



ENABLING SMARTER SOLUTIONS

Smart Metering Systems plc
Interim Results for the six months to 30 June 2019

AGENDA

- ▶ H1 2019 overview
Alan Foy, CEO
- ▶ Strategy and positioning
Alan Foy, CEO
- ▶ Financial review
David Thompson, CFO
- ▶ Operational review
Tim Mortlock, COO
- ▶ Outlook
Alan Foy, CEO
- ▶ Q&A
- ▶ Appendix



OVERVIEW

Alan Foy, CEO

OVERVIEW

- ▶ Long-term index-linked annualised recurring revenue (ILARR) up 14% to £85.9m at June 2019, further increased to £88.5m at August 2019
- ▶ Group's domestic smart portfolio now above 1 million smart meters – a net increase of 156,000 domestic smart meters installed in H1
- ▶ Industry-wide technical issues slowed installation in H1, signs of expected recovery emerging
- ▶ Significant cash and unutilised debt facility available to support rollout
- ▶ Financial, technical and human resources in place to support 2 million meter order book as mass SMETS2 rollout commences
- ▶ Revenues and ILARR for the current financial year are anticipated to be ahead of market expectations whilst pre-exceptional EBITDA is expected to be marginally below current market expectations with a consequent impact on underlying profit before tax
- ▶ In discussions about sale of a minority of meter assets. If completed, at an appropriate value, this transaction will provide significant additional liquidity and demonstrate the inherent value of the Group's metering asset base



STRATEGY & POSITIONING

Alan Foy, CEO

STRATEGY AND POSITIONING

37million smart meters market opportunity - accessing this market continues to remain our core focus

1

Core focus and opportunities

- ▶ Continue to add ILARR
 - **c.£85.9m** as at 30 June 2019
 - **c.£40m** (c.2million smart meters) due from domestic smart market order book
 - **c.£80m** (c.4million smart meters) opportunity from existing contracted energy suppliers
- ▶ Further potential ILARR from ongoing targeting of additional energy suppliers

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Delivery and resources

- ▶ **IT:** Scalable and secure data infrastructure, already operating >3.46m assets
- ▶ **Installation capacity:** 500 in-house engineers
- ▶ **Finance:** £233m of cash in bank and unutilised debt facility available to support rollout

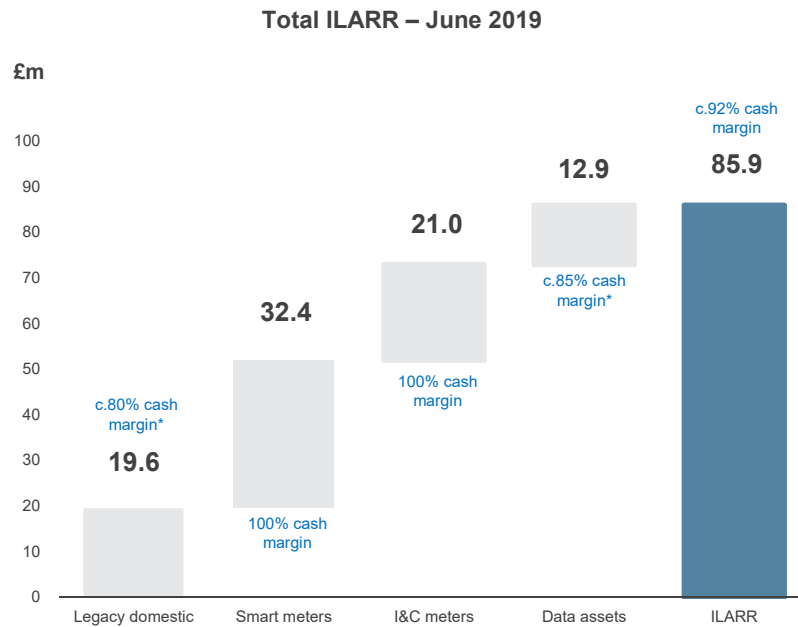
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Energy management opportunity

- ▶ Energy market is changing rapidly and SMS is well placed to be at forefront of these developments with strong cross-sell potential into SMS's existing customer base
- ▶ Purchased Solo Energy to establish new long-term revenue streams from new asset classes enabled by smart meters



ANNUALISED RECURRING REVENUE: STRONG PROGRESS



- ▶ ILARR at 31 August 2019 stood at **c.£88.5m**
 - ILARR is annualised long term index-linked revenue generated over from our installed meter and data asset base
- ▶ c.92% existing cash margin to gradually move towards 100%
- ▶ 3.35% RPI increase effected in April 2019
- ▶ £19.6m ILARR from legacy domestic portfolio to be removed through replacement with smart during the mass roll out

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



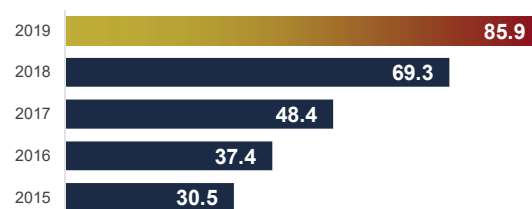
FINANCIAL REVIEW

David Thompson, CFO

FINANCIAL HIGHLIGHTS

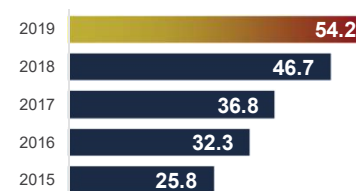
ILARR¹ (£m)

£85.9 +24%



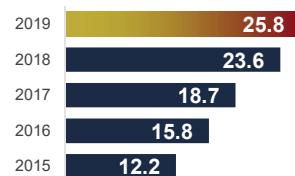
Revenue (£m)

£54.2 +16%



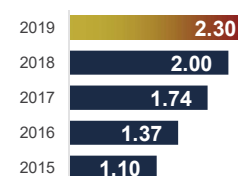
Pre-exceptional EBITDA (£m)

£25.8 +9%



Interim dividend per share

2.30p +20% CAGR



¹ ILARR – the annual index-linked revenue from our meter and data income streams at a point in time



INCOME STATEMENT

	June 2019 £m	June 2018 £m
Group revenue	54.2	46.7
Pre-exceptional EBITDA	25.8	23.6
Exceptional items	(5.2)	(0.2)
Statutory EBITDA	20.6	23.4
Depreciation and amortisation	18.3	11.1
Interest	(4.1)	(2.2)
Statutory (loss)/profit before taxation	(1.7)	10.1
Underlying profit before taxation*	4.6	11.4

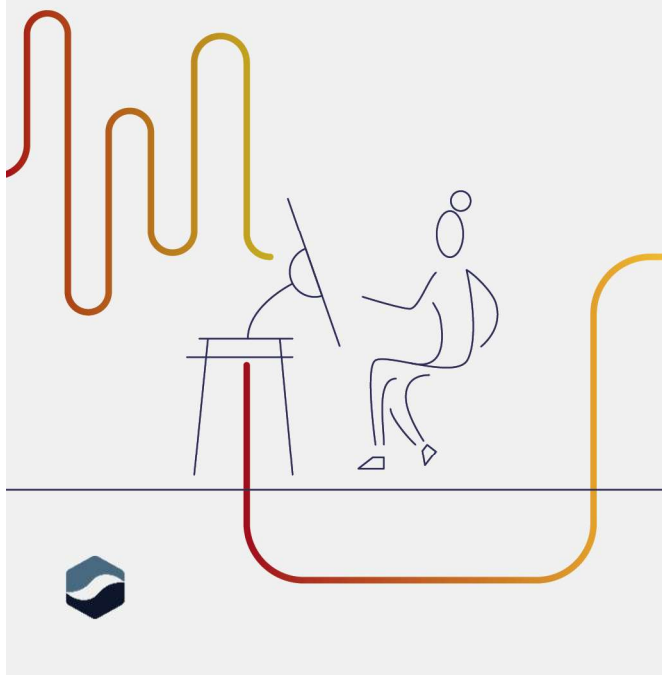
* Excluding exceptional items and amortisation of intangibles

- ▶ Revenue driven by revenue-generating asset portfolio growth to 3.46million (2018: 2.52million) and favourable RPI
- ▶ Expected impact of c.£3m additional net engineering installation costs to the full year 2019 results
- ▶ £5.2m of exceptional costs recognised, primarily relating to losses on meter portfolio arising from temporary industry transition period
- ▶ Additional £1.9m interest



ASSET MANAGEMENT

Investing in assets and providing
remote reading solutions

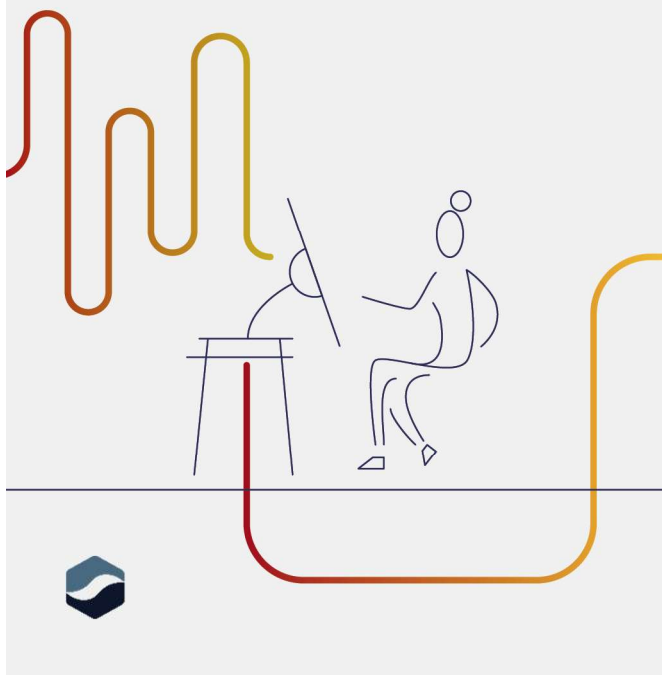


	June 2019 £m	June 2018 £m	Reported change
Revenue	39.4	31.6	+25%
Cost of sales	(18.6)	(13.0)	+43%
Gross profit	20.8	18.6	+12%
Gross profit margin	53%	59%	

- ▶ 3.35% RPI increase effected in April 2019
- ▶ Revenue up 25%, reflecting 323,000 increase in metering and data assets under management
- ▶ Increase in cost of sales primarily driven by changes in accounting estimates, resulting in an additional depreciation charge on meter assets of £2.9m recognised

ASSET MANAGEMENT (CASH MARGIN)

Investing in assets and providing
remote reading solutions

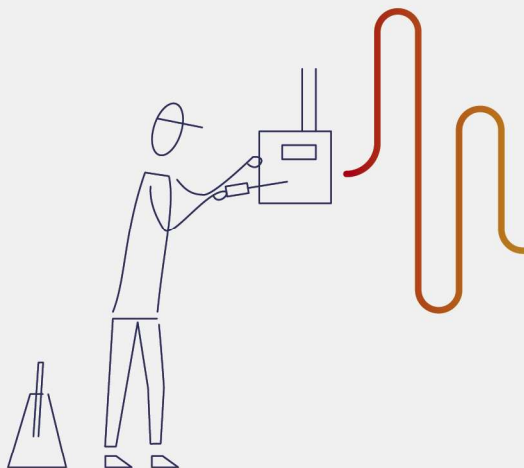


	June 2019 £m	June 2018 £m	Reported change
Cash margin			
Revenue	39.4	31.6	+25%
Cash cost of sales	(3.1)	(3.5)	-11%
Cash gross profit	36.3	28.1	+29%
Cash gross margin	92%	89%	

- ▶ Cost of sales excludes £15.5m (2018: £9.5m) of depreciation for cash gross margin
- ▶ Remaining cost of sales relates to data costs, SIM card costs and third-party meter management costs
- ▶ Cash gross margin continues to grow – benefits from investment in portfolio and index linkage

ASSET INSTALLATION

Direct field force management and installation

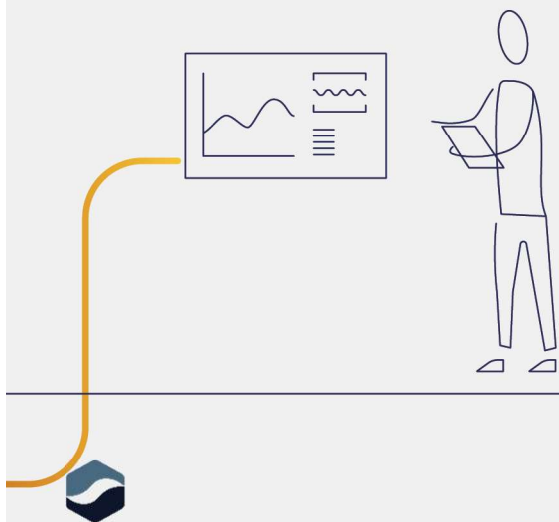


	June 2019 £m	June 2018 £m	Reported change
Revenue	10.2	12.1	-16%
Cost of sales	(15.1)	(8.9)	+70%
Gross (loss)/profit	(4.9)	3.2	-253%
Gross margin	(48%)	26%	

- ▶ External smart installation-only work ended in Q1 2019
- ▶ Continued investment to enable delivery of order book, putting Group in strong position to fulfil anticipated increase in demand

ENERGY MANAGEMENT

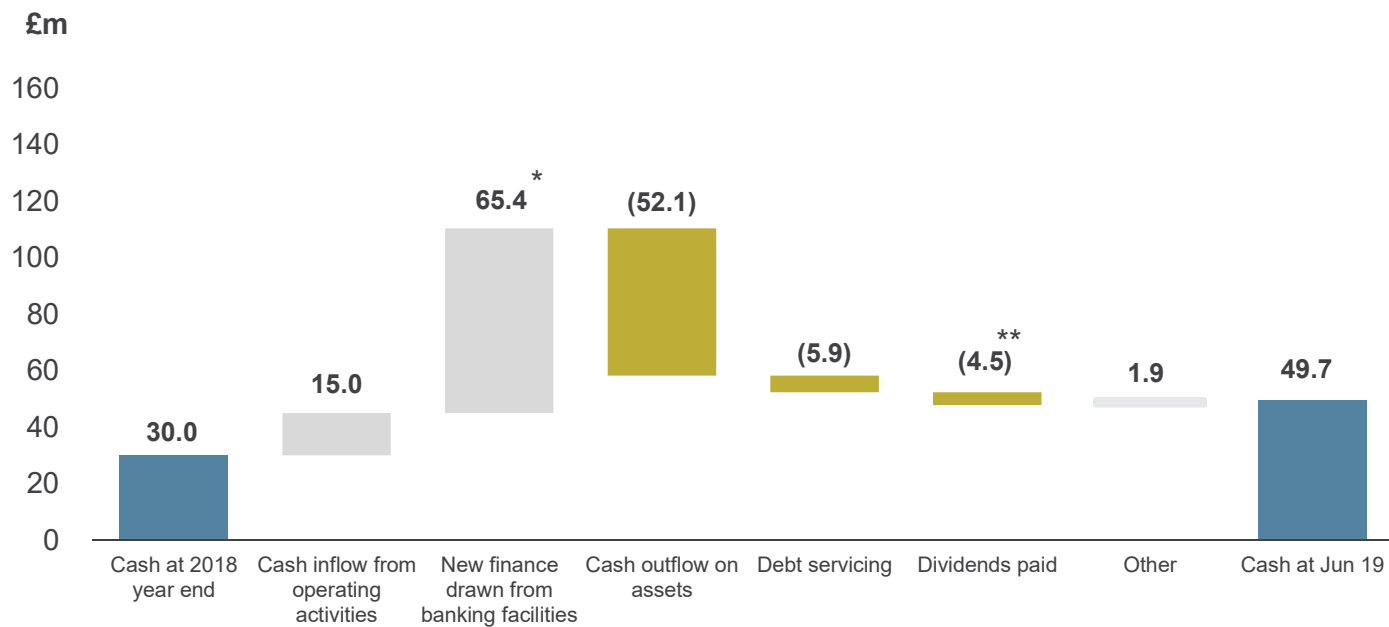
Providing energy efficiency strategies



	June 2019 £m	June 2018 £m	Reported change
Revenue	4.6	3.0	+53%
Cost of sales	(3.6)	(2.3)	+56%
Gross profit	1.0	0.7	+43%
Gross profit margin	22%	22%	

- ▶ Good progress with large-scale energy efficient lighting contract, which spans several years
- ▶ Constant margin due to no significant changes in active contracts
- ▶ Continuing focus on enlarging platform for growth and developing longer-term customer relationships

GROUP CASH FLOW



*RCF drawdown pattern changes under new facility to quarterly in advance, rather than monthly in arrears

** Cash cover of 3.3x for dividend payments



OPERATIONAL REVIEW

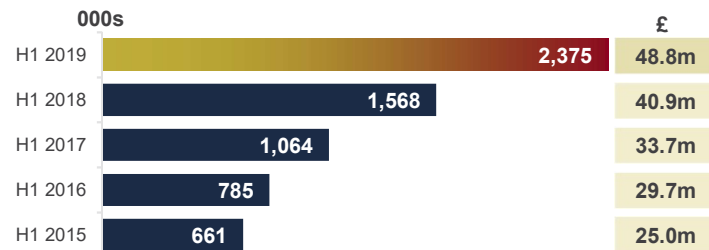
Tim Mortlock, COO

ASSET MANAGEMENT GROWTH

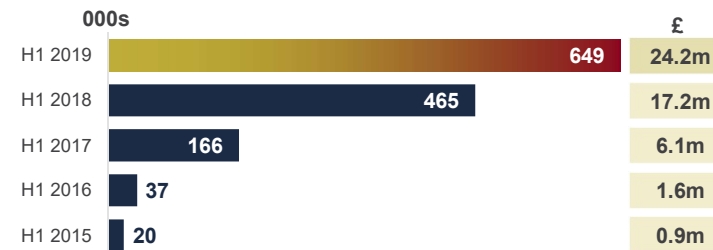
► Total meter and data assets under management at 30 June 2019: 3.46million

► Total smart meter portfolio 30 June 2019: 1,002,000

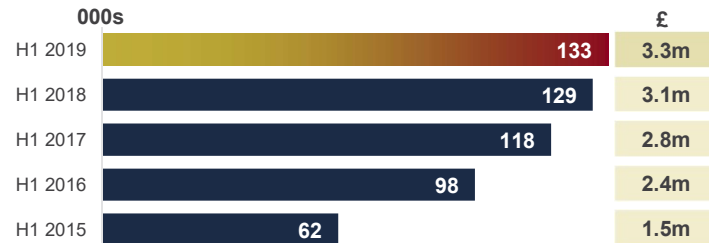
Gas meters 2.38million assets* / £48.8m recurring revenue



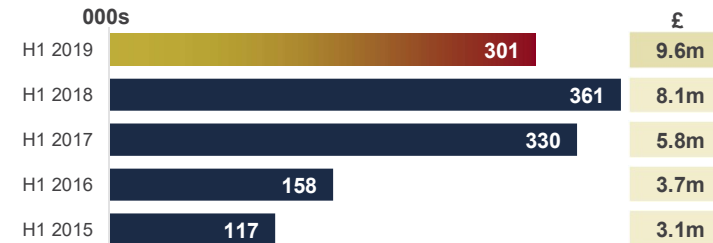
Electricity meters 648k assets / £24.2m recurring revenue



Gas data 133k assets / £3.3m recurring revenue



Electricity data 301k assets/ £9.6m recurring revenue**



* Includes third-party managed assets

** Decrease due to commercial decision to step back from appointments to third-party traditional meter points



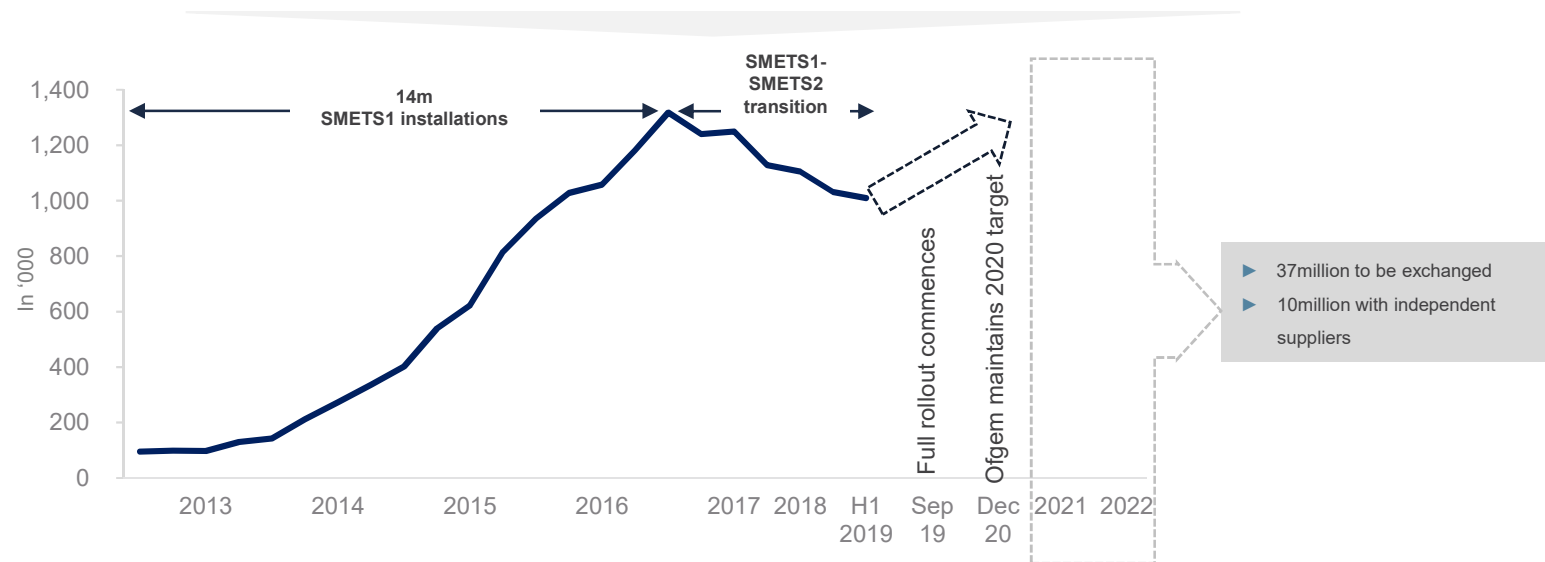
SEGMENT REVIEW

Asset Management	<ul style="list-style-type: none">▶ ILARR +14.1% to £85.9m at June 2019 including RPI increase of 3.35%▶ £88.5m ILARR at August 2019 including meter portfolio acquisition and smart organic growth▶ Contract wins with British Gas Business and Opus Energy, 2 million meter order book, 4 million additional opportunity from existing customers
Asset Installation	<ul style="list-style-type: none">▶ 500 engineers installation capacity▶ Slowdown in installation rates due to industry radiofrequency interference issue in northern region - now resolved▶ In-house training academies support future increases in engineering capacity
Energy Management	<ul style="list-style-type: none">▶ Purchased Solo Energy to establish new long-term revenue streams from new asset classes enabled by smart meters, with trial projects ongoing▶ Full accreditation as EV charger installer and lead consultant in government funded project to investigate EV charging points at c.30k street locations▶ Energy efficiency projects including LED lighting scheme for leading UK hotel chain



UK SMART METER INSTALLATION PROFILE

- ▶ UK smart metering industry moving to full rollout phase
- ▶ Ofgem maintains regulatory target of Dec 2020, BEIS consulting on extension of regulatory targets to 31 Jan 2024
- ▶ Independent energy suppliers market share increases to 29%

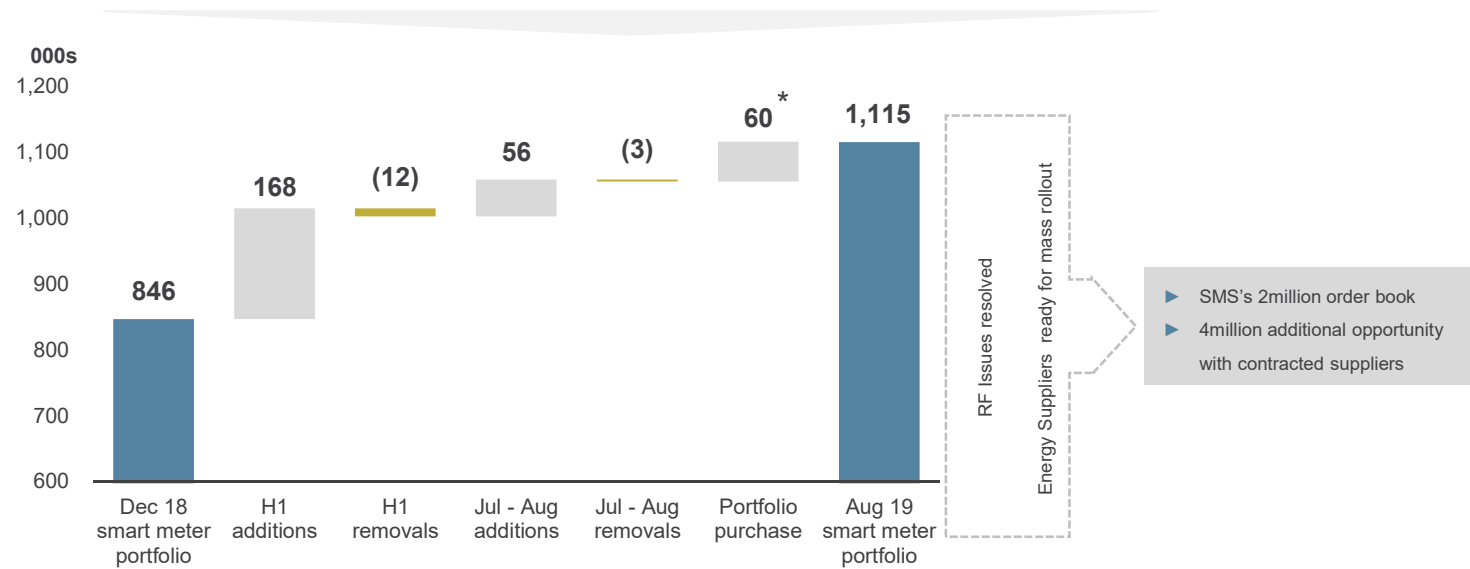


Source: Smart DCC, Ofgem, SMS plc



SMS INSTALLATION PROFILE

- ▶ RF issue and independent energy supplier readiness impacted H1 installation
- ▶ RF issue fully resolved in mid-Aug 2019 in northern area. Full rollout commences Sep 2019
- ▶ Independent Energy suppliers DCC and SMETS 2 testing complete
- ▶ Financial, technical and engineering resources in place to support expected increase in activity as mass rollout commences

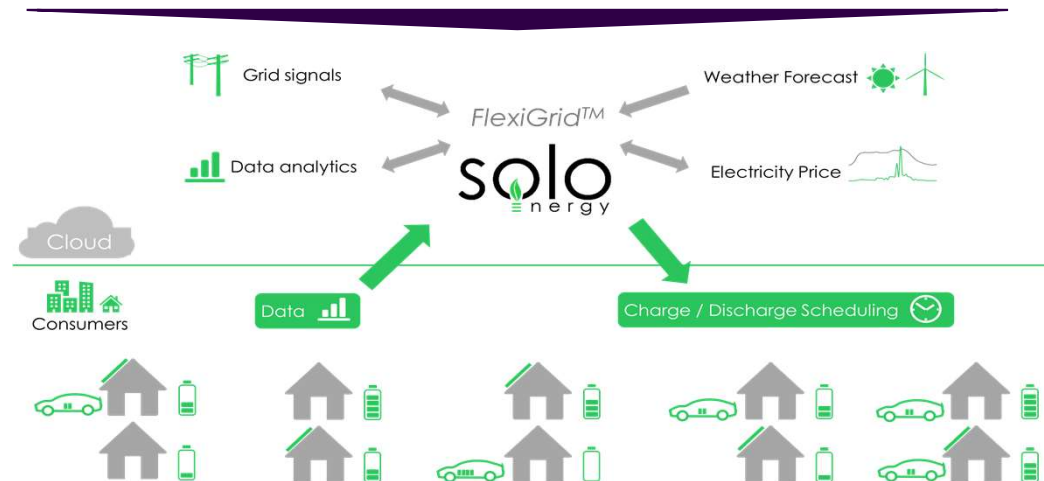


*Further 12,000 smart meters to be added from purchase (industry data flows being processed)



SOLO ENERGY: CLOUD-BASED ENERGY FLEXIBILITY PLATFORM

- ▶ Acquired Solo Energy - a cloud-based energy flexibility IT platform
- ▶ Established IT platform to control and aggregate data and revenue from generation and battery storage assets
- ▶ Uses blockchain technology to enable peer to peer electricity grid balancing services
- ▶ Business model deploys batteries and vehicle to-grid (V2G) chargers in homes and businesses
- ▶ Operates network of energy storage assets to store and balance renewable generation
- ▶ Large-scale established government and local authority sponsored trial battery and EV charger flexibility projects - pre planning stage and represent c.2000 homes and businesses



OUTLOOK

Alan Foy, CEO



OUTLOOK

- ▶ Continued strong growth in ILARR
- ▶ Financial and operational resources in place to support step up in the installation rate to meet 2million order book
- ▶ In discussions about sale of a minority of meter assets. If completed, at an appropriate value, this transaction will provide significant additional liquidity and demonstrate the inherent value of the Group's metering asset base
- ▶ Retaining our engineer capacity throughout 2019 marginally impacts pre exceptional EBITDA expectations with a consequent impact on underlying profit before tax
- ▶ SMS's mission remains unchanged, striving to deliver the future of smart energy



Q&A



APPENDICES



OUR TRACK RECORD

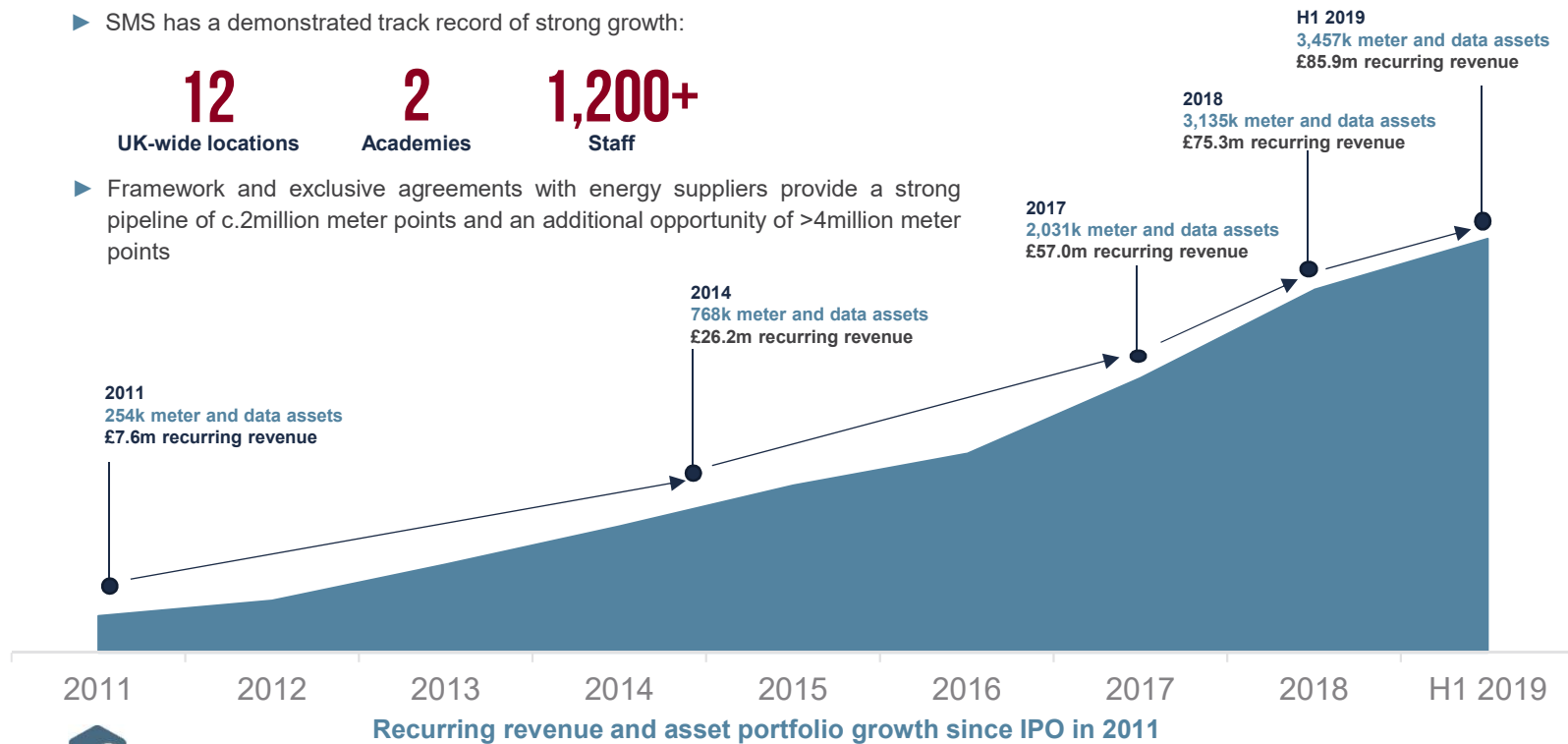
- ▶ Since 1995 SMS has transitioned from an energy services business into a diversified asset installation and ownership infrastructure business
- ▶ SMS has a demonstrated track record of strong growth:

12
UK-wide locations

2
Academies

1,200+
Staff

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



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 rollout targets whilst focusing on their core businesses
- ▶ Our origination platforms enable asset ownership
- ▶ Significant barriers to entry

Attractive asset class

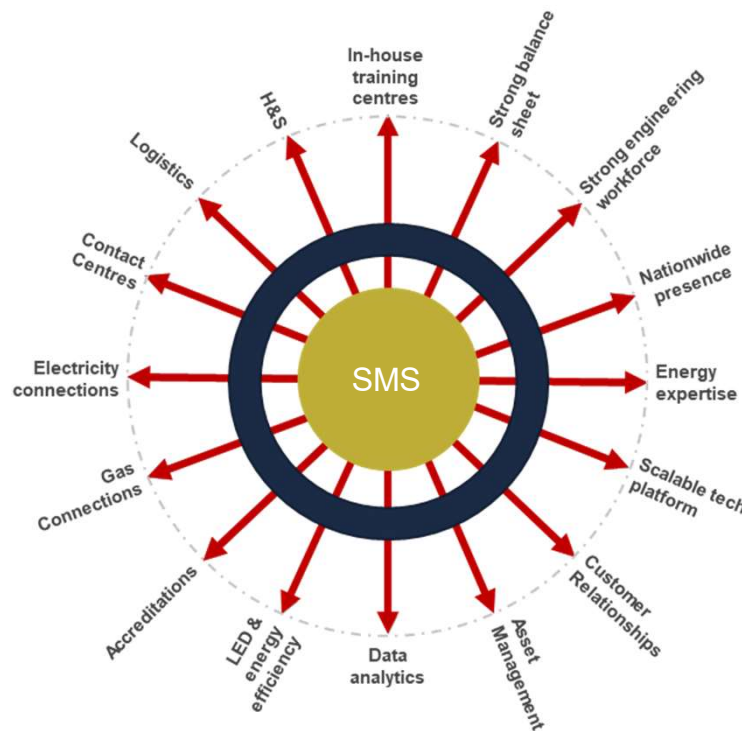
- ▶ The proposition enables SMS to originate attractive asset classes which enjoy long-term inflation-linked recurring revenues
- ▶ Smart meters are now an attractive infrastructure asset class, predominantly owned by infra funds
- ▶ Smart meters accelerate development of new asset classes enabling transition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



* Source: [BEIS](#)

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 rollout programme remains at the heart of the UK Government to become carbon neutral by 2050
 - Smart meters accelerate development of new asset classes, enabling transition towards decarbonisation
 - ILARR at 31 August 2019 stood at c.£88.5m, incorporating 3.35% RPI in April 2019
- ▶ SMS has invested significantly to develop an end-to-end service and a scalable business model
 - 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 rollout 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 consumers to change behaviour
 - Enabler of new asset classes
- ▶ SMS has upgraded the capabilities of its ADM™ 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 and gas solution, with opportunities outside the UK
- ▶ The revenues originating from these devices are also annualised, index linked and recurring in nature

BALANCE SHEET

	June 2019 £m	December 2018 £m
Assets		
Non-current	405.6	374.4
Current	57.4	45.3
Cash at bank	49.7	30.0
Total assets	512.7	449.7
Liabilities		
Bank loan <1 year	1.6	172.0
Current liabilities	40.3	39.4
Bank loan >1 year	234.7	—
Non-current liabilities	14.9	12.2
Total liabilities	291.5	223.6
Net assets	221.2	226.1

- Increase in non-current assets arising mainly from increase in revenue-generating assets
- Increase in current assets reflects growth in trading levels
- Changes in bank loan balances due to refinancing of Group's loan facility on 21 December 2018, providing access to £420m RCF for five years. Existing facility settled in full on 3 January 2019 upon first drawdown under new RCF. Current portion of new facility relates to accrued interest payable within twelve months from reporting date
- Net debt of £186.6m at June 2019 as a result of increased funding
- £233.4m of available cash (£49.7m) and unutilised facility (£183.7m) at June 2019

