



smart metering  
systems

Interim Results  
for the six months ended 30 June 2011

September 2011

# Presentation Team

## **Alan Foy, Chief Executive Officer**

- ▶ Joined in 2004 as Commercial Director
- ▶ Formerly with Scottish Power and Scottish Power Gas Ltd
- ▶ Appointed as Managing Director in 2007

## **Glen Murray, Finance Director**

- ▶ Joined 2009
- ▶ Company auditor for 5 years whilst at Baker Tilly





smart metering  
systems

Alan Foy  
Chief Executive Officer

# Smart Metering Systems

## Background

Established in 1995 and floated on AIM in July 2011, Smart Metering Systems is a group with three subsidiaries which delivers an **integrated range of services** from the management of **gas connections** and operation of **gas meter assets** to a comprehensive **smart metering solution**

SMS is the **only independent provider** of the complete package of services to the **UK's key gas suppliers**

The group has **invested heavily** to establish a solid foundation to support increasing demand for its services and the growth opportunities driven by:

- ▶ Very **attractive smart metering commercial terms**
- ▶ Government initiatives around **smart metering**\*
- ▶ Government initiatives around **cutting carbon emissions**\*\*

The business is **highly scalable** without **further investment in infrastructure**

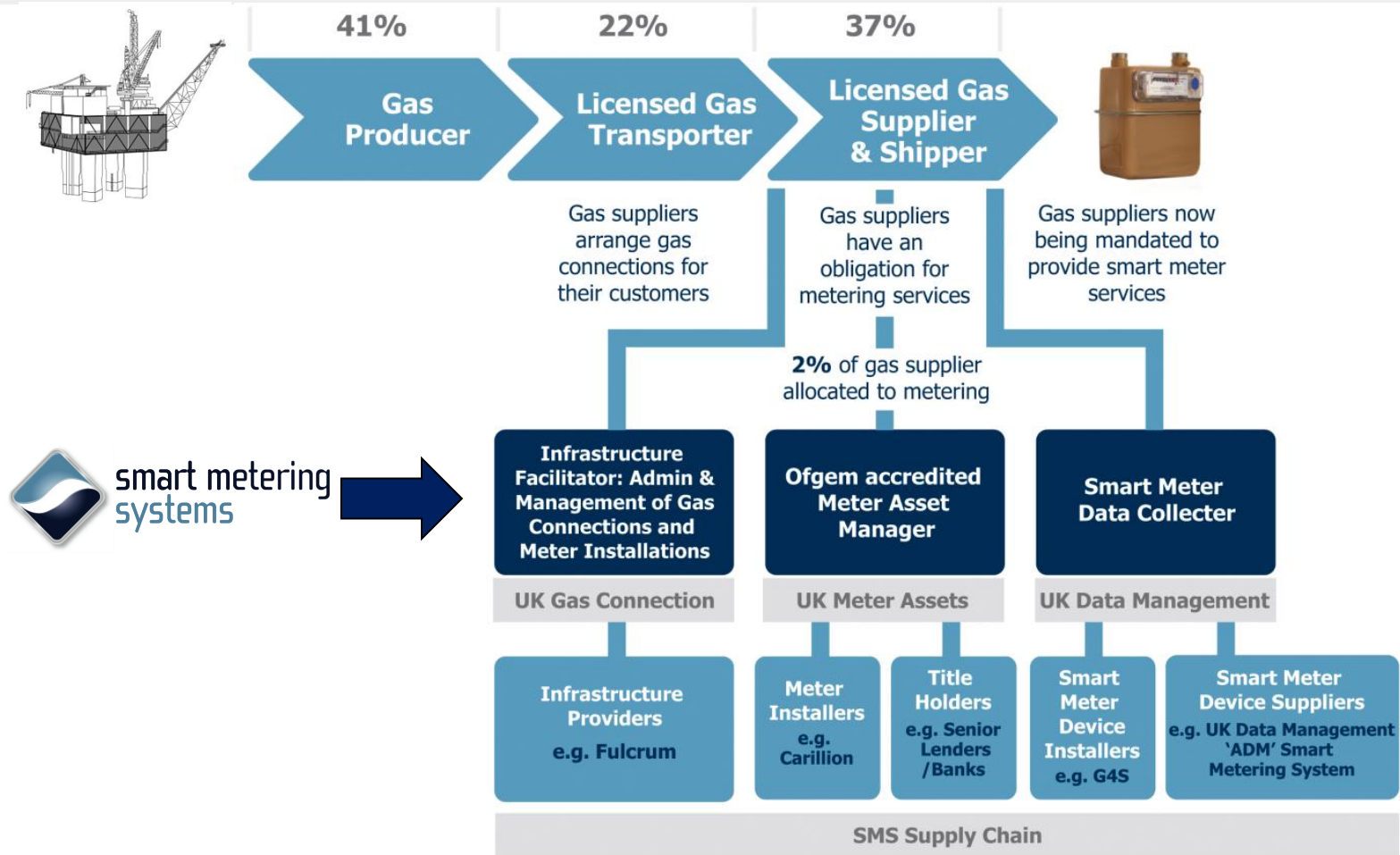
*\* DECC – Smart Metering Implementation Programme – Response to Prospectus, 30<sup>th</sup> March 2011*

*\*\* HM Government "The UK Low Carbon Transition Plan" 15 July 2009*



# UK Gas Market

## Gas Supply Chain



# Historical Trends And Earnings Quality

- ▶ **Rapid Growth – the business has delivered substantial CAGR over the 3 years to December 2010**

▶ Revenues:	16.6%
▶ EBITDA:	96.3%
▶ Net Assets:	198.8%

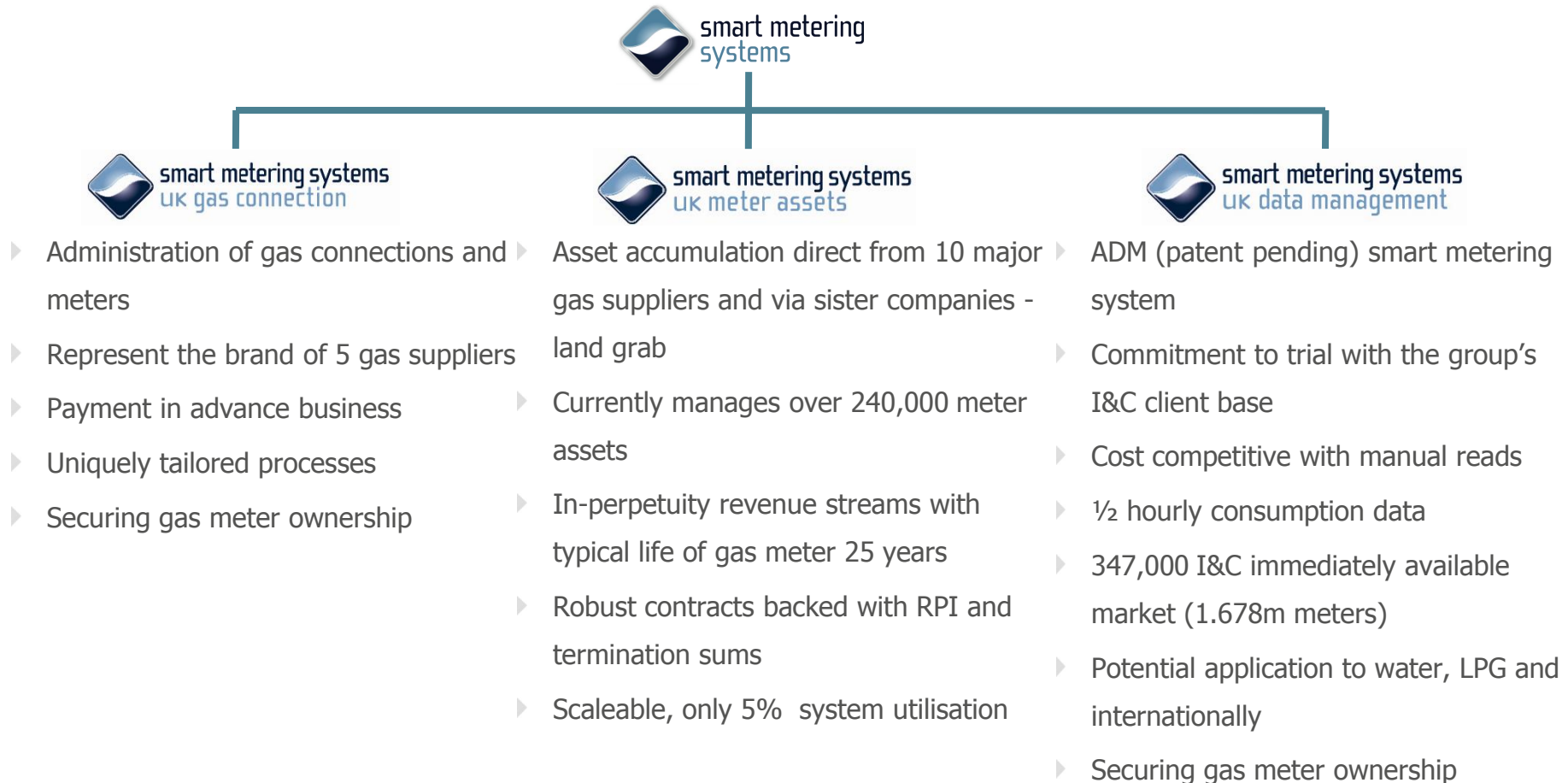
- ▶ **Earnings Quality – the business has developed excellent visibility**

- ▶ **Recurring income** is becoming dominant
- ▶ Recurring income is **predictable** – it has a **high degree of visibility**
- ▶ **Robust in perpetuity contract** framework and **IT system** supports meter rental income
- ▶ Potential **index linked termination payments** provide adequate cover for the outstanding debt
- ▶ Meter rental income is not dependent on gas consumed through the meter - it is a **100% capacity and not a commodity based rental** (no exposure to commodity prices)
- ▶ Rental increases with **RPI**



# Group Overview

## Strong Synergies Between Subsidiaries



# Contracted Clients



- ▶ Long standing multi-level relationships with suppliers who are responsible for the roll out of smart metering
- ▶ Current clients provide potential access to:
  - ▶ Over 30% of UK residential gas meters
  - ▶ Over 80% of UK industrial & commercial gas meters\*
- ▶ Clients are globally recognised brands with international presence
- ▶ Business processes and IT systems uniquely tailored to each individual gas supplier (significant barrier to entry)

*\*Premises consuming more than 73,200kWh*





smart metering  
systems

Glen Murray  
Finance Director

# Financial Highlights

	H1 30 June 2011 £'000	H1 30 June 2010 £'000	Increase
↑ Sales	7,391	5,757	28%
↑ Gross profit	3,766	2,449	54%
↑ Gross profit margin	51%	43%	19%
↑ EBITDA	2,394	1,175	104%
↑ EBITDA Margin	32%	20%	60%
↑ PBT	1,534	704	118%
↑ Earnings per share	1.78p	0.60p	197%

# Income Statement Segmental Analysis

## for the six months ended 30 June 2011

	Asset Management			Asset Installation		
	H1	H1	Increase	H1	H1	Increase
	30 June	30 June		30 June	30 June	
	2011	2010		2011	2010	
	£'000	£'000		£'000	£'000	
<b>Revenue</b>	3,018	1,911	58%	4,373	3,846	14%
<b>Operating Costs</b>	1,011	816	24%	2,614	2,492	5%
<b>Segment Profit</b>	2,007	1,095	83%	1,759	1,354	30%

- ▶ Recurring revenue up 58% on 2010. Current annual equivalent recurring revenue is £6.966m
- ▶ Over £2m spent on invested meter assets since July 2011 IPO, with corresponding increase in assets from 221,000 to over 240,000

# Cashflow Highlights

## for the six months ended 30 June 2011

	H1 30 June 2011 £'000		H1 30 June 2010 £'000	
<b>Operating cash flow</b>	2,020		1,788	
<b>Investing activities</b>				
- Meter assets	(3,931)		(2,046)	
- Others	(341)	(4,272)	(79)	(2,125)
<b>Financing Activities</b>				
- Net proceeds from new borrowings less capital repaid	2,128		(278)	
- Finance costs	(248)		(88)	
- Others	(183)	1,697	(364)	(730)
<b>Increase /(decrease) in cash &amp; cash equivalents</b>	(555)		(1,067)	
<b>Cash &amp; cash equivalents at the beg. of the period</b>	1,824		582	
<b>Cash &amp; cash equivalents at the end of the period</b>	1,269		(485)	

► Excludes £8.6m, the net proceeds of the placing, which were received on 11 July 2011

# Balance Sheet

## as at 30 June 2011

	H1 30 June 2011 £'000	H1 30 June 2010 £'000	FY 31 December 2010 £'000
<b>Assets</b>			
- Non-current	18,411	11,929	14,682
- Current	4,013	2,492	3,333
<b>Total Assets</b>	<b>22,424</b>	<b>14,421</b>	<b>18,015</b>
<b>Liabilities</b>			
- Current	8,525	7,695	7,271
- Non-current	11,362	4,926	9,217
<b>Total Liabilities</b>	<b>19,887</b>	<b>12,621</b>	<b>16,488</b>
<b>Net Assets</b>	<b>2,537</b>	<b>1,800</b>	<b>1,527</b>

- Excludes £8.6m, the net proceeds of the placing, which were received on 11 July 2011

# Delivering Growth

## Strategy

- ▶ Maintain and **increase growth rates in meter asset ownership** with gas supplier customers
  - ▶ Over 80% of the I&C market is potentially available through contracted arrangements with gas suppliers
  - ▶ Current IT platform operates at less than 5% capacity
- ▶ Up sell the ADM smart metering solution to existing contracted gas suppliers to **accelerate meter asset ownership**
- ▶ **Increase levels of business** with, and services provided to, key gas suppliers

## Future Prospects

- ▶ Explore future prospects to **expand the range of solutions** and services to all utility markets within the UK and potentially internationally



# Summary

- ▶ A well established and **highly profitable** business with a **Strong market position** , **high barriers to entry** and **track record** in delivering growth
- ▶ **High yield, low risk asset class** giving **highly attractive risk / reward** proposition. 9% growth in assets in July and August 2011 secured
- ▶ New product (ADM) – a **catalyst for accelerating growth** and **enhancing yield** of owned meter assets. **Trials complete with CNG**, commitment to **trial with gas supplier customers who represent 80% of the I&C market** . Full Zone zero accreditation expected shortly.
- ▶ **Progressive dividend policy**: Maiden interim **dividend planned November 2012** subject to performance
- ▶ Contracts with **gas suppliers** provides **recurring revenues** and **visibility of earnings** backed by robust termination payment arrangements
- ▶ **Scalable business** operating at less than 5% IT capacity. Powerful **government and regulatory initiatives** driving demand in smart metering







smart metering  
systems

# Appendices

# Gas Industry Deregulation

1989

- Deregulation of I&C gas supply market begins

1995

- Deregulation of gas connections and gas transportation

1995

- Establishment of **UK Gas Connection** in the gas connections market



smart metering systems  
uk gas connection

2004

- Deregulation of the gas metering market begins

2004/5

- Establishment of **UK Meter Assets** into the gas metering market
- OFGEM begin investigation into National Grids metering business



smart metering systems  
uk meter assets

2009

- First mandate for smart metering in I&C market
- Group holding company established - **Smart Metering Systems**

2010

- Establishment of **UK Data Management** into the smart metering market
- Supreme Court refuse NG appeal and £15m fine imposed



smart metering systems  
uk data management



smart metering  
systems

# UK Gas Connection

- ▶ Gas suppliers must supply gas to end consumers through meters\*. Gas suppliers employ UK Gas Connection on a non exclusive basis to install meters and provide gas connections direct to their end consumers
- ▶ A transactional support services business which manages the administration of gas connections and meters for gas suppliers' end consumers, directly representing their brands (from initial contact through to project conclusion)
- ▶ A contributor to the growth of the owned portfolio of meter assets under management
- ▶ Highly cash generative business with advance payment terms for most clients
- ▶ Independence from gas suppliers ensures continuity of service when an end consumer switches gas supplier
- ▶ Long established gas supplier relationships and successful brand representation have created significant barriers to entry

*\*Gas Act 1986 – schedule 2B*



# UK Meter Assets

## Commercial

- ▶ Manages third party and owned high yielding (increasing by RPI) gas meter assets charging rental to gas suppliers over the useful life of the meters (typically 25 years)
- ▶ Substantial market opportunity
  - ▶ A large proportion of an estimated 1.678m \*\* Industrial & Commercial meters in the UK will be exchanged by 2019\* - UKMA current market share is over 8,000 owned I&C meter assets
  - ▶ An estimated 21.28 million\*\* domestic meters may require to be exchanged by 2019 - UKMA current market share is over 90,000 owned and 150,000 managed (third party owned) domestic meter assets
- ▶ Contractual terms providing in-perpetuity annuity income (subject to termination rights) and backed by robust termination arrangements
  - ▶ There are current signed non exclusive contracts with gas suppliers who supply over 80% of the I&C market: Centrica ,Total, Gazprom, GDF Suez, Scottish & Southern Energy, Contract Natural Gas and Scottish Power
  - ▶ There are current signed non exclusive contracts with gas suppliers who supply over 30% of domestic market: Scottish and Southern, Scottish Power, OVO, First Utility, Utilita

*\*DECC - Smart Metering Implementation Programme – Response To Prospectus, 30<sup>th</sup> March 2011*

*\*\*2007 DECC - Market Research & 2011 British Gas Home Energy Report*

# UK Meter Assets

## Operational

- ▶ IT system interfaces seamlessly with every gas supplier in the UK
  - ▶ No increased cost of trading with UK Meter Assets
  - ▶ Electronic billing & validation designed to ensure quick payment and strong cash flow (current average 28 debtor days vs. contracted 30 days)
  - ▶ Operating at less than 5% capacity
  - ▶ Produces one gas meter rental invoice to each gas supplier (26 invoices in total)
  - ▶ Visibility of asset portfolios for gas suppliers and asset finance providers
  - ▶ Data storage and disaster recovery managed through ISO27001 accreditation
- ▶ Robust supply chain for delivery, installation and adoption of gas meters UK wide
  - ▶ Fully outsourced supply and installation using a network of service providers
  - ▶ In-house control of work management
  - ▶ In-house control of meter asset registration services
- ▶ Accelerating run rate in meter installations

# UK Data Management ADM Smart Metering Solution

## Background

- ▶ R&D commenced in 2008 resulting in the introduction of the ADM solution in December 2010
  - ▶ Simple plug & play
  - ▶ No skilled labour required to install
  - ▶ Prevents human error during set up
  - ▶ European and International Patent Pending
  - ▶ European full patent expected 4-7months
- ▶ Compliant with OFGEM specification for I&C Market
- ▶ Significant commercial driver as market expects to invest in smart metering and ADM delivers savings at the outset
  - ▶ An estimated 20%+ savings on the cost of monthly manual service – a significant milestone within the industry
  - ▶ An estimated 40% less expensive than alternative smart metering solutions



# UK Data Management

## ADM Smart Metering Solution Markets

### I&C Gas Market

- ▶ Targeted at I&C market
  - ▶ An estimated total of 1.678m\* meters required to be made smart by 2019\*\* of which;
    - ▶ 920,000 are domestic sized meters\*\*\*\*
    - ▶ 380,000 are meters supplying small individual premises\*\*\*\*\*
    - ▶ Leaving a market of 378,000 meters
    - ▶ An estimated 31,000 meters are already smart enabled
    - ▶ The immediately available market is therefore approximately 347,000 meters containing large\*\*\*, monthly read and group customer sites
- ▶ Leveraging UK Meter Assets' market relationships
- ▶ Trials completed with CNG and commitment to trial with gas supplier customers representing 80% of the I&C market



*\*2007 DECC - Market Research & 2011 British Gas Home Energy Report*

*\*\*DECC - Smart Metering Implementation Programme – Response To Prospectus, 30<sup>th</sup> March 2011*

*\*\*\*license condition 12 of Gas Supplier Licence introduced 6th April 2009*

*\*\*\*\*British Gas Home Energy Report*

*\*\*\*\*\*BFRR Energy Metering Consultation on Advanced Metering July 2008*





# UK Data Management

## ADM Smart Metering Solution Markets

### Domestic Gas Market

- ▶ Potential for application in the domestic meter market (an estimated 21.28m meters\*)
- ▶ ADM would need to meet the industry specification for domestic smart metering which is yet undecided
- ▶ The smart metering roll out in the domestic market is anticipated to commence in the next few years to be complete by 2019\*\*

### Water Market

- ▶ Potential I&C market opportunity

### International Markets

- ▶ There is demand for smart metering worldwide



*\*2007 DECC - Market Research & 2011 British Gas Home Energy Report*

*\*\*DECC - Smart Metering Implementation Programme – Response To Prospectus, 30th March 2011*

# Competition

## UK Gas Connection

- ▶ No significant competition
- ▶ Alternative is gas supplier 'in-house' operation

## UK Meter Assets

### I&C market:

- ▶ Incumbent monopoly providers (National Grid and independent gas transporters)
- ▶ Energy Assets (owned by Corona Energy)

### Domestic market:

- ▶ Incumbent monopoly providers (National Grid and independent gas transporters)
- ▶ Meterfit (East, West, One and Two) – owned by Prudential
- ▶ Capital Meters – owned by MacQuarrie
- ▶ OnStream – owned by National Grid
- ▶ Meterplus – owned by nPower
- ▶ G4S – owned by Rentokil

## UK Data Management

### Product:

- ▶ Cello Unit – owned by Roper Industries
- ▶ P2G – owned by Iskraemeco

### Data collection services:

- ▶ TruRead – owned by Gazprom
- ▶ Stark Software – independently owned
- ▶ Technolog – owned by Roper Industries
- ▶ G4S – owned by Rentokil

# Management Team & Board

## Kevin Lyon, Non Executive Chairman

A qualified chartered accountant, Kevin spent two years in merchant banking before joining the UK's leading private equity business, 3i plc. In a 17 year career with 3i, Kevin built and developed several successful investment teams across the UK and led transactions in a wide range of sectors, many leading to profitable exits or successful stock exchange listings. He also held a number of leadership and management positions including latterly managing director, UK Private Equity. He left in 2004 and, in the last six years, he has served as an independent chairman or non-executive director on 14 boards. Of these, he has taken three to a public listing to raise capital or deliver an exit for shareholders, has sold eight in line with shareholder strategy and orchestrated a secondary MBO of two. Kevin is currently chairman of each of AIM-quoted Valiant Petroleum plc, and of Mono Global Group. He also currently serves as an independent director of David Lloyd Leisure Group. He was chair of the audit committee and senior independent director of Booker plc, a £3.5 billion revenue wholesale cash and carry business, when it floated on AIM in June 2007. He graduated from Edinburgh University in 1982 and has attended Management and Business Development courses at INSEAD, IESE and Ashridge.



## Steve Timoney, Deputy Chairman

Steve founded the Group in 1995. Prior to starting the business, he spent 14 years with British Gas Transco (now NGT) working within the engineering function with specific responsibility for gas pipelines and meter assets. He then moved on to work for Shell UK as Commercial Manager (Scotland) responsible for all commercial aspects of the marketing of natural gas to consumers. Steve became the recognised expert on contract development under the Network Code regime and was also responsible for setting up systems and procedures for the management of gas connection projects. Steve is a professional engineer and also has a Masters Degree in Corporate Leadership, studying both at Emory University, Atlanta and Napier University, Edinburgh, graduating with distinction in 2006.



smart metering  
systems

# Management Team (cont.)

## Alan Foy, Chief Executive

Alan has responsibility for business growth, client management and business operations. Prior to joining SMS in 2004, Alan worked for Scottish Power and in 1997, gained approval to establish its regulated gas transportation and metering business, SP Gas Ltd, which under his management grew to become a major iGT in the UK. He gained considerable experience in utility asset ownership, as well as supply and shipping activities. Working within very complex and regulated frameworks, his position required a full understanding of utility business activities such as customer recruitment, licensing, regulation, safety, commercial, IT, investment and financial policies. Prior to this Alan was a director of an international energy consultancy practice specialising in energy utilisation and design.



In addition to adding valuable experience to the overall business, during his tenure with SMS Group Alan has successfully implemented a restructuring and systemising of the Group's activities, as well as successfully gaining and retaining new customers and contracts. A professionally qualified engineer, Alan places strong emphasis on safety, operational performance and financial accountability. He also places great importance on training of staff members to ensure they are receptive and adaptable to business needs and operate to a high level of efficiency and customer satisfaction

## Glen Murray, Finance Director

Glen joined the SMS Group in 2009 as a business accountant prior to assuming his current role as Finance Director. A qualified Accountant and experienced financier, he provides the business with the structure and controls to diligently manage and report on all business activities. Glen has key responsibility for financial reporting, business plan modelling and business performance monitoring and reporting against the plan. Glen is also responsible for ensuring compliance with statute during the formation of the group structure and will manage the migration of resources throughout the Group. Glen qualified with French Duncan in 1995 and in 1997 joined Shin-Etsu Handotia Europe as an accountant, with responsibilities including treasury management, budgetary control, monthly branch accounts and management accounting. He later joined Gilchrist & Company (which merged with Baker Tilly in May 2009) as a senior manager responsible for a team of five delivering accountancy, audit, corporate finance and VAT services.



smart metering  
systems

# Management Team (cont.)

## **Nigel Christie, Non-executive Director**

Nigel has served in various management positions within corporate finance departments of investment banking firms. He began his career in 1976 at Kleinwort Benson, working in both London and New York. From 1985 to 1989, he was a managing director in the corporate finance department of S.G. Warburg, New York. Between 1989 and 1991, Nigel served as managing director of the corporate finance department of Kidder, Peabody International where he was responsible for overseeing European mergers and acquisitions. From 1991 to 1995, Nigel was a director of MacArthur & Co. Limited, following which he worked for Columbus Asset Management between 1995 and 1999 and Value Investing Partners, Inc. between 1999 and 2000. From 2000 to the present day, he has been a director of RP&C International, an investment banking firm providing specialist advisory services to public and private companies. Amongst other directorships, Nigel currently serves as chairman of AIM - quoted Maple Energy plc and is a member of Maple Energy plc's audit committee on which he acts as chairman. He graduated from the University of St. Andrews in Scotland and attended the Program for Management Development at Harvard Business School.

