

# Delivering smart energy solutions

Strong 2021 performance, well positioned for growth

FY 2021 results

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# Agenda

## 1. Overview

Tim Mortlock, CEO

## 2. Operational review

Tim Mortlock, CEO

## 3. Financial review

Gavin Urwin, CFO

## 4. Summary

Tim Mortlock, CEO

## 5. Q&A

## 6. Appendix

# 1. Overview

Tim Mortlock, CEO

# Overview

- **FY 2021 delivered another strong, resilient financial performance ahead of expectations**
  - ILARR<sup>(1)</sup> grew 12% to £85.9m (31 December 2020: £77.0m)
  - Pre-exceptional EBITDA +6% to £52.8m, +17% like-for-like<sup>(2)</sup>
  - Underlying PBT +20% to £18.3m, +58% like-for-like<sup>(2)</sup>
  - Acquired I&C<sup>(3)</sup> Half Hourly (HH) electricity meter portfolio & data service contracts adds c.£3.1m of ILARR
- **Growth in contracted smart meter order pipeline**
  - Contract wins totalling 900,000 meters in 2021; Shell's exclusivity contract extended to 2025
  - Net pipeline improved to c.2.55m<sup>(4)</sup> (31 December 2020: c.2.0m); strengthening of customer base
- **Strong development in grid-scale battery storage projects to 620MW**
  - 50MW operational; ahead of programme and on budget
  - 270MW fully secured
  - 300MW under exclusivity
- **Continued progress in further expanding other CaRe<sup>(5)</sup> products and services**
- **Strong capital structure to support delivery of existing pipelines**
  - £175m equity raised; refinanced debt facility of £420m; net cash position of £118m at 31 December 2021
- **Sustainable dividend policy with 30.25p/share proposed in FY 2022 rising 10% p.a. until FY 2024**
- **Further progress on environmental, social and governance (ESG) initiatives**

(1) Index-linked annualised recurring revenue

(2) Like-for-like percentage is adjusted for the I&C meter portfolio disposal in 2020 and acquisition of large-power metering and data portfolio in 2021

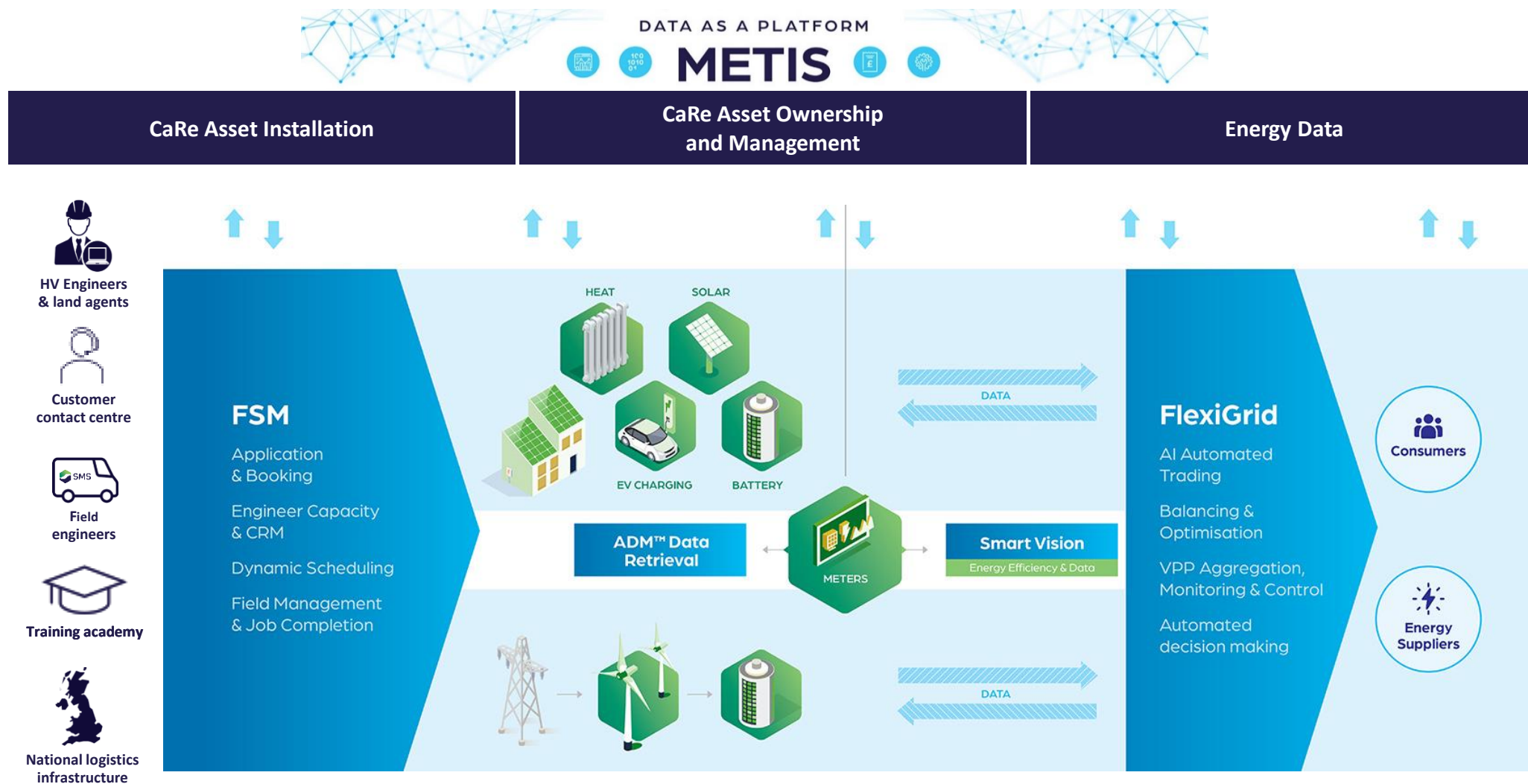
(3) Industrial & Commercial

(4) The total increase from new contact wins is offset by installs over the same period

(5) Carbon reduction ('CaRe') assets include meters, grid-scale batteries, energy data, behind-the-meter solar and storage, electric vehicle (EV) charging infrastructure, heat meters and networks, and energy efficiency assets

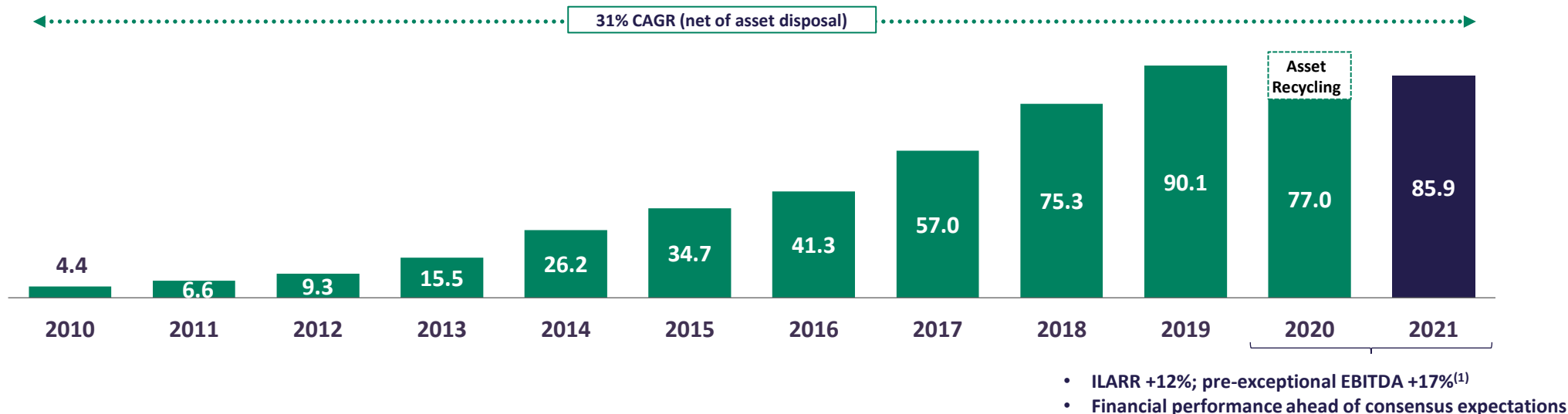
# Originating long-term, sustainable cashflows

SMS is a fully integrated energy infrastructure company owning and managing meter assets, energy data, grid-scale batteries and other CaRe assets



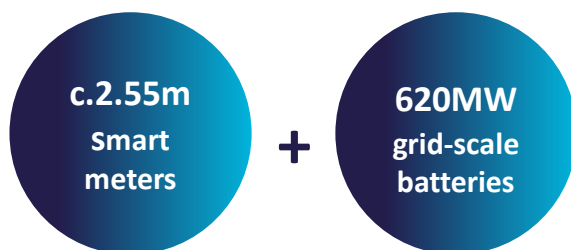
# Growth from existing pipelines

More than a decade of strong growth in long-term index-linked annualised recurring revenue ("ILARR")



Existing pipeline to more than double EBITDA; additional opportunities in other CaRe assets

Existing pipeline



Incremental EBITDA



FY 2021 EBITDA: £52.8m

Additional CaRe products

Significant potential from established and developing CaRe products

1. Pre-exceptional EBITDA up 6% to £52.8m (FY 2020: £49.9m); up 17% once adjusted for the I&C meter portfolio disposal in 2020 and acquisition of large-power metering and data portfolio in 2021

# ESG is integrated across our business: further progress in 2021

## Health & Safety

### 'Vision Zero' – zero accidents and employee wellbeing

- ✓ Maintained all ISO certifications with no major non-conformances recorded
- ✓ No injury RIDDORs<sup>(1)</sup>
- ✓ LTIFR<sup>(1)</sup> improved by 15% from 2020 to 2021 (0.20 to 0.17)
- ✓ TRIFR<sup>(1)</sup> improved by 30% from 2020 to 2021 (0.98 to 0.69)

## Environment

### Sustainability integration across the entire organisation

- ✓ Continued progress towards 2030 net-zero target
- ✓ Maintained Green Economy Mark
- ✓ Commenced assessment of service and revenue alignment with the EU Taxonomy
- ✓ Continued improvement in external ESG scores

## Social

### Delivering for our people and the communities we serve

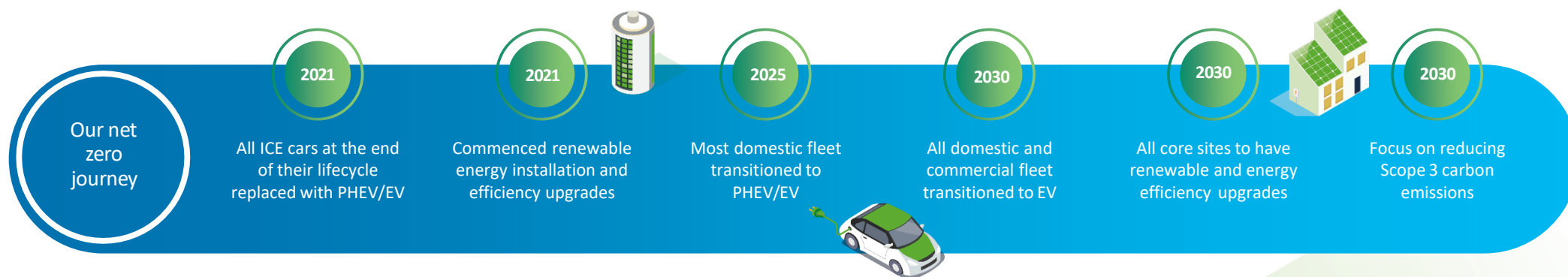
- ✓ Several external awards and accreditations across social areas
- ✓ Significant strides towards supporting local communities
- ✓ Launch of the DriveGreen – EV salary sacrifice car leasing scheme
- ✓ Partners with Purpose Coalition on UK Levelling Up Impact Report

## Governance

### Corporate governance policies supported by independent board

- ✓ Chairman acts as Chair of the Health, Safety and Sustainability Committee
- ✓ Continue to expand the SHEQ Digital Management platform to continually improve governance practices
- ✓ Highest relative score for corporate governance from MSCI

## SMS 'Net Zero' roadmap



# 2. Operational review

Tim Mortlock, CEO

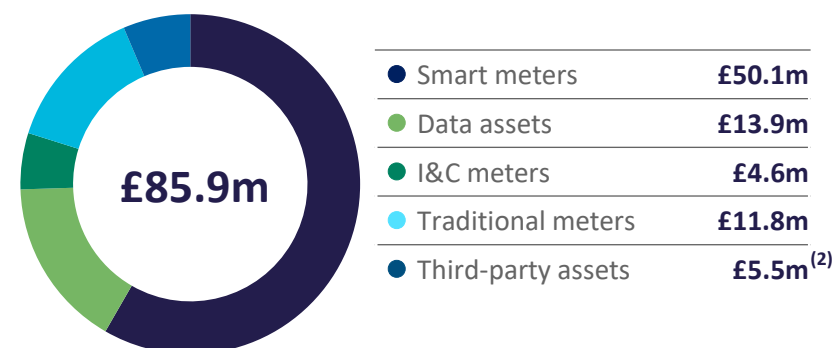
# ILARR and assets under management

- Total ILARR at 31 December 2021: £85.9m (31 December 2020: £77.0m)
  - Owned smart meter ILARR now over £50m
  - Acquired I&C Half Hourly (HH) electricity meter and data portfolio adds initial c.£3.1m of ILARR
  - ILARR increased to £86.8m at 28 February 2022
- Total meter and data assets under management<sup>(1)</sup> at 31 December 2021: 4.2 million (31 December 2020: 3.8 million)
- Total smart meter portfolio at 31 December 2021: 1.67 million (31 December 2020: 1.35 million)

## Meter and data assets under management ('000)<sup>(3)</sup>

	31 December 2021	31 December 2020
Smart meters	1,668	1,347
Data assets	449	481
I&C meters	105	87
Traditional meters	277	311
Third-party assets	1,746	1,587
<b>Total meter and data assets under management</b>	<b>4,245</b>	<b>3,813</b>

## ILARR as at 31 December 2021



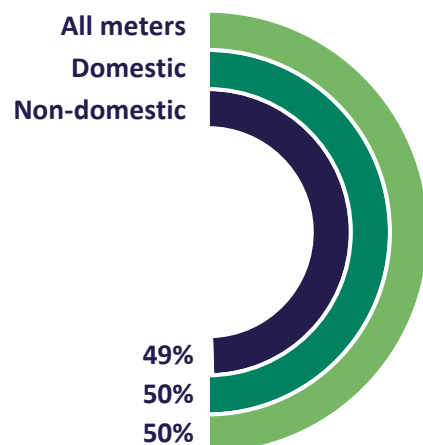
## Quality of cash flows<sup>(4)</sup>

- ✓ Strong inflation linkage
- ✓ Highly visible and predictable cash flows
- ✓ No volume or price risks
- ✓ Minimal counterparty risk
- ✓ Strong warranty provisions

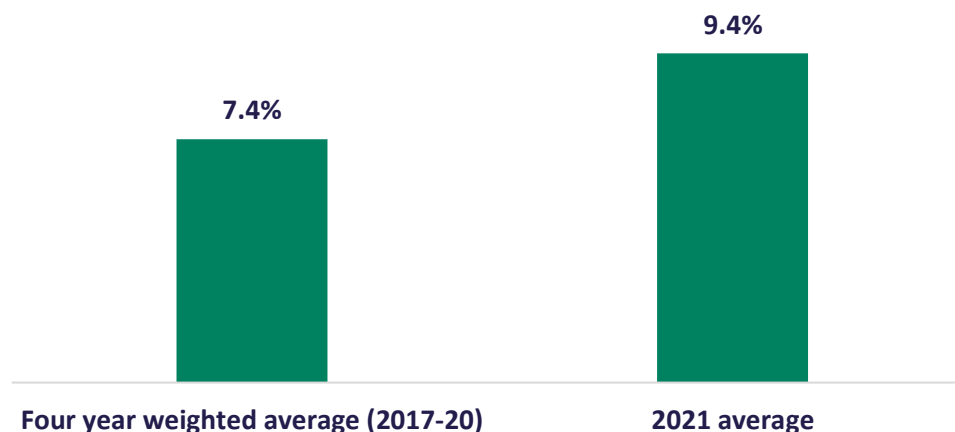
(1) The disposed I&C meter assets in 2020 are managed by SMS and classified under third-party assets  
 (2) Includes £3m related to third-party traditional meters at low margin where rental passes through to asset owner  
 (3) Includes the acquired I&C HH electricity meter and data portfolio in April 2021  
 (4) Owned meter and data assets

# UK smart meter rollout update

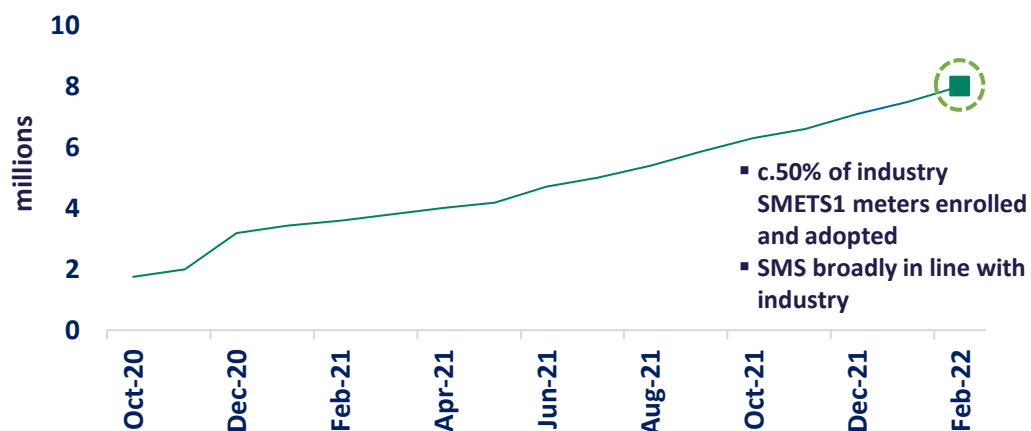
## Smart meter progression<sup>(1)</sup>



## SMS market share in domestic & non-domestic smart meter installation<sup>(1)</sup>



## SMETS1 meters enrolled and adopted into DCC<sup>(2)</sup>



## Proposed switching of 2G and 3G to 5G by mid next decade

### Northern (Arqiva)

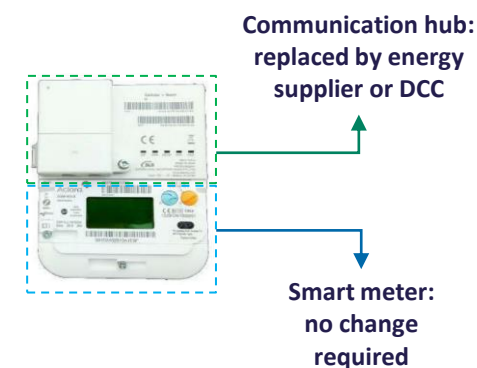
Communication method: radio signal

### Central & Southern (Telefonica)

Communication method: 2G, 3G

Not dependent on mobile network

No impact on meters

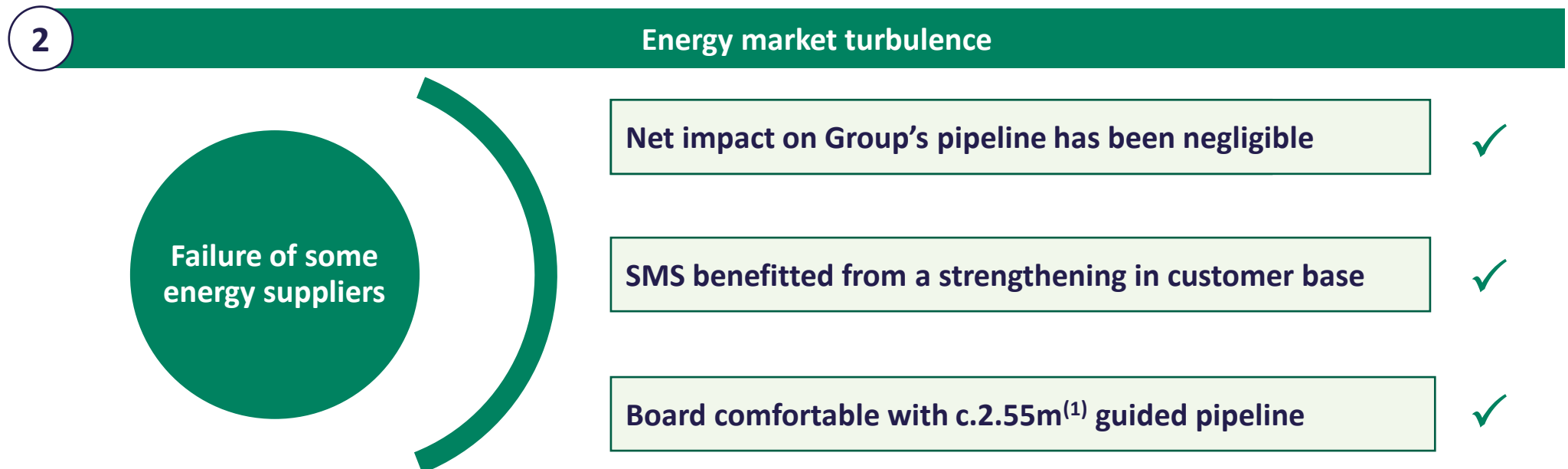
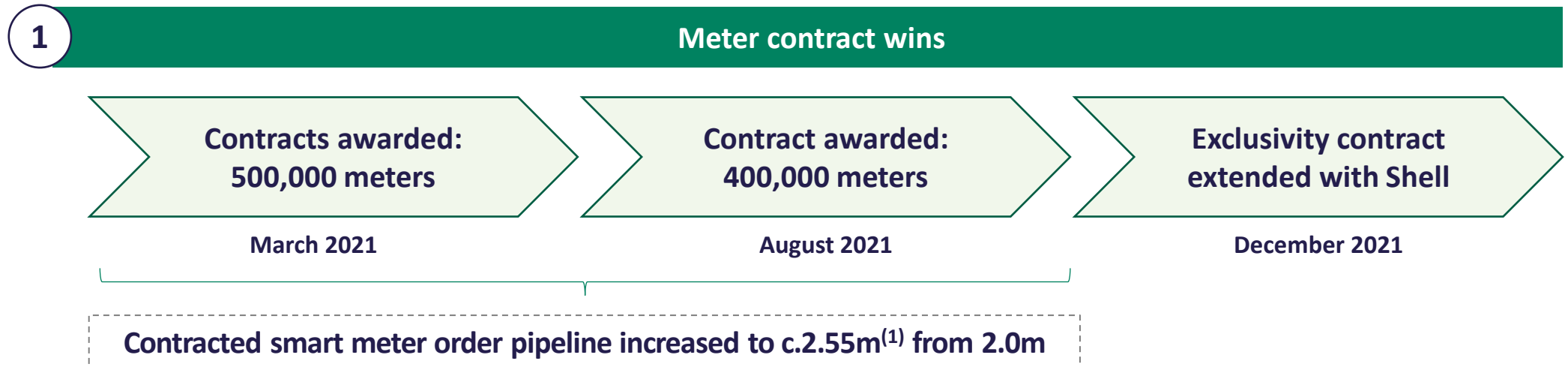


No impact on meters

(1) Source: BEIS, SMS internal estimates. Data as at 31 December 2021

(2) Source: Smart DCC. Data as at 28 February 2022

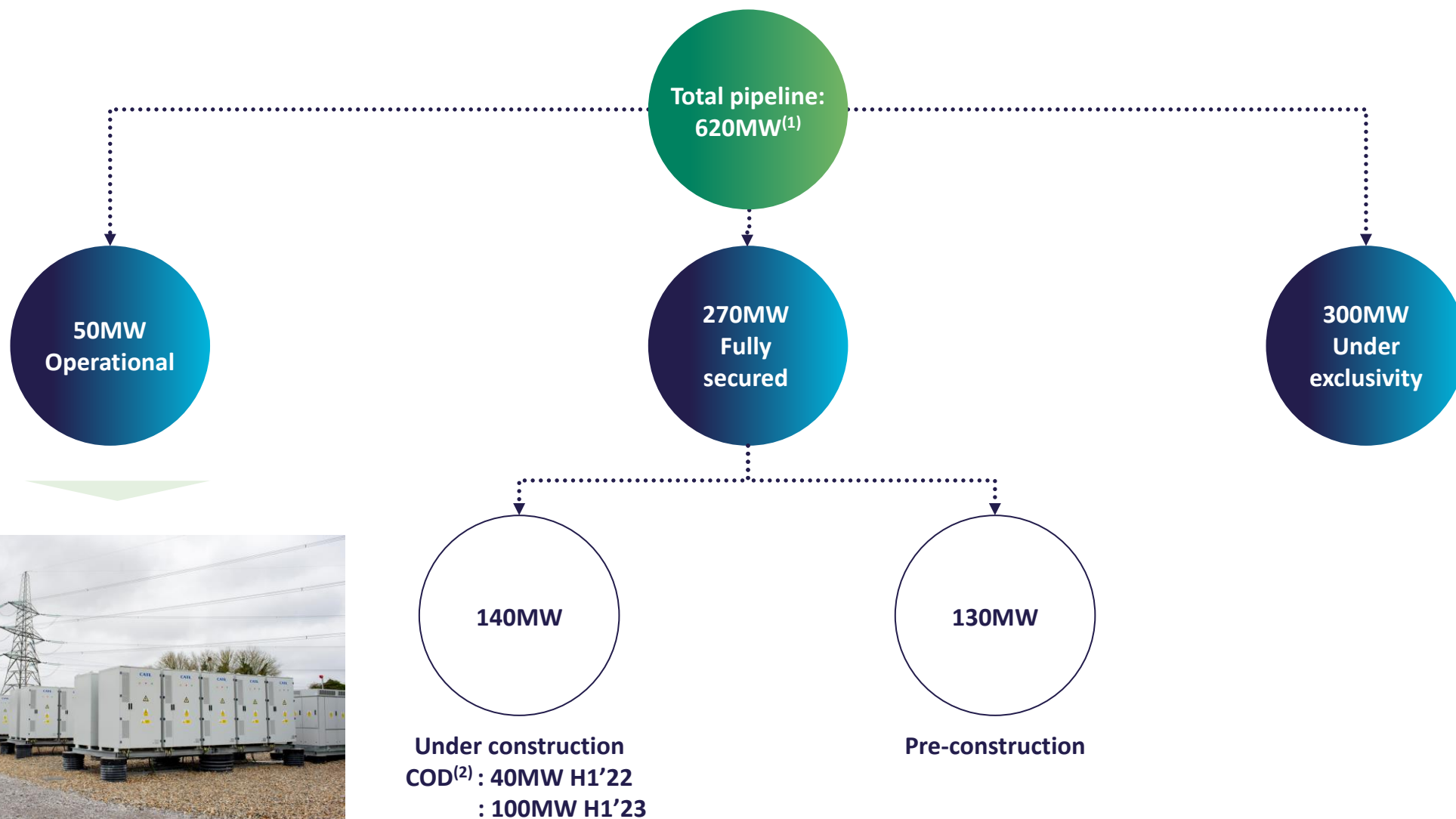
# Contracted smart meter order pipeline



(1) Net of installations in 2021

# Grid-scale battery storage pipeline

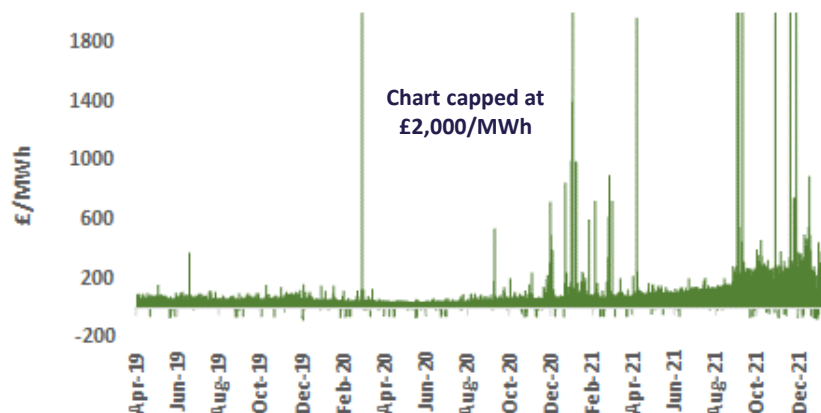
Considerable progress in further developing the pipeline of grid-scale battery storage assets



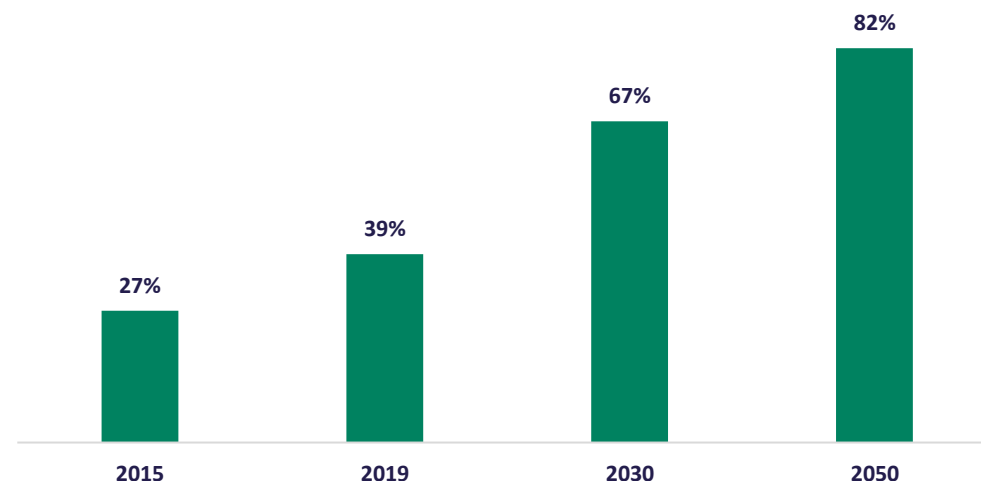
# Intermittent renewables driving demand and economics

## Rising volatility: UK half-hourly power prices<sup>(1)</sup>

Period	H1'19	H2'19	H1'20	H2'20	H1'21	H2'21
Max (£/MWh)	375	160	2,242	850	4,000	4,038
Min (£/MWh)	-71	-88	-70	-64	-61	-71



## Renewables as % of total generation capacity<sup>(2)</sup>



## Primary revenue streams

### 1 Balancing services

Real-time balancing of electricity supply and demand by National Grid

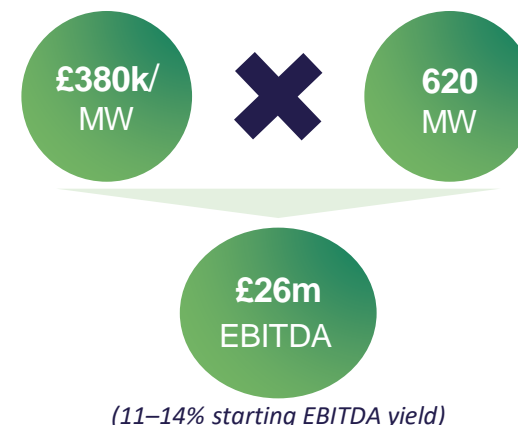
- Balancing mechanism
- Capacity market (Strong T-1 & T-4 contracted revenues through recent auction)
- Wholesale
- Embedded benefits

### 2 Frequency services

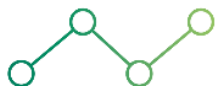
Balance supply and demand of electricity to maintain frequency at 50 Hz (+/- 1%)

- Dynamic containment
- Dynamic modulation and regulation
- Fast frequency response

## Attractive economics<sup>(3)</sup>



# Continued momentum in developing other CaRe products



Energy data

- Acquired an I&C large-power HH electricity metering and data portfolio (added c.£3.1m ILARR)
- SMS well positioned for HH opportunity by leveraging on its existing technology and nationwide infrastructure



Behind-the-meter

- Solopower solution launched in 2021
- Pilot projects progressed in over 1,000 homes across the UK, as well as early-stage projects in the Republic of Ireland
- Assets to be funded by third party with SMS generating one-off construction fee and an asset-linked management fee



EV charge

- Developing solutions in the domestic and destination market
- Installations of EV chargers as part of VPACH project commenced; c.600 sockets to be installed as part of this project
- SMS training academy now able to train engineers to install domestic EV chargers



Energy efficiency

- More than 20 years of energy efficiency consulting and project delivery experience
- Smart energy control solutions for energy management; LED lighting project recommencing post COVID-19 restrictions



Heat

- Piloting a solution for a nationwide hotel chain for smart heating controls
- Piloting with other existing and potential customers to explore alternative heat solutions
- Signed partnership with Aberdeen City Council to roll out fabric retrofits and air sourced heat pumps

# 3. Financial review

Gavin Urwin, CFO

# FY 2021 delivers another strong, resilient financial performance

- **Resilience of the SMS business model demonstrated against challenging macro environment**
  - Business navigated through COVID-19 and turbulence in the UK energy market
- **Enhanced liquidity position**
  - £175m equity raise and new £420m debt package at attractive terms
  - Internal cash generation of £62m
  - Strong net cash position of £118m at year end
- **Growth across all key metrics:**
  - ILARR: +12%
  - Revenue: +5%
  - Pre-exceptional EBITDA: +6%; +17% like-for-like<sup>(1)</sup>
  - Underlying PBT: +20%; +58% like-for-like<sup>(1)</sup>
- **Operational efficiency and cost control within our installation resource as run rates increased during FY 2021**
- **FY 2021 underlying PBT marginally ahead of previously upgraded expectations**
- **Board remains confident of the consensus expectations for FY 2022**

(1) Like-for-like percentage is adjusted for the I&C meter portfolio disposal in 2020 and acquisition of large-power I&C metering and data portfolio in 2021

# 2021 income statement

	Dec 2021 £m	Dec 2020 £m
<b>Group revenue</b>	<b>108.5</b>	<b>103.0</b>
<b>Pre-exceptional EBITDA</b>	<b>52.8</b>	<b>49.9</b>
Exceptional operating items	(6.5)	181.7
<b>Statutory EBITDA</b>	<b>46.3</b>	<b>231.6</b>
Depreciation and amortisation	(32.8)	(32.0)
Interest	(3.5)	(4.5)
Exceptional finance costs	(1.7)	(0.1)
<b>Statutory profit before taxation</b>	<b>8.3</b>	<b>195.0</b>
<b>Underlying profit before taxation*</b>	<b>18.3</b>	<b>15.2</b>

\* Excluding exceptional items and amortisation of certain intangibles

## Divisional revenues:

	Dec 2021 £m	Dec 2020 £m
Asset management	<b>82.9</b>	<b>78.7</b>
Asset installation	<b>22.0</b>	<b>19.7</b>
Energy management	<b>3.6</b>	<b>4.6</b>
<b>Group revenue</b>	<b>108.5</b>	<b>103.0</b>

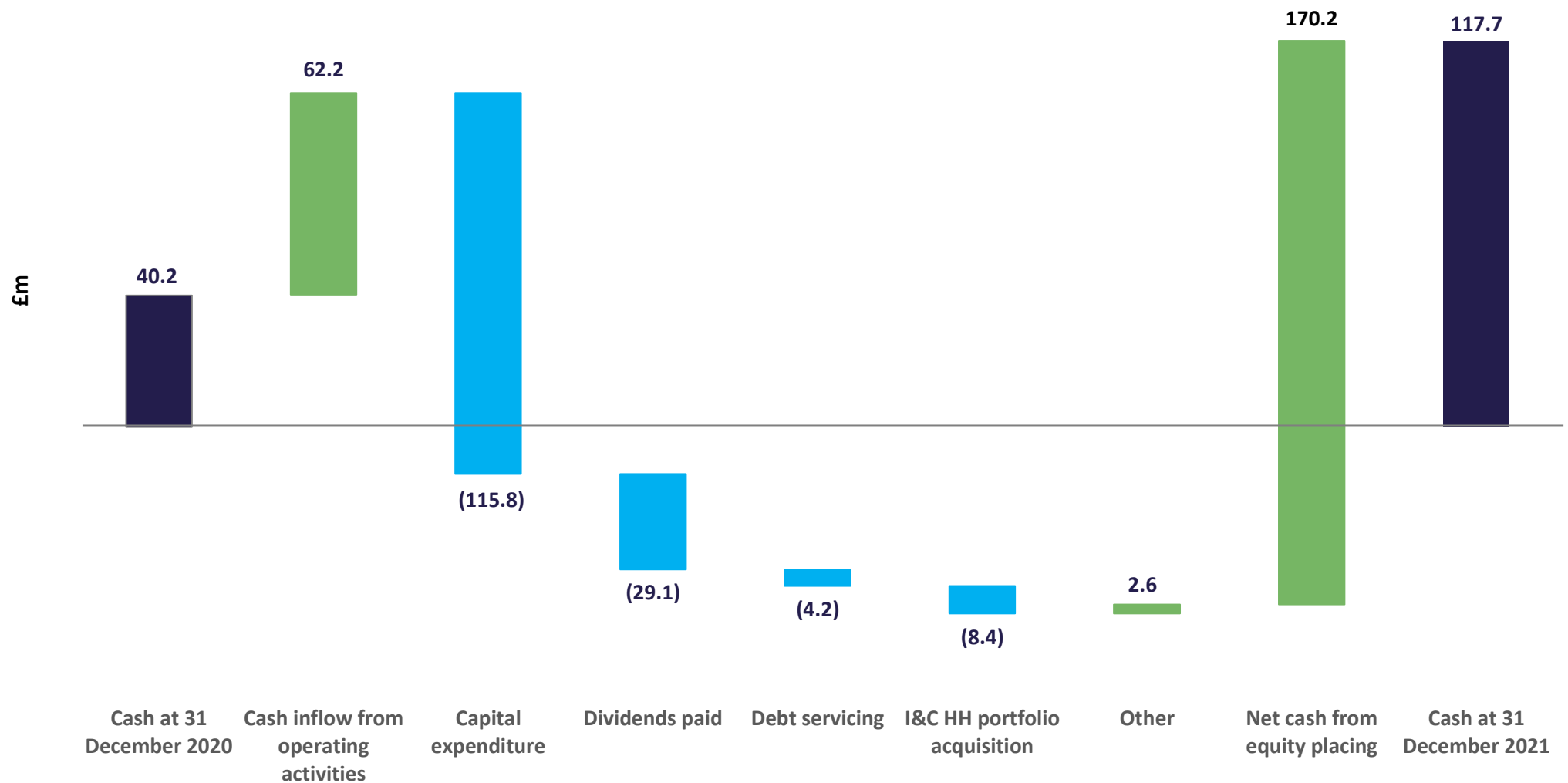
- Revenue and pre-exceptional EBITDA grew year-on-year driven by increased meter installations
- £8.2m of exceptional items, details on next slide
- Depreciation increased only marginally, primarily due to the disposed I&C meter portfolio in H1 2020
- Lower interest charge reflects the Group's reduced borrowing levels during 2021
- Asset management revenues improved despite the 2020 I&C asset disposal, reflecting increased meter installations in 2021
- Asset installation revenues increased as non-essential field activities improved, especially transactional meter works, after the lifting of COVID-19 restrictions
- Energy management revenues decreased with key energy management projects running at a lower capacity due to the slow recovery of the hospitality industry post COVID-19

# 2021 exceptional items

	Dec 2021 £m	Dec 2020 £m
Gain on disposal of subsidiary	—	194.7
Costs attributable to COVID-19	(0.3)	(6.9)
Losses on the traditional and SMETS1 meter portfolio	(5.9)	(6.0)
Other	(0.3)	(0.1)
<b>Exceptional operating items</b>	<b>(6.5)</b>	<b>181.7</b>
Facility fees	(1.7)	(0.1)
<b>Exceptional finance items</b>	<b>—</b>	<b>(0.1)</b>
<b>Total exceptional items</b>	<b>(8.2)</b>	<b>181.6</b>

- £0.3m costs attributable to COVID-19, predominantly representing costs that would ordinarily have been capitalised as directly attributable to the installation of meter assets
- Losses on the traditional and SMETS1 meter portfolio continue to be classified as exceptional as these removals are attributable to the temporary industry transition
- £1.7m of accelerated amortisation of loan arrangement fees due to refinancing of facility
- In 2020 disposal of I&C meter assets resulted in a net gain of £194.7m

# 2021 cash flow



# 4. Summary

Tim Mortlock, CEO

# Summary

- **FY 2021 delivered another strong, resilient financial performance**
  - Inflation-linked contracts provide strong protection against inflationary environment
  - c.4.3% RPI adjustment on 1 April 2022
- **Growth pipeline enhanced significantly**
  - Meter contract wins and the Shell exclusivity contract increased net pipeline to c.2.55m
  - Grid-scale battery storage assets pipeline increased to 620MW: 50MW operational, 270MW fully secured, 300MW under exclusivity
  - Continued progress in further expanding other CaRe products and services
- **Equity raise, coupled with new debt and internal cash, provides liquidity to deliver existing pipelines**
  - £175m equity raised and £420m debt facility put in place
  - Strong net cash position of £118m at December 2021
- **Sustainable long-term dividend policy**
  - 30.25p/share proposed in FY 2022 rising to 36.6p/share in FY 2024, inline with 10% dividend CAGR policy
- **Continued progress on ESG initiatives**

# 5. Q&A

# 6. Appendix

# 2021 balance sheet

	December 2021 £m	December 2020 £m
<b>Assets</b>		
Non-current	<b>443.1</b>	354.7
Current	<b>71.1</b>	66.0
Cash at bank	<b>117.7</b>	40.2
Restricted cash	<b>1.3</b>	1.6
<b>Total assets</b>	<b>633.2</b>	462.5
<b>Liabilities</b>		
Bank loan <1 year	-	-
Current liabilities	<b>58.1</b>	43.3
Bank loan >1 year	-	-
Non-current liabilities	<b>21.3</b>	12.8
<b>Total liabilities</b>	<b>79.4</b>	56.1
<b>Net assets</b>	<b>553.8</b>	406.4

- Increase in non-current assets primarily due to strong installations recovery post COVID-19
- Net cash position of £117.7m (31 December 2020: £40.2m)
- No drawn debt at December 2021 as settled all outstanding amounts under our revolving credit facility following the equity raise
- £537.7m (2020: £340.2m) of available cash and unutilised facility at December 2021

# SMS leadership and investor relations

## Executive team



**Tim Mortlock**  
Chief Executive Officer



**Gavin Urwin**  
Chief Financial Officer



**Dilip Kejriwal**  
Head of Investor Relations

## Non Executive Directors

**Miriam Greenwood**  
Chair of the Board

**Graeme Bissett**  
Senior Independent NED

**Ruth Leak**  
Independent NED

**Jamie Richards**  
Independent NED

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Joe Brent

**N+1 Singer**  
Greg Poulton

**Peel Hunt**  
Christopher Bamberry

**RBC**  
John Musk

# Financial calendar

<b>Dividend (3<sup>rd</sup> instalment):</b>	
Ex-dividend date:	31 March 2022
Record date:	1 April 2022
Payment date:	28 April 2022
<b>Dividend (4<sup>th</sup> instalment):</b>	
Ex-dividend date:	30 June 2022
Record date:	1 July 2022
Payment date:	28 July 2022
<b>Post-close H1 2022 trading update:</b>	<b>End-July 2022</b>
<b>H1 2022 results announcement:</b>	<b>Mid-September 2022</b>



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