

Smart Metering Systems plc

Interim Results

For the half year ended
30 June 2016



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Alan Foy, CEO

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Alan Foy, Chief Executive Officer

Business Review



Our business model and medium term vision

SMS plc

SMS listed on AIM in 2011 and is among the AIM top 50 companies

SMS is divided into 3 functional divisions

SMS Assets (Est. 2004)

Business Model:

Invests in utility metering and data infrastructure assets in the UK for long term rental income.

Vision:

Increase existing 1 million plus metering and data assets in Industrial and commercial premises and in the roll out of the new domestic smart metering programme. Under UK governments directives, this requires all homes to have their gas and electricity meters exchanged for new smart meters.

SMS Installation (Est. 1995)

Business Model:

Installs gas and electricity utility metering infrastructure, manages new utility connections and emergency support services throughout the UK from its eight operational centres.

Vision:

Continue to provide new connection and support services and build the existing installation order book in the UK's domestic smart metering rollout programme requiring circa 22 million gas and circa 27 million electricity smart meters to be installed over the next 4 to 5 years.

SMS Energy Services (Est. 1995)

Business Model:

Provides a comprehensive range of energy management and data analysis services on long term contracts to UK and international blue chip companies.

Vision:

Increase data analysis services on the current circa 640,000 annual meter reads and expand the EPC (Energy Performance Certificates) and ESOS (Energy Savings Opportunity Scheme) surveying and compliance services which are required under the UK's Energy Performance of Buildings Regulations 2007 and the ESOS Regulations 2014.

Investing in Assets

Installation Experts

Adding Value

Financial Highlights

	Period ended 30 June 2016	Period ended 30 June 2015	Increase
Revenue	£32.3m	£25.8m	25%
<i>Annualised recurring income from meters and data</i>	£37.4m	£30.5m	22.6%
Underlying EBITDA ¹	£14.7m	£12.2m	20%
Underlying EBITDA ² margin	45.4%	47.3%	
Underlying PBT ²	£9.2m	£8.0m	15%
Underlying earnings per share ³	8.45p	6.90p	23%
Interim dividend	1.37p	1.10p	25%

1 Underlying EBITDA is before deduction of exceptional items (£369k – H1 2015: £nil) and other operating income (£1,155k – H1 2015 £nil)

2 Underlying PBT is before deduction of exceptional items (£369k – H1 2015: £nil), other operating income (£1,155k – H1 2015 £nil) and intangible amortisation (£896k – H1 2015 £601k)

3 Underlying earnings per share is profit after taxation but before exceptional items, other operating income and intangible amortisation, divided by the weighted average number of ordinary shares in issue

Operational Highlights

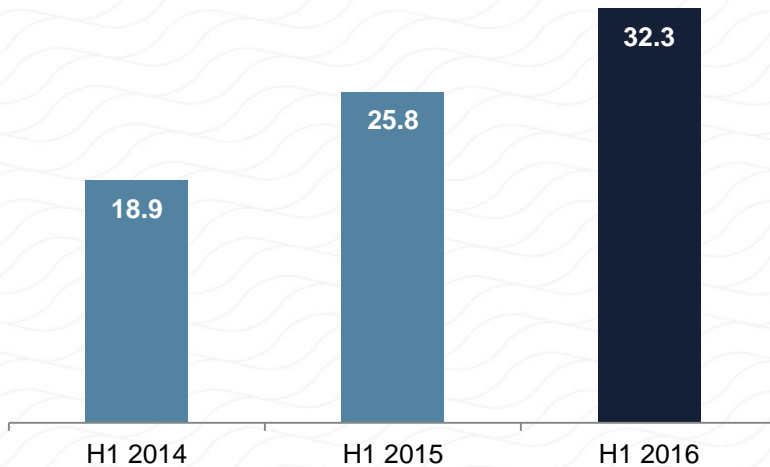
- Completed the acquisition of CH4, Trojan Utilities and Qton, positioning the Group ahead of the UK's domestic smart meter rollout programme with full UK-wide direct installation and IT support capability
- The Group has an initial order book of 300,000 dual fuel domestic smart meters from 8 contracted energy suppliers who currently supply energy to circa 2 million homes
- The Group now manages over 1 million utility metering and data assets on behalf of energy suppliers in the industrial and commercial (I&C) and domestic markets and has increased its asset base in all business areas

	30-Jun-16 units	31-Dec-15 units	Percentage increase
Total gas and electricity metering and data assets	1,078,000	979,000	10%
Gas meter portfolio	785,000	723,000	9%
Gas data portfolio ¹	98,000	85,000	15%
Electricity meter portfolio	37,000	29,000	28%
Electricity data portfolio	158,000	142,000	11%

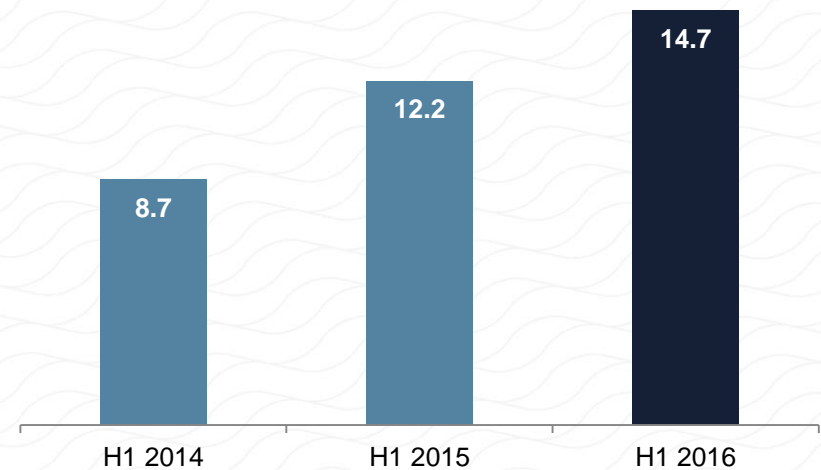
¹ Includes 84,000 ADMTM installations which is SMS' patented remote meter reading product

Three-year progress

REVENUE (£m)



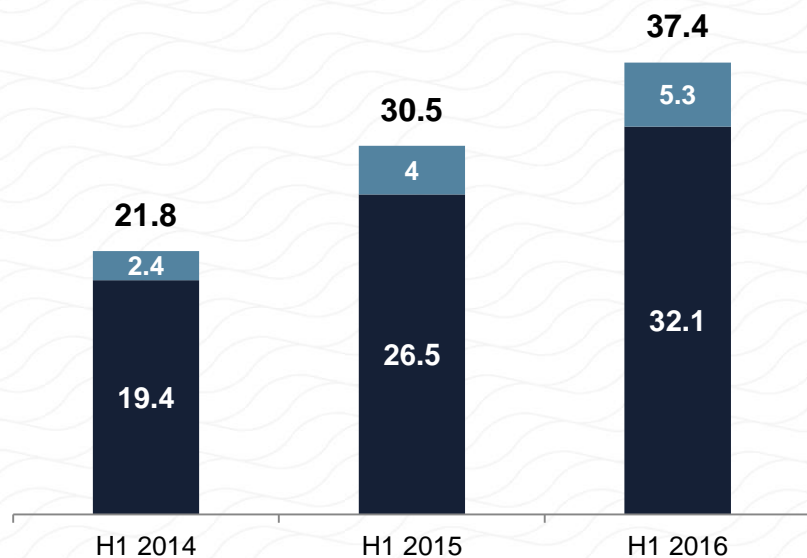
Underlying EBITDA* (£m)



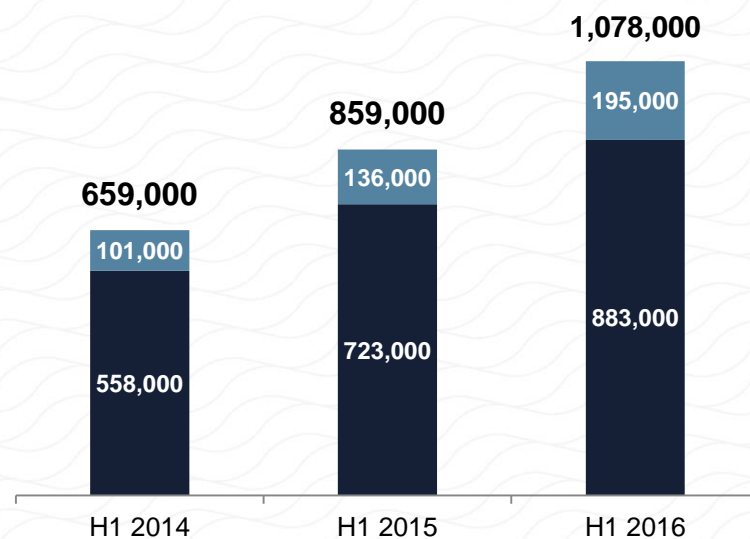
* Excluding exceptional items and other operating income

Total Annualised Recurring Revenue Analysis

METERS AND DATA (£m)



NUMBER OF INSTALLED ASSETS

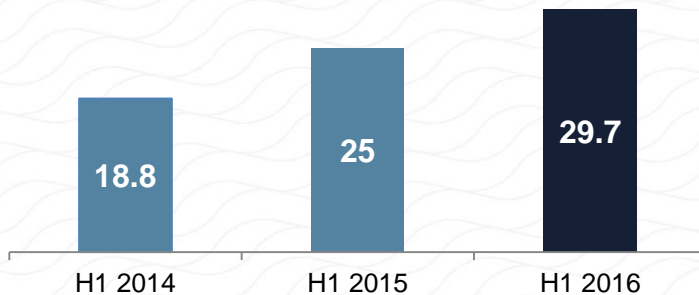


■ Gas

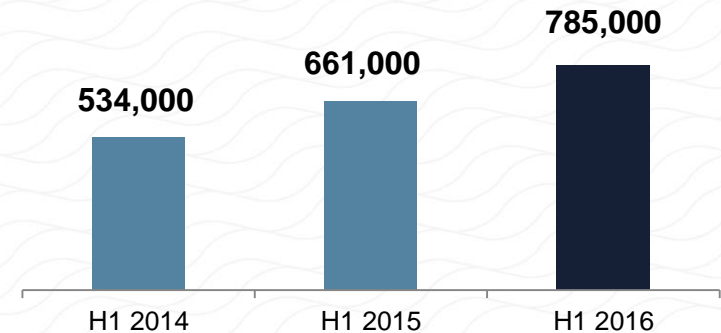
■ Electricity

Annualised recurring revenue analysis - Gas

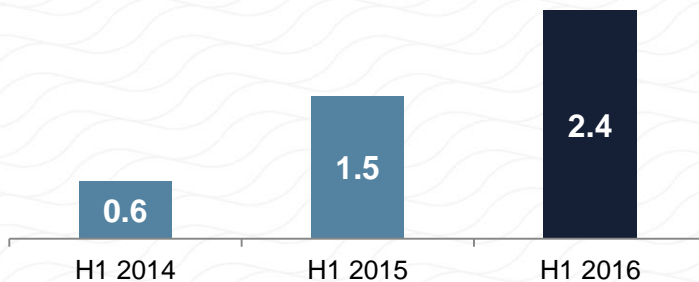
GAS METERS (£m)



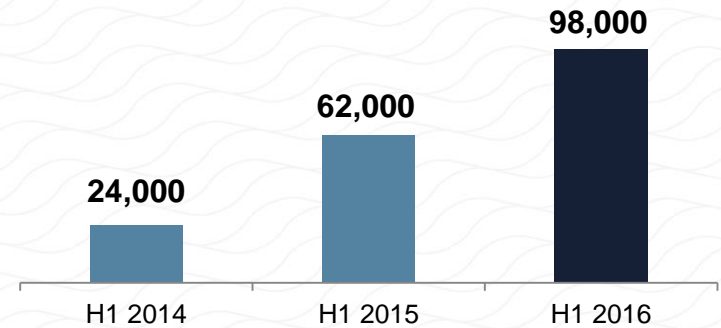
NUMBER OF INSTALLED ASSETS



GAS DATA (£m)

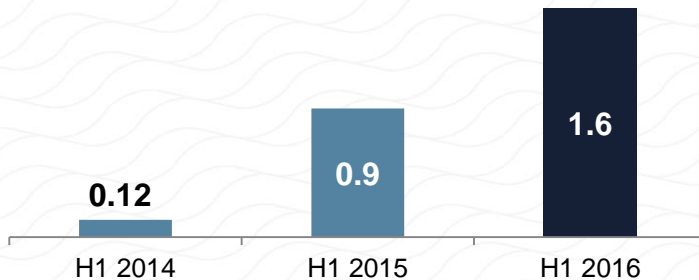


NUMBER OF INSTALLED ASSETS

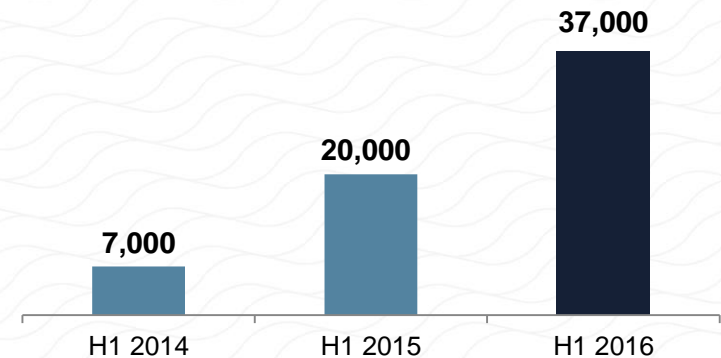


Annualised recurring revenue analysis - Electricity

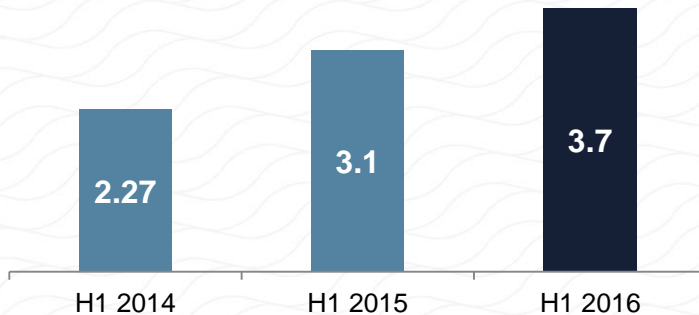
ELECTRICITY METERS (£m)



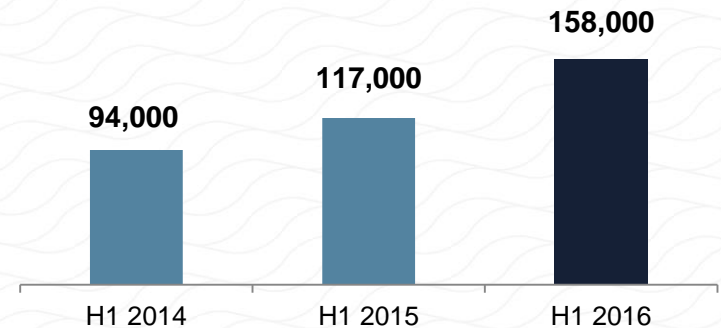
NUMBER OF INSTALLED ASSETS



ELECTRICITY DATA (£m)

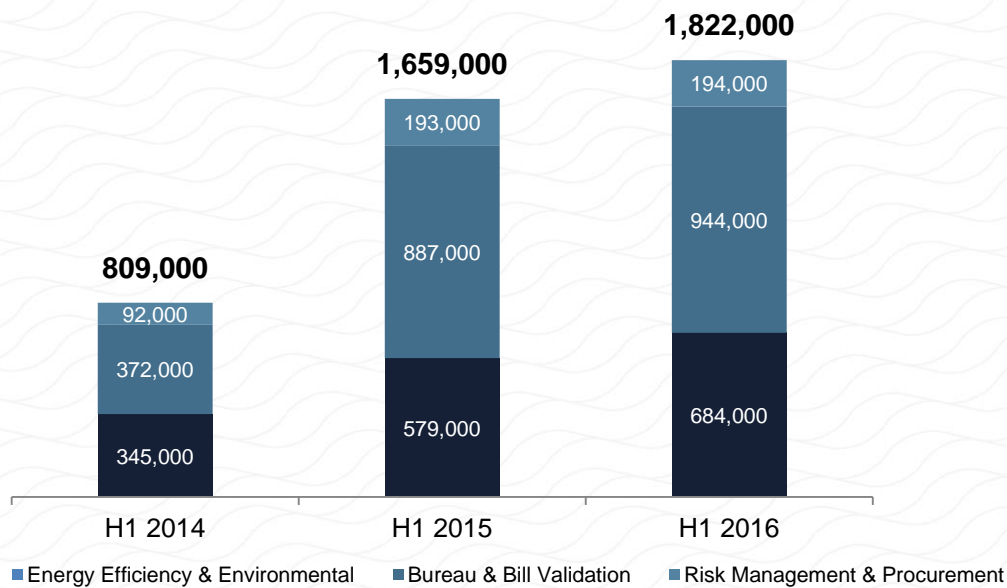


NUMBER OF INSTALLED ASSETS

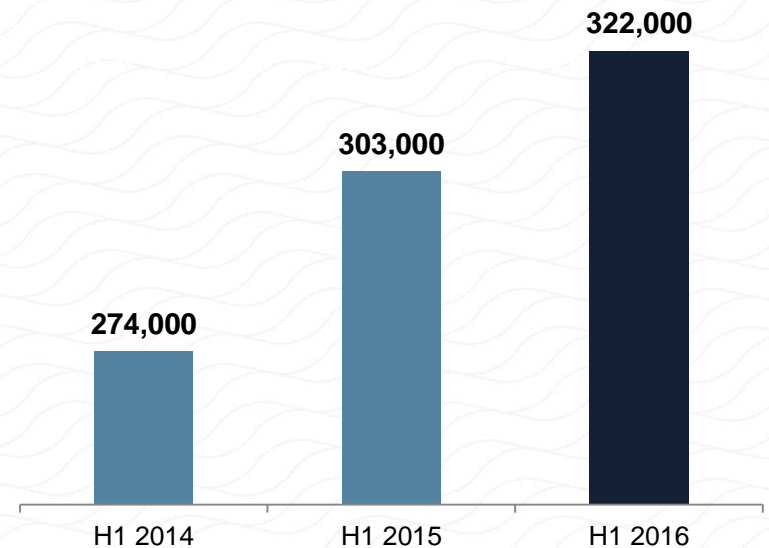


Energy Services

ACTIVITIES & INCOME (£)



NUMBERS OF BILLS ANALYSED



- 3-5 Year Contracts with options to extend
- UPL was acquired on 14 April 2014
- H1 2015 Normalised to remove a one off capital project in the prior year

Glen Murray, Financial Director

Financial Review



Group Financial Highlights

	Six months ended 30-Jun 2016 Unaudited £m	Six months ended 30-Jun 2015 Unaudited £m	Percentage increase %
Revenue	32.3	25.8	25%
<i>Annualised recurring income ¹</i>	37.4	30.5	23%
Statutory profit from operations	10.3	8.5	
Amortisation of intangibles	0.9	0.6	
Depreciation	4.3	3.1	
Statutory EBITDA	15.5	12.2	27%
Other operating income	(1.2)	—	
Exceptional items	0.4	—	
Underlying EBITDA	14.7	12.2	20%
Net Interest	(1.2)	(1.1)	
Depreciation	(4.3)	(3.1)	
Underlying Profit before taxation	9.2	8.0	15%
Underlying earnings per share ²	8.45p	6.90p	23%
Interim dividend	1.37p	1.10p	25%

1 Recurring revenue refers to revenue generated by meter rental and data contracts. Annualised recurring income refers to the revenue being generated at a point in time

2 Underlying earnings per share is profit after taxation but before exceptional items, other operating income and intangible amortisation, divided by the weighted average number of ordinary shares in issue

Income Statement Segmental Analysis

For the period ended 30 June 2016

	Asset Management			Asset Installation			Energy Management		
	P/E 30 June 2016 £'m	P/E 30 June 2015 £'m	Increase	P/E 30 June 2016 £'m	P/E 30 June 2015 £'m	Increase	P/E 30 June 2016 £'m	P/E 30 June 2015 £'m	(Decrease)
Revenue	17.7	14.1	26%	12.8	9.6	33%	1.8	2.0	(10)%
Cost of sales ¹	2.4	2.0	20%	6.5	5.3	23%	1.0	1.2	(17)%
Segment gross profit	15.3	12.1	26%	6.3	4.3	47%	0.8	0.8	-%

- Asset Management recurring revenue up 26% to £17.7m (H1 2015: £14.1m)
- Asset Management: unaudited current annual equivalent recurring income at 30 June 2016 for the Group is £37.4m, broken down as:
 - Gas meter rent £29.7m
 - Gas data rent £2.4m
 - Electricity meter rent £1.6m
 - Electricity data rent £3.7m
- Asset Installation income up 33% to £12.8m (H1 2015: £9.6m)
- Energy Management revenue reduced by 10% to £1.8m (H1 2015: £2.0m) due to a one-off capital project in the prior year

¹ Cost of sales includes costs directly attributable to generating revenue, but excludes depreciation on meter and data assets

Group Cash Flow Highlights

For the period ended 30 June 2016

	Period ended 30 June 2016 £'m	Period ended 30 June 2015 £'m
Cash generated from operations	15.6	11.5
Tax and interest	(1.4)	(1.1)
Capex additions	(15.2)	(21.7)
Capex disposal proceeds	0.3	-
New borrowings	11.4	15.5
Borrowings repaid	(6.4)	(4.5)
Net hire purchase repayments	(0.2)	-
Acquisition of subsidiaries	-	-
Cash acquired with subsidiaries	0.5	-
Net proceeds from share issue	0.9	0.3
Dividend paid	(1.9)	(1.6)
Net increase/(decrease) in cash and cash equivalents	3.6	(1.6)
Cash and cash equivalents at beginning of financial period	5.7	4.3
Cash and cash equivalents at end of financial period	9.3	2.7

Group Balance Sheet

As at 30 June 2016

	HY 30 June 2016 £'m	HY 30 June 2015 £'m	FY 31 December 2015 £'m
Assets			
– Non-current intangible fixed assets	15.0	10.5	10.0
– Non-current tangible fixed assets	137.9	109.8	125.8
– Non current receivables	0.8	1.0	0.9
– Other current assets	26.9	12.8	17.0
Total assets	180.6	134.1	153.7
Liabilities			
– Current	36.8	26.3	24.0
– Non-current	85.7	68.6	82.3
Total liabilities	122.5	94.9	106.3
Net assets	58.1	39.2	47.4

◆ Net debt as at 30 June 2016 was £80.5m (H1 2015: £69.9m)

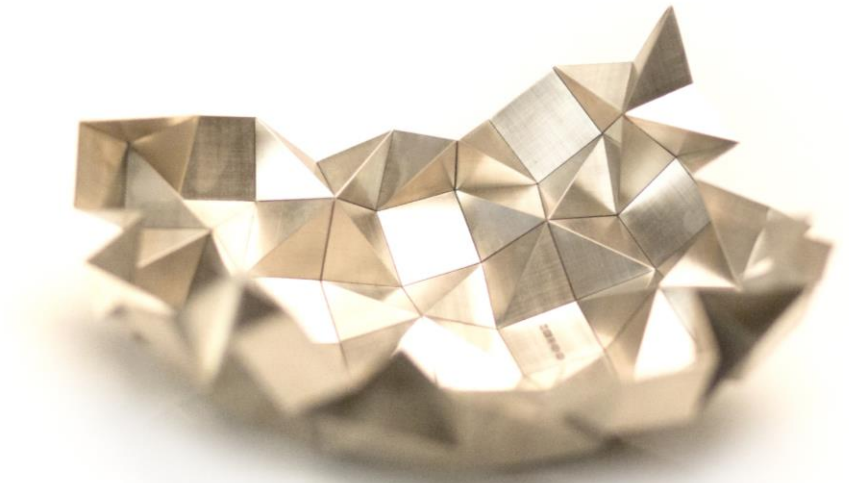
◆ The Company's available cash and unused debt facility stood at £69.5m at 30 June 2016

Financing

- ◆ SMS announced in March 2016 a new £150m revolving credit facility
- ◆ £60m of this was still available for drawdown as at 30th June 2016
- ◆ Club of banks include:
 - Barclays plc (lead bank)
 - Bank of Scotland plc
 - Santander UK plc
- ◆ This facility will fund the purchase of meter assets as part of a phased installation programme
- ◆ Net debt to annualised underlying EBITDA ratio of 2.74

Alan Foy, Chief Executive Officer

Business Summary



Business Summary

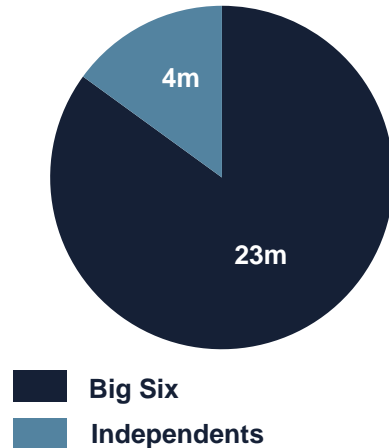
Further good progress across business KPI's

- ◆ Total annualised recurring income increased by 7.5% to £37.4m (31 December 2015: £34.8m). All as at 30 June 2016:
 - Gas meters: £29.7m (£27.8m @ 31 December 2015)
 - Electricity meters: £1.6m (£1.3m @ 31 December 2015)
 - Electricity data: £3.7m (£3.5m @ 31 December 2015)
 - Gas data: £2.4m (£2.2m @ 31 December 2015)

- ◆ Growth across all sectors and look forward with confidence

SMS & Domestic Smart Meter Market: Overview

Share of energy supply market (c. 27 million homes) Domestic smart meter programme



- Every home in the UK to have a smart meter under government directive
- 22 million domestic gas and 27 million domestic electricity smart meters are to be installed
- Each energy supplier is responsible for contracting with a accredited meter asset manager and performing the installation of the smart meters
- As at the 30th of April 2016, figures from Cornwall Energy¹, the energy sector consultants, shows that independents now supply over 4 million homes, a 48% rise from 2.7 million during the same time last year

SMS position

- SMS connects, owns, operates and maintains domestic smart meters for energy suppliers
- One of few competitors
 - SMS differentiates by offering suppliers its full end to end services
- The energy suppliers with whom SMS has contracted so far represent a fast growing segment of the energy supply market
 - Currently provide energy to c.2 million of the c.27 million homes in the UK

¹ Cornwall Energy 'Domestic energy market snapshot 30 April 2016' – published 13 June 2016
Available from Energy UK website <<https://www.energy-uk.org.uk/publication.html?task=file.download&id=5811>>

SMS & Domestic Smart Meter Market: Strategic acquisitions

Engineer Capacity

- Acquisitions of CH4 and Trojan provides control of over 240 engineers, and in addition to circa 120 engineers from our existing subcontract model provides capacity to install circa 360,000 domestic gas and electricity meters annually once all fully trained (circa 1.44 million over 4 years)
- CH4 fully own their domestic smart training academy and Trojan own 35% of an accredited training academy. Access to these academies provides the opportunity to train new engineers in a controlled manner and hence increase capacity within our operations to meet customer demand

IT capacity and IPR

- Acquisition of Qton provides full control over the IPR rights of Qton's work management system currently used by SMS and adds 17 IT professionals to our existing in house resource
- Qton's work management systems have provided, and continue to provide, the embedded functionality to manage consumer appointments, stock, installation records etc. for over 1 million meters on behalf of energy suppliers and installation contractors, and have considerable capacity to grow
- This work management system adds to SMS' in-house IP suite, now placing SMS with full IP rights to all IT systems that it uses for asset installation and ongoing management

2016 Strategic priorities

1. Continue to install and own utility metering infrastructure and secure recurring rental and data income from SMS' contracted energy suppliers
2. Target the significant domestic smart meter market opportunity in the UK based on SMS' proven business model and established market position
3. Increase levels of business for the Asset Installation and Energy Management divisions with a focus on cross-selling the full range of services offered to all SMS' customers

Medium term strategy

Core business:

- ◆ Increase long term index linked rental incomes from installed utility metering and data assets
- ◆ Complete order book of circa 40,000 industrial and commercial meters
- ◆ Complete initial order book of 300,000 dual fuel domestic smart meters across 8 current contracted energy suppliers who currently supply circa 2 million homes out of a total market of 27 million homes in the UK required to be materially complete by 2020 under government directives
- ◆ Pursue additional contacts in the domestic smart meter rollout

Other potential opportunities:

- ◆ Extend Energy Services products further in the UK and internationally
- ◆ Water: full UK accreditation for data service
- ◆ Overseas: trials for data services
- ◆ Investigate energy equipment asset ownership opportunities and further long term rental opportunities

Appendices



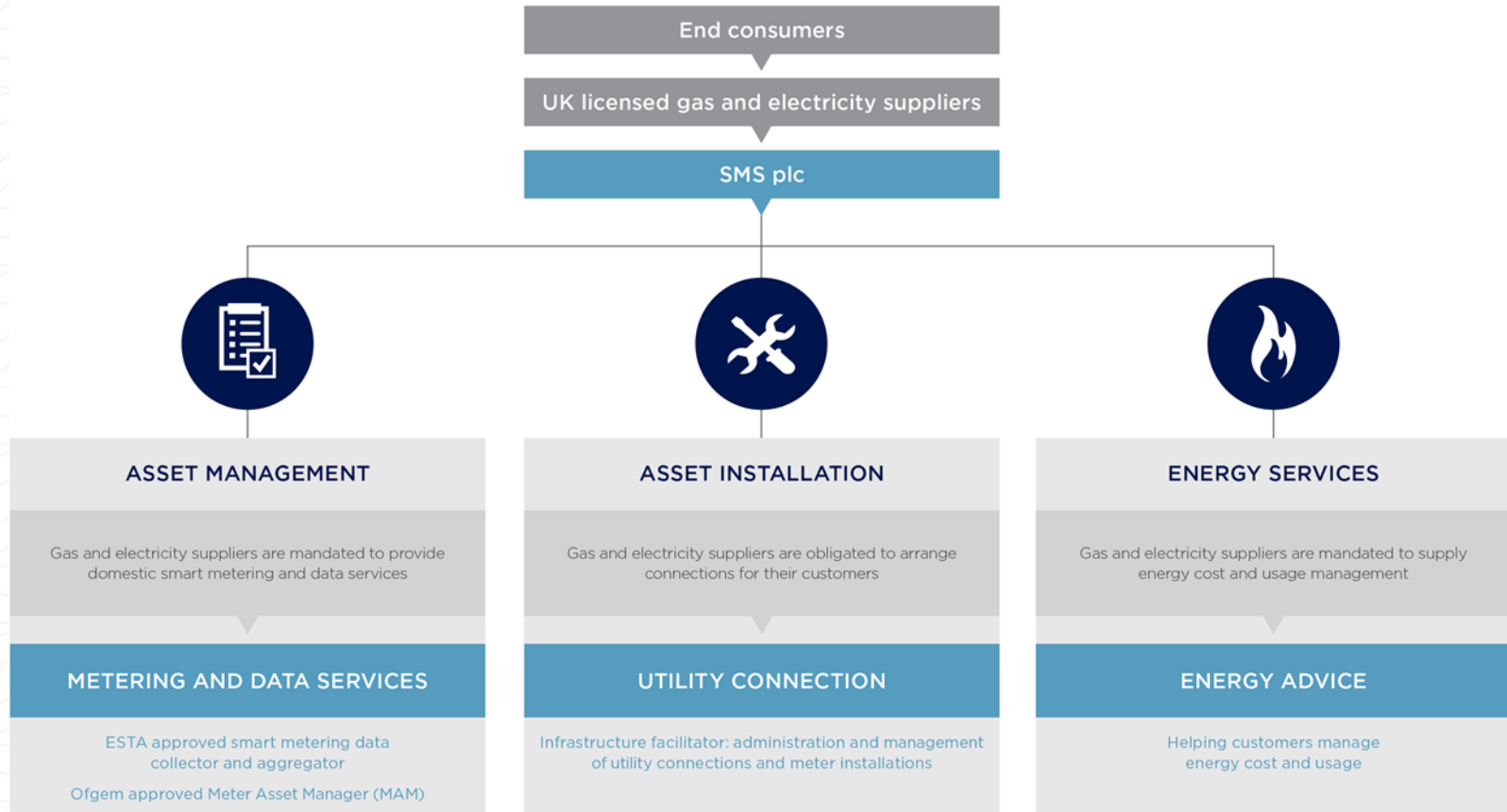
Our Clients



- ◆ Long-standing multi-level relationships with suppliers who are responsible for the rollout of smart metering
- ◆ Current energy supplier clients provide potential access to:
 - Over 40% of UK domestic smart meters
 - Over 80% of UK industrial and commercial meters
- ◆ Contracted to provide energy management services for multinational clients
- ◆ Clients are globally recognised brands with international presence

UK gas and electricity market

UK GAS AND ELECTRICITY MARKETS AND THE SMS INTEGRATED SERVICE OFFERING



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