



Enabling smarter solutions

Smart Metering Systems plc

FY 2019 results
Minority asset disposal
Business positioning
Enhanced dividend policy



Agenda

Overview

Alan Foy, CEO

Minority Asset Disposal and Business Positioning

Alan Foy, CEO

Operational Review

Tim Mortlock, COO

Financial Review

David Thompson, CFO

Outlook

Alan Foy, CEO

Q&A

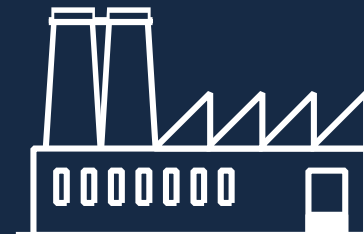
Appendix





Overview

Alan Foy, CEO



2019 year-end highlights

- **Financial performance**
 - Total ILARR increased 20% to £90.1m
 - Revenue up 16% to £114m; pre-exceptional EBITDA up 14% to £58.9m; underlying EPS down 39% to 11.3p
- **£291m gross proceeds from asset disposal⁽¹⁾, 16.4x multiple of net EBITDA⁽²⁾**
 - Disposed portfolio includes minority £18.4m ILARR from I&C meter assets (4.7⁽³⁾ years average age)
 - Post disposal, retained Group ILARR is £73.2m as at 29 February 2020

Business positioning

- **Long-term sustainable growing dividends with upside potential from existing and potential new meter asset pipeline, our continued core focus**
- **Partnership with Columbia Threadneedle Sustainable Infrastructure Fund (“ESIF”) to fund SMS’s pipeline of Carbon Reduction (CaRe⁽⁴⁾) assets**
 - CaRe assets developed within SMS’s well established energy management division
 - ESIF to provide funding whilst SMS receives incremental long-term asset management fees
- **Sustainability is at the heart of SMS’s operations**
 - Smart meters are an integral part of a flexible, decentralised and decarbonised energy system
 - Developing CaRe assets will be an ongoing focus in our energy management division



(1) Subject to completion on 22 April 2020. Sold to funds managed by Equitix. Transaction advised by Macquarie Capital.

(2) Net EBITDA = £17.7m.

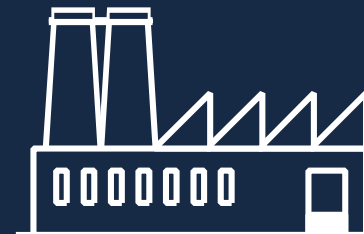
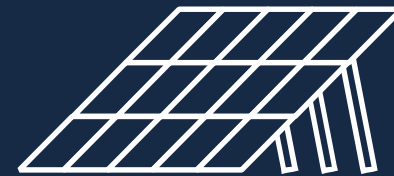
(3) Weighted by ILARR.

(4) CaRe assets - all carbon reducing assets including energy efficiency systems, metering, lighting, battery storage, distributed generation, EV charging, data and control, etc.



Minority Assets Disposal and Business Positioning

Alan Foy, CEO



Minority Asset Disposal

- **£291m gross proceeds from asset disposal⁽¹⁾, 16.4x multiple of net EBITDA⁽²⁾**

- Minority asset disposal represents £18.4m index-linked annualised recurring revenue (ILARR) from I&C meter assets (4.7⁽³⁾ years average age)
- Retained RPI-linked management fee of £0.8m p.a.
- At 29 February 2020, total Group ILARR pre-disposal is £90.9m
- Post-disposal, retained Group ILARR (including third-party asset management fees) is £73.2m



(1) Subject to completion expected on 22 April 2020.
(2) Net EBITDA = £17.7m.
(3) Weighted by ILARR.

Business Positioning (1/2): Dividends, Capital Structure and Growth

• **Dividend policy**

- Proposed dividend policy:
 - Meter revenue streams are long-term, RPI-linked and highly stable revenues providing strong visibility
 - FY2020 dividends increased to 25p, growing at least in line with RPI p.a. during the meter growth phase to 2024
 - During the meter growth phase operating cash cover to dividend ratio maintained c.2x; earnings cover to improve over time
 - Dividends payable quarterly, starting October 2020; scrip alternative up to 30%, providing options to shareholders⁽³⁾
 - Further dividend upside potential through clear headroom in operating cash cover

• **Capital structure for future growth**

- Leverage reset; net cash positive on completion⁽¹⁾ (£282m net proceeds compares to December 2019 net debt position of c.£220m)
- c.£400m capex required for c.2million smart meter order book to 2024; satisfied by amended £300m RCF⁽²⁾ and excess cash from operations
- Maintain leverage at prudent 3–4x net debt/EBITDA through the meter growth phase; options to fund further growth

• **Growth in Metering Assets**

- Existing c.2million smart meter order book expected to add c.£40m ILARR
- Potential pipeline beyond order book – overall market had c.36.5million meters to be exchanged at 31 December 2019
- Existing SMS customers have, in addition to contracted pipeline, c.4million to be exchanged, not yet committed



(1) Subject to completion expected on 22 April 2020.
(2) On attractive terms: interest costs at 1.85% over three-month LIBOR and 5.75x covenant.
(3) Subject to shareholder approval at AGM.

Business Positioning (2/2): Carbon Reduction (CaRe) Assets

- **Carbon Reduction (CaRe⁽¹⁾) assets market opportunity**

- UK is first major economy to adopt net-zero emissions target by 2050, mainly by electrification strategies
- Committee on Climate Change (CCC) and BEIS estimate more than £50bn a year⁽²⁾
- SMS is well placed to originate CaRe assets in the current and emerging electricity generation, storage, heat, lighting and transportation industry segments

- **Partnership with Columbia Threadneedle Sustainable Infrastructure Fund (“ESIF”) to fund CaRe assets**

- CaRe assets developed within SMS’s well established energy services division
- ESIF to fund and own the CaRe assets
- SMS receives asset management fees

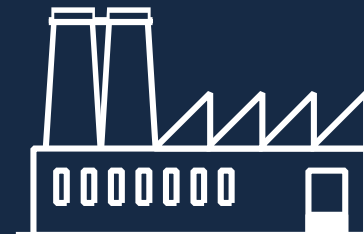
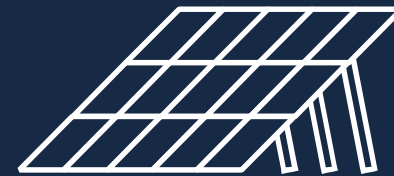


(1) The initial CaRe assets identified include energy efficiency systems, energy storage, distributed generation and EV charging.
(2) Source: Committee on Climate Change, BEIS.



Operational review

Tim Mortlock, COO



ESG and Sustainability at the heart of SMS operations

Sustainable leadership

Our vision to be at the heart of the smart energy low-carbon revolution



- Fleet efficiency – 22% reduction in energy per vehicle
- Further evolution over coming years
- Our services and assets reduce end consumers' carbon footprints and energy consumption

Net positive perspective

SMS has strong commitment to the UN Sustainable Development Goals (SDGs)



SMS's ESG recognition

Fleet of the Year Finalists



Finalist for Efficiency Project of the Year

BusinessGreen
Leaders Awards

CELEBRATING THE
GREEN ECONOMY

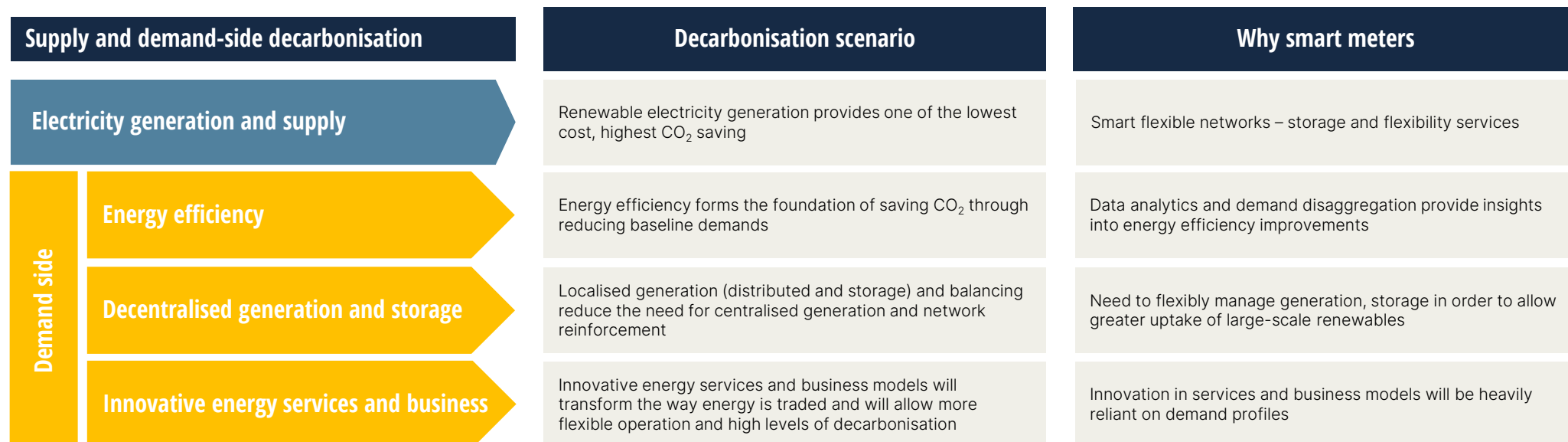


Green Economy Classification & Mark Award

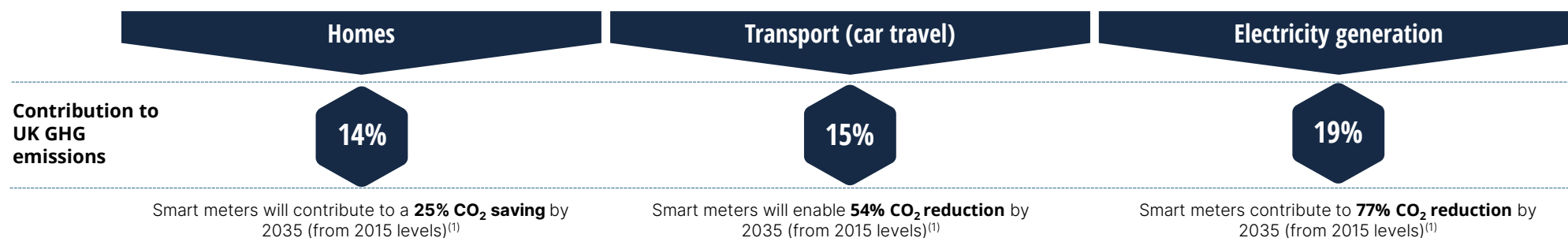


1. Our handprint is the carbon mitigated through our delivery of services, we currently use data from smart meter energy saving research and savings data from energy saving projects delivered to calculate our total handprint.
2. Our footprint is the carbon produced by our operational activities; our current scope looks at the energy consumed by our fleet vehicles and across our sites.

Smart Meters essential to achieve Net-Zero ambition



Smart meters are an integral part of a flexible, decentralised and decarbonised energy system – central to reducing CO₂ emissions and reliance on unsustainable energy sources



(1) <https://www.smartenergygb.org/en/resources/press-centre/press-releases-folder/delta-ee-carbon-savings>, Delta-EE report: [Role of smart meters in responding to climate change](#).



Meter and Data Assets Operating Review

- **ILARR current and order book**

- At 29 February 2020 (post-disposal basis): £73.2m ILARR
- Existing c.2m smart meter order book expected to add c.£40m ILARR

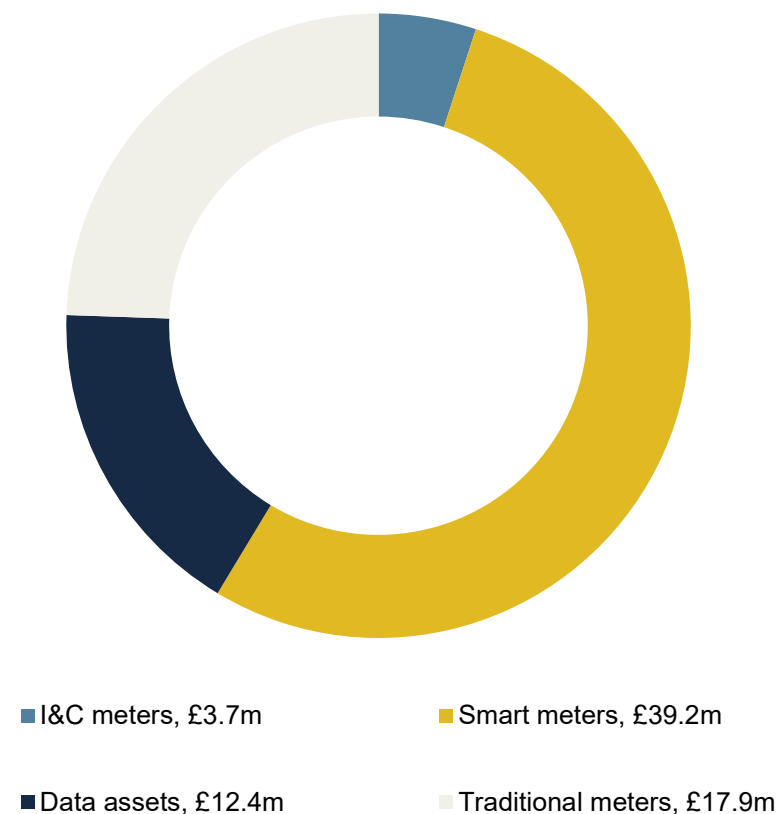
- **Meter and data assets portfolio**

- At 29 February 2020: 3.8 million; split 3.3 million meters and 0.5 million data points

- **Potential Smart meter asset pipeline beyond order book**

- Overall market had c.36.5m meters to be exchanged at 31 December 2019
- Existing SMS customers have, in addition to contracted pipeline, c.4m to be exchanged, not yet committed

ILARR at February 2020 (post-disposal basis)*



* Includes third-party managed assets.

A Well Established Energy Management platform for CaRe assets

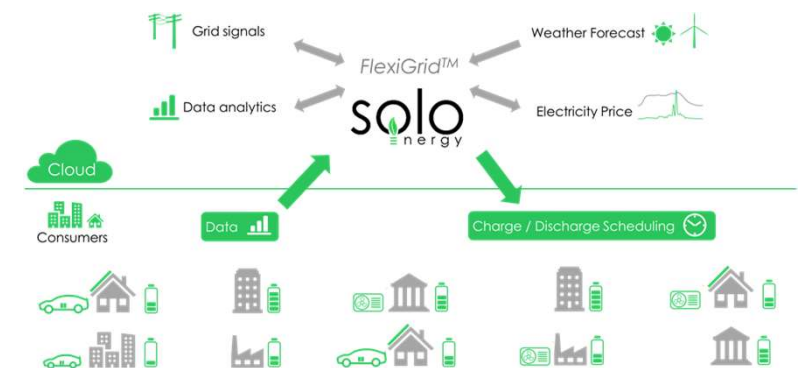
CaRe assets to be developed within SMS's well established energy management segment

Control over IT and Data platform, coupled with end-to-end turnkey solutions, provides significant competitive advantage

Data analytics platform

FlexiGrid platform provides full data analytics matching renewables to battery storage and other assets

Control of Data and Analytical platform



Platform

- 25 years of investments in developing the full end-to-end platform and industrial partnerships
- c.200 employees dedicated to Energy Reduction Assets and Data services
- No significant additional resources required to accelerate origination of CaRe assets

Profitability

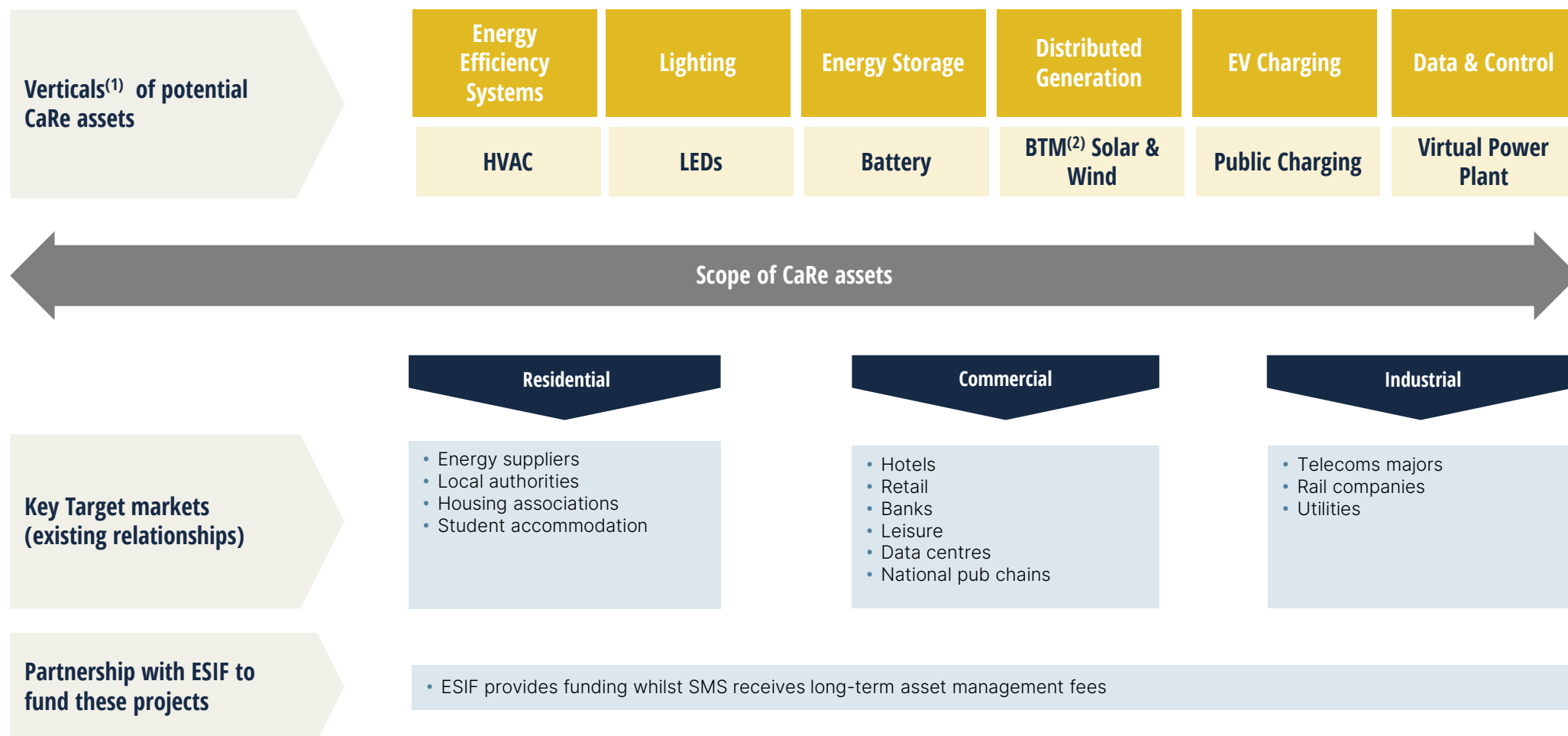
- Energy management division is profitable in its own right
- Currently generating over £2m EBITDA

Delivery credentials

- Responsible for >£100m of capital projects since 2011 for variety of customers reducing carbon, energy footprints
- >£120m treasury management based on data analytics and asset platform
- Strong pipeline of opportunities



CaRe assets: Market Segments

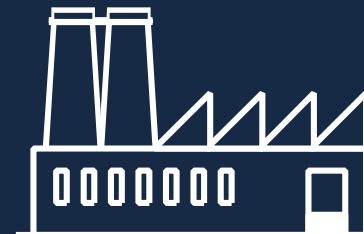


(1) List is not exclusive.
(2) Behind The Meter.



Financial Review & Capital Structure

David Thompson, CFO



2019 Income Statement

	December 2019 £m	December 2018 £m
Group revenue	114.3	98.5
Pre-exceptional EBITDA	58.9	51.6
Exceptional items	(8.5)	(16.1)
Statutory EBITDA	50.4	35.5
Depreciation and amortisation	(36.6)	(24.4)
Net finance costs	(8.3)	(5.7)
Statutory profit before taxation	5.5	5.4
Underlying profit before taxation*	15.6	25.1

* Excluding exceptional items and amortisation of intangibles.

- EBITDA improved due to flow through from increased revenues, partially offset by increased costs incurred to create capacity to support future growth
- £8.5m of exceptional costs recognised, primarily relating to losses on meter portfolio arising from temporary industry transition period and costs expensed in relation to the sale of a minority of assets
- Depreciation increased due to a revision in the depreciation accounting policy for traditional meter assets with the residual value reduced to nil



2019 Divisional Performance

Asset Management

	2019 £m	2018 £m	Reported change
Revenue	82.9	65.5	+27%
Cost of sales	(37.4)	(25.7)	+45%
Gross profit	45.5	37.7	+15%
Gross profit margin	55%	61%	

- Revenue up 27%, reflecting increase in meter and data assets. 3.35% RPI increase applied in April 2019
- The largest component of cost of sales is meter depreciation. Increase beyond meter portfolio growth driven by changes in accounting for traditional meters to write off over 4 years, resulting in an additional depreciation charge in year
- Depreciation adjusted profit margin 93% (2018: 92%)

Asset Installations

	2019 £m	2018 £m	Reported change
Revenue	22.4	26.6	-16%
Cost of sales	(28.0)	(20.5)	+36%
Gross (loss)/profit	(5.6)	6.1	-193%
Gross margin	(25%)	23%	

- External smart installation-only work ended in Q1 2019
- H1 investment to enable delivery of order book. However, proposed extension of smart meter rollout deadline to 2024 in Q3 enabled review of cost base going forward to suit revised installation forecasts

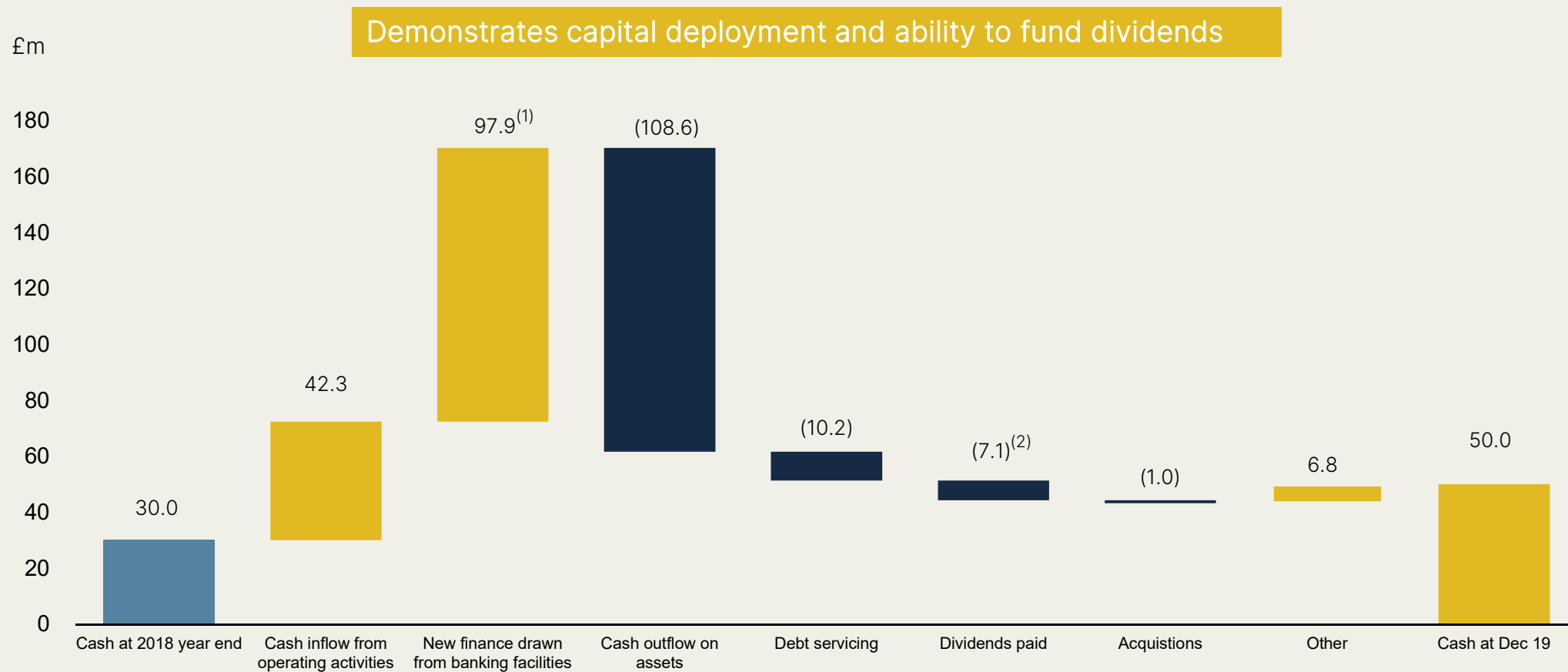
Energy Management

	2019 £m	2018 £m	Reported change
Revenue	9.0	6.5	+39%
Cost of sales	(6.8)	(5.1)	+35%
Gross profit	2.2	1.4	+58%
Gross profit margin	24%	21%	

- Progress with large-scale energy efficient lighting contract
- Improved margins due to a smart heating controls project
- Continuing focus on enlarging platform for growth and developing longer-term customer relationships



2019 Group Cash Flow



(1) RCF drawdown pattern changes under new facility to quarterly in advance, rather than monthly in arrears.
 (2) Operating cash cover of 5.9x for dividend payments.

Meter Assets

- Secured order book of c.2m meters with additional pipeline opportunities with our customers
- Funding options provide flexibility to maximise opportunities in the smart metering space
 - Long-term cash generation from mature portfolio (post-dividend payments)
 - Amended £300m RCF on same terms
 - Further capital optimisation including non-recourse project financing
 - Recent asset sale provides attractive new opportunity to introduce more cash through repeat transactions

CaRe Assets

- Strong pipeline opportunities
- Three-year partnership with ESIF to provide funding for development of the pipeline
 - CaRe assets developed within SMS's well established energy management segment
 - ESIF provides funding whilst SMS receives long-term asset management fees, increasing our return on invested capital in this area



Revised Dividend Strategy: Sustainable and Long term

- **2020 dividend**

- 25p per share, growing at least in line with RPI until 2024

- **Frequency of payments**

- Quarterly, first payment starting October 2020

- **Alternative dividends**

- Proposed scrip alternative will provide shareholders with choice over their returns profile⁽¹⁾

- **Dividend growth**

- Opportunity to increase dividend significantly due to:
 - headroom in operating cash cover (c.2x); and
 - additional ILARR and asset management fees from business growth.

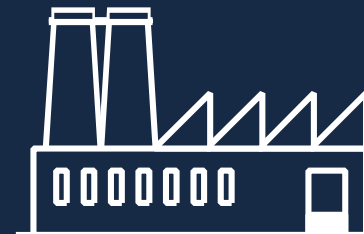
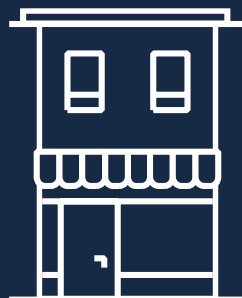
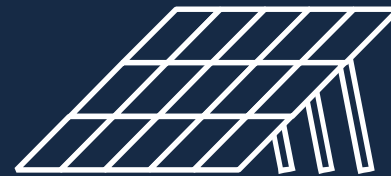


(1) Subject to shareholder approval.



Outlook

Alan Foy, CEO



Business Strategy and Outlook

- **Utility metering and data activities**

- Smart meters are an integral part of a flexible, decentralised and decarbonised energy system
- Long-term sustainable dividends provided from ownership and management of long-term utility meter asset class with RPI-linked annually recurring revenue
- Ability to reset current 25p dividend, growing at least in line with RPI to 2024 from existing excess cash from operations. Operating cash to dividend cover c.2x going forward
- Business continues to grow meter asset portfolio from existing contracted order book with further market potential

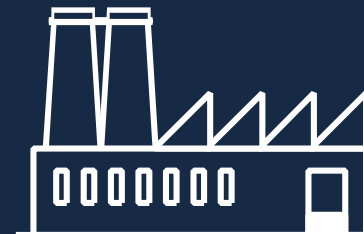
- **Carbon Reduction activities**

- Substantial capital investment is required to meet the UK's 2050 net-zero carbon legislation
- Continued growth of established energy services division complemented by acquisition of Solo Energy in 2019 providing the FlexiGrid platform for balancing renewable generation with battery storage CaRe assets. An essential component for the security of the current and future electricity grid
- This division is well positioned to establish CaRe assets in the current and emerging electricity generation, storage, lighting, heating and transportation market segments
- Partnership agreement with ESIF to provide CaRe asset funding whilst SMS receives long-term CaRe asset management fees



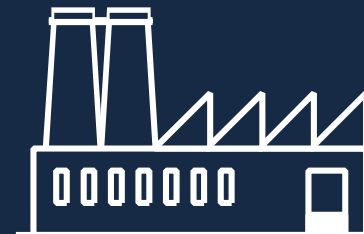


Q&A



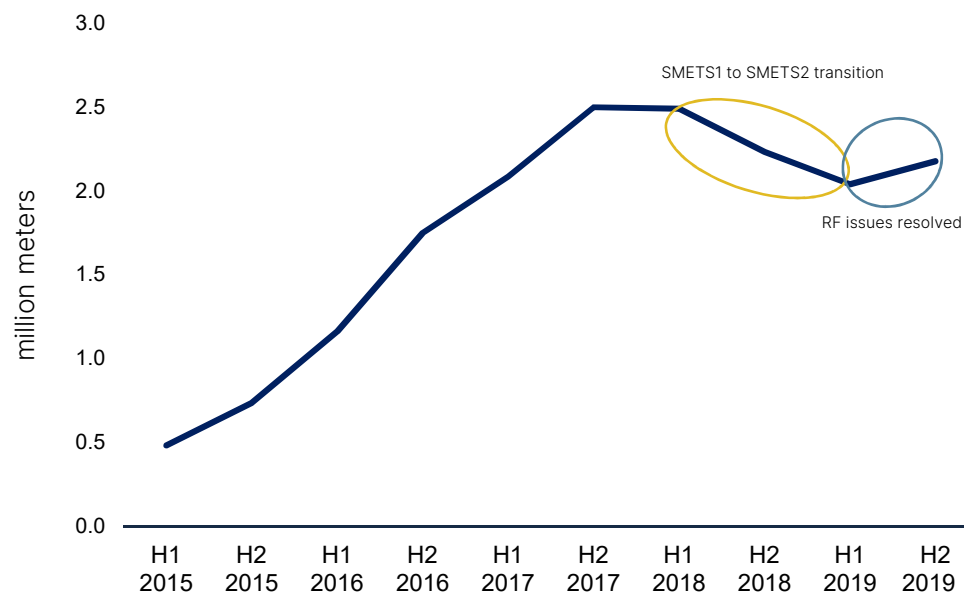


Appendices



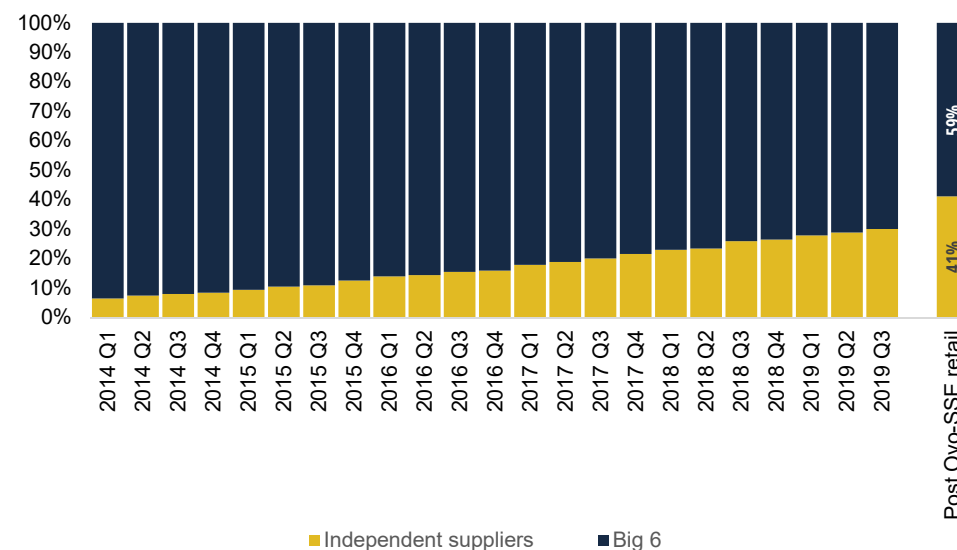
Smart Meter Industry trends

Industry installation run-rate recovered to steady state in 2019 ⁽¹⁾



- Industry run rate wide installation run-rate improved modestly in H2'19 compared to H1'19
- Radio frequency noise issue in the northern region has been largely resolved since Aug'19
- Following the deadline extension to 2024 the rollout profile is expected to be more evenly spread in the future

Independent energy suppliers continue to gain market ⁽²⁾



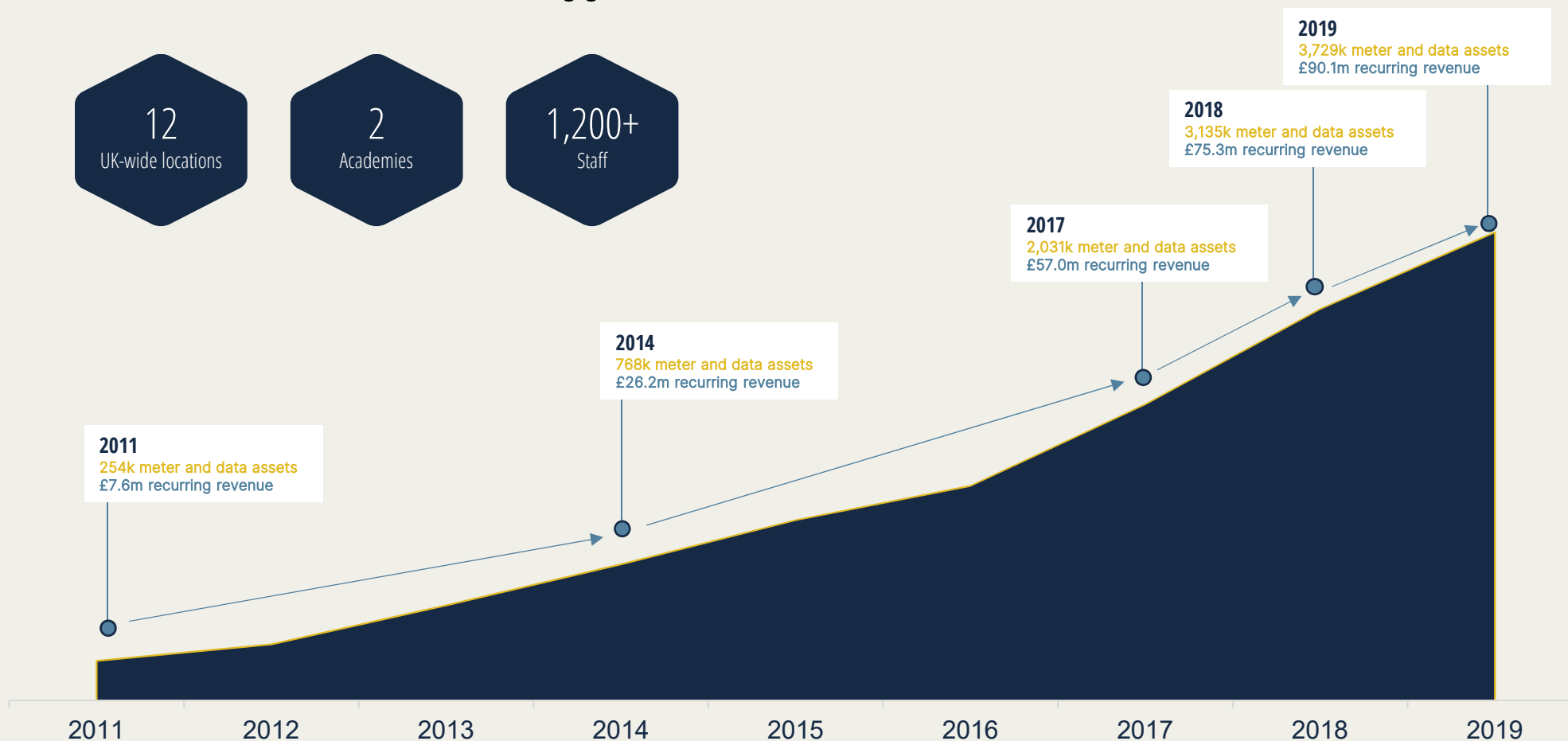
- Well established end-to-end delivery model makes SMS an attractive partner in the independent energy suppliers space
- SMS secure order book of 2m is equivalent to c£40m of incremental ILARR which is expected to be delivered evenly by 2024/25
- Small independent suppliers now own c.41% market share or c.20.8m meters, of which <40% are smart⁽³⁾, providing additional opportunities for SMS



(1) BEIS quarterly installation data.
 (2) Ofgem and SMS internal estimates.
 (3) SMS internal estimates.

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



Recurring revenue and asset portfolio growth since IPO in 2011



Full Turnkey end-to-end Delivery Model

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



- **Invested significantly to develop end-to-end service and scalable business model**
 - All aspects of installation and asset financing, for both metering and data services
 - Origination platforms enable asset ownership
 - Significant barriers to entry
- **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 policy to become carbon neutral by 2050
 - Smart meters accelerate development of new asset classes, enabling transition towards decarbonisation
 - ILARR on a post-disposal basis as at 29 February 2020 stood at c.£73.2m
 - SMS is also uniquely positioned to become a leader in the rapidly growing CaRe assets and energy services by leveraging its intellectual property, its track record, its long-standing relationships and its extensive industrial expertise
 - The partnership with ESIF will enable SMS to accelerate investment in CaRe assets, originating new long-term revenues streams



Balance Sheet

	December 2019 £m	December 2018 £m
Assets		
Non-current	436.7	374.4
Current	70.6	45.3
Cash at bank	50.1	30.0
Total assets	557.4	449.7
Liabilities		
Bank loan <1 year	1.7	172.0
Current liabilities	47.8	39.4
Bank loan >1 year	267.6	–
Non-current liabilities	16.7	12.2
Total liabilities	333.8	223.6
Net assets	223.6	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 £219.2m at Dec 2019 as a result of increased funding
- £200.8m of available cash (£50.1m) and unutilised facility (£150.7m) at Dec 2019
- On completion of the minority assets sale, the business will have a net positive cash position, further strengthening the balance sheet



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