASSET INSTALLATION

Direct field force management and installation



	Dec 2018 £m	Dec 2017 £m	Reported change
Revenue	**26.6**	27.5	-3%
Cost of sales	**(20.5)**	(18.0)	+14%
Gross profit	**6.1**	9.5	-37%
Gross profit margin	**23%**	35%	

- Additional capacity from internally controlled training centre
- Completes connections and emergency call outs
- Customer base growing for repeat connections management activity
- Permitted internally generated installation costs capitalised
- Transition from SMETS1 to SMETS2 resulting in investment in capacity costs to enable delivery of our order book

SEGMENTS: ENERGY MANAGEMENT

Providing energy efficiency strategies

	Dec 2018 £m	Dec 2017 £m	Reported change
Revenue	**6.5**	3.4	+89%
Cost of sales	**(5.1)**	(2.2)	+128%
Gross profit	**1.4**	1.2	+17%
Gross profit margin	**21%**	35%	

- Focus on enlarging our platform for growth and developing longer-term customer relationships
- Margin reduction reflects successful tender and commencement of large-scale energy efficient lighting contract which will span several years
- Contract is driving significant growth in overall revenue but at a lower gross margin

FUNDING FUTURE GROWTH

Flexible balance sheet to deliver growth and long-term returns

Balance sheet

- Prudent approach to leverage in growth phase of portfolio

Funding growth

- Credit facilities of £420m to 2023
  - Leverage covenant of 5.75x
- Significant headroom to deliver growth today (at 3rd Jan 2019)
  - Cash of £57m
  - £220m of credit headroom

Portfolio and return options

- Continue to review optimal capital structure
- As portfolio and recurring revenue increases, potential for diversifying funding
- Attractive shareholder returns
  - Disciplined dividend policy in growth phase
  - Potential for strong growth in returns from mature portfolios

Maintain flexible capital structure to deliver an attractive growth of portfolio

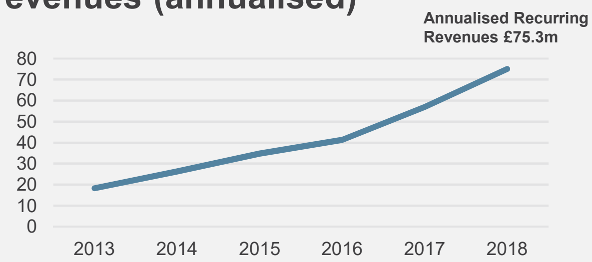
FLEXIBLE CAPITAL STRUCTURE: NEW £420M RCF

1. Existing portfolio:

Net debt

31 Dec 2018	£m
Total debt	172
Cash	(30)
Net debt	**142**

Index-linked recurring revenues (annualised)



Leverage ratios (annualised)

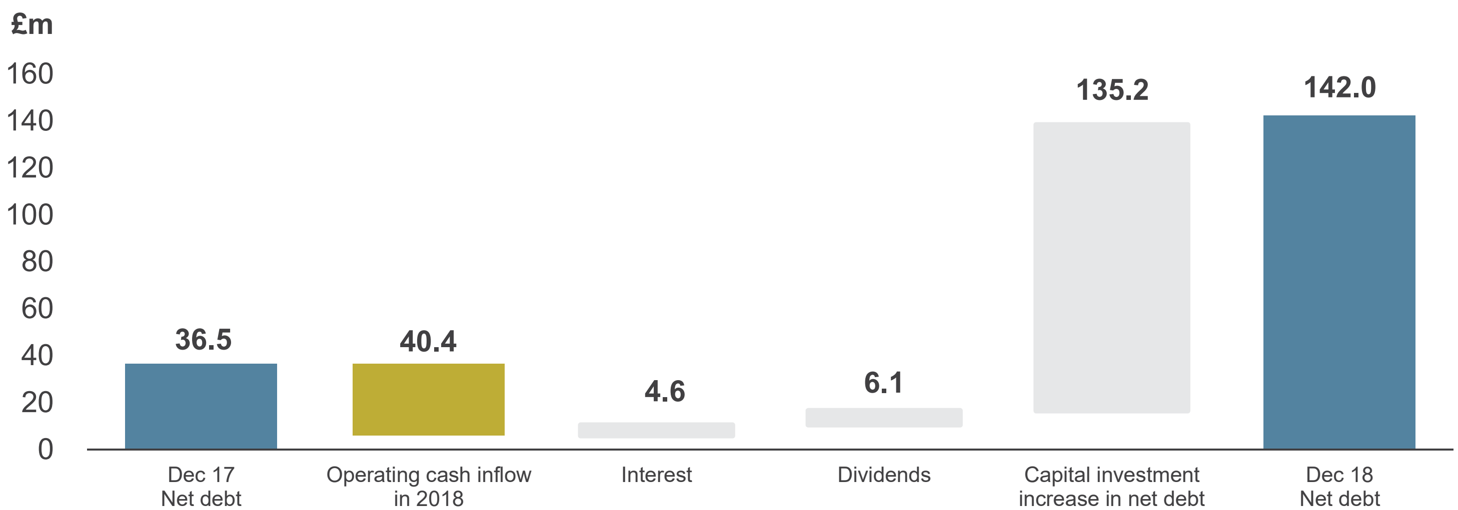
Net debt/annualised EBITDA for last 6 months	2.75x
COVENANT: Net debt/annualised EBITDA	5.75x
Leverage headroom	3.0x

2. Future installations:

Cash* £57m + **Undrawn RCF*** £220m = **Current capacity*** £277m

** as at 3rd Jan 2019*

CAPITAL STRATEGY: EVOLUTION IN 2018



- £150m equity cash inflow in Dec 17 reduced net debt to £36.5m
- £100m cash used to delever the business in February 2018
- Operating cash inflow and balance of equity proceeds being utilised for investment and growth

EXCEPTIONALS

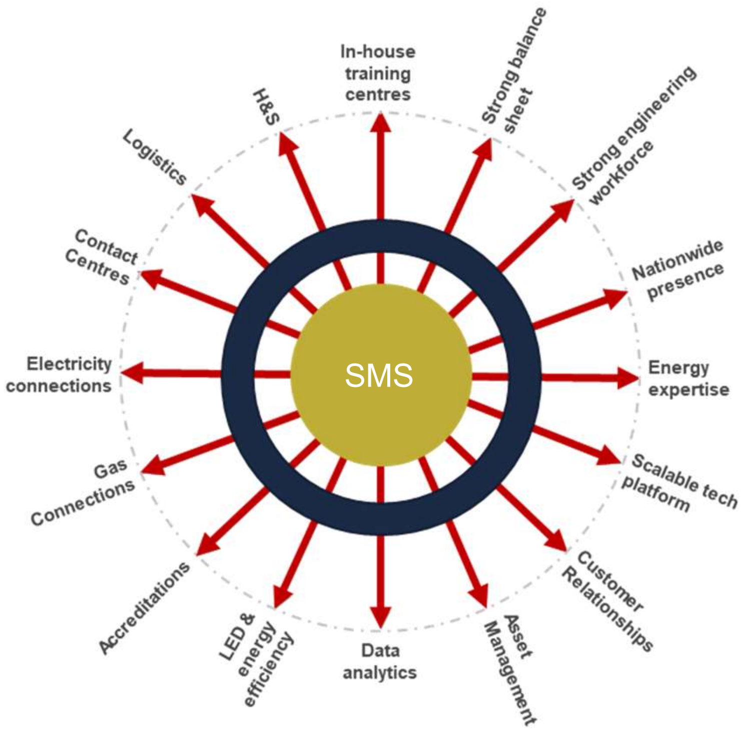
	2018	2017
	£'m	£'m
Assets removed under domestic smart meter exchange programme	**8.6**	-
Traditional meter assets remaining on wall - now under 4 year depreciation policy	**5.6**	-
Facility fees	**1.0**	0.5
Other	**1.9**	1.5
	17.1	2.0

- Assets removed under the domestic smart meter exchange programme represents the reduction in carrying value of meter assets net of termination sums received
- This treatment allows more predictable forecasting of underlying trading results over the remainder of the smart meter exchange programme
- Future disposals and the associated termination income will be disclosed as an exceptional item

STRATEGY

KEY FOCUS REMAINS THE UK SMART METER OPPORTUNITY

Strong platform to deliver on the smart meter rollout and originate new asset classes



- SMS continues to focus on the large market opportunity in UK domestic smart meter rollout
  - The smart meter roll-out program remains at the heart of the UK Government's 40% carbon reduction target by 2030
  - Smart meters accelerate development of new asset classes, enabling transition towards decarbonisation
  - By December 2018, SMS generated £75.3m ARR (Annualised Recurring Revenues) and is well positioned with a further 2m order book and an additional 4m opportunity with existing contracted suppliers
  - ARR at 1 April 2019 stood at c.£80m, incorporating 3.35% RPI on the 31 March 2019 ARR of £77.7m with smart meter portfolio growing to 932K
- Over the last 24 years SMS has invested significantly to develop an end-to-end service and a scalable business model
  - This includes all aspects of installation and asset financing, for both metering and data services
  - SMS origination platforms enable asset ownership
  - Significant barriers to entry

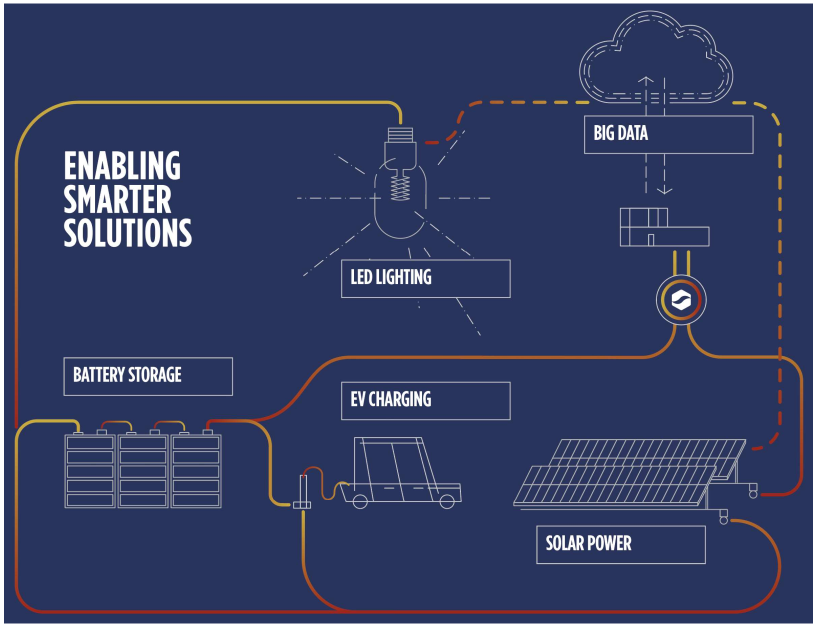
HH DATA OPPORTUNITY: ADM AND SMART METERS

The ADM devices present growth opportunities in ARR

- The roll-out of smart meters has created additional data opportunities for SMS
  - Mandatory HH Settlement (ARR c.£100m market opportunity with no meter capex)
  - Drive Time Of Use Tariffs which are critical for demand management and EV charging
  - Empower consumer to change behaviour
  - Enabler of new asset classes
- SMS has upgraded the capabilities of its ADM(TM) data logger device
  - The new devices are 4G/5G enabled with ability to store data securely in the cloud
  - Packaged ‘ADM in a box’ solution provides a simple one stop solution for installation and data analytics platform
  - Water & gas solution, with opportunities outside the UK
- The revenues originated from these devices are also annualised, index linked and recurring in nature

SMART METER ENABLES EMERGENCE OF NEW ASSET CLASSES

Demand from existing customers coupled with SMS' strong platform provides attractive new opportunities



- SMS has been recognised by the Office of Low Emission Vehicles (OLEV) as an accredited installer of electric vehicle charging points for the government's Workplace Charging Scheme (WCS)
- SMS is delivering a major LED lighting retrofit project for a leading national hotel chain and are continuing to identify and deliver opportunities to invest and deliver energy efficiency reduction strategies and to optimise building control solutions
- SMS is also trialling the installation of innovative battery storage and generation solutions, typically upstream of the customer meter working closely with both our I&C corporate customers and energy supplier partners

Q&A