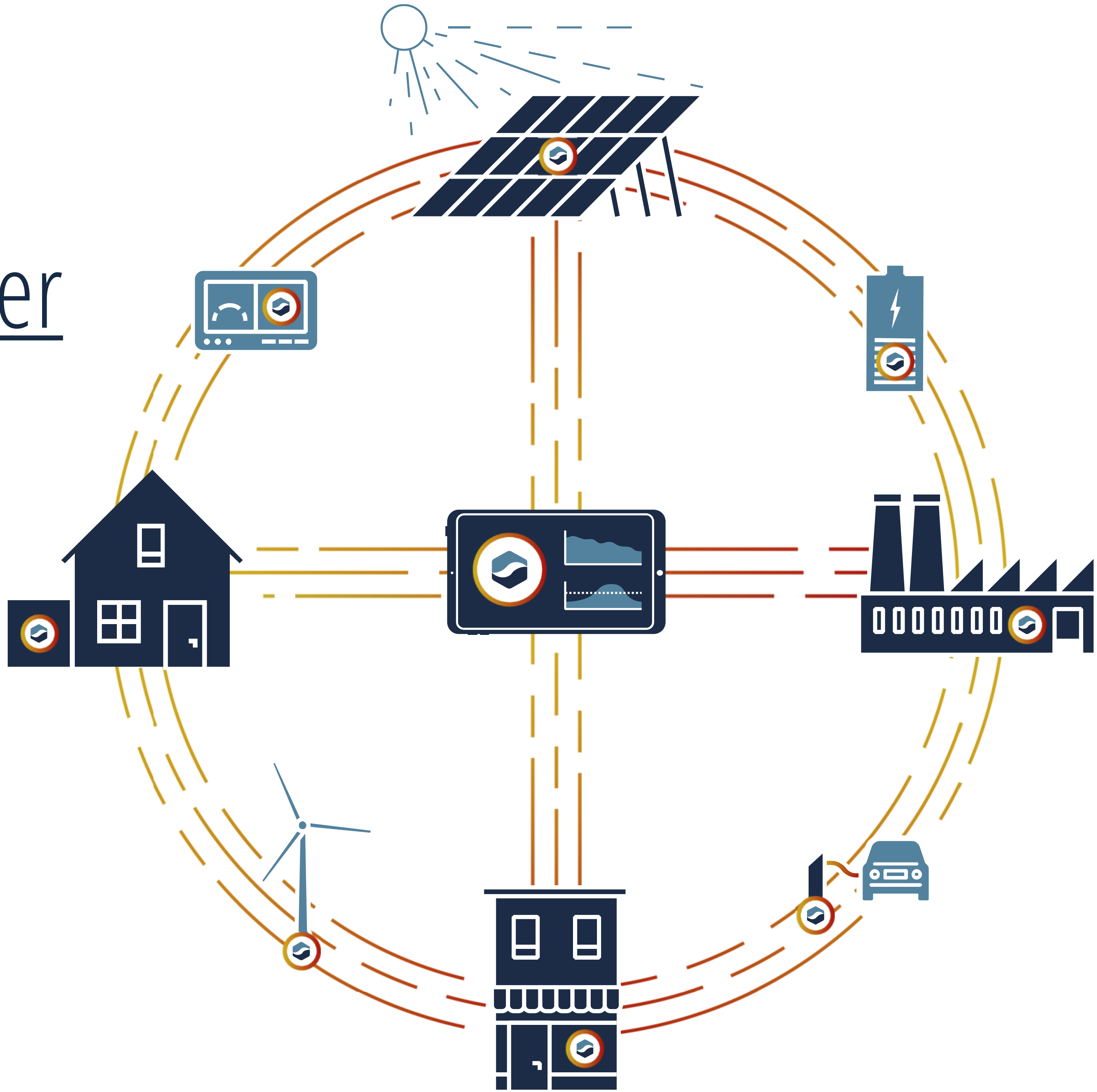
Enabling smarter solutions

Smart Metering Systems plc



Presentation by:

Alan Foy, CEO

Agenda

Overview

Overview

2019 year-end highlights

- Financial performance
  - Total ILARR increased 20% to £90.1m; Retained ILARR, post disposal, is £75.9m as at 31 May 2020
  - Revenue up 16% to £114m; pre-exceptional EBITDA up 14% to £58.9m

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[(1)]) 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 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) CaRe assets - all carbon reducing assets including energy efficiency systems, metering, lighting, battery storage, distributed geneation, EV charging, data & control etc

Long-term Infrastructure model developing Carbon Reduction assets

1995

- SMS established as a gas connection services to utility companies

2004

- Started UK-wide contracting services using subcontractors
- Became Ofgem approved MAM turning SMS into an asset-owner

2011

- Commenced meter and data offerings for I&C, smart meter
- Dec'11 ILARR stood at £6.6m
- Listed SMS on AIM, raising £27m

2014

- Acquired UPL and positioning for domestic smart meter
- Dec'14 ILARR stood at £26.2m

2016

- Acquired CH4, Trojan and data security firm, Qton in order to provide full service end-to-end solutions
- Growth funded through debt. RCF increased to £280m in March 2017
- Dec'16 ILARR stood at £41.3m

2017

- Continued winning new smart metering contracts
- Raised £150m equity to fund growth. Refinanced £280m RCF
- Dec'17 ILARR stood at £40.3m

2018

- Significant growth of revenue and order book
- First exclusive agreement with Shell Energy
- RCF signed providing access to £420m over five years
- Dec'18 ILARR stood at £75.3m

2019

- Acquisition of FlexiGrid platform positioning for CaRe assets
- Dec'19 ILARR stood at £90.1m

2020

- Positioned to maximise growth in meter and CaRe assets
- Sold a minority of meter portfolio to fund future growth; retained £75.9m ILARR at 31 May 2020
- Leverage fully reset
- Strong dividend policy announced

Business Positioning

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 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
    - Further dividend upside potential through clear headroom in operating cash cover

- **Capital structure for future growth**
  - Leverage reset post disposal; net cash positive with £48m cash at bank at 31 May 2020
  - c.£400m capex required for c.2million smart meter order book; satisfied by amended £300m RCF[1] 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) On attractive terms: interest costs at 1.85% over three-month LIBOR and 5.75x covenant

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 estimates £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's receives asset management fees

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

Operational review

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)

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

SMS's ESG recognition

Fleet of the Year Finalists

Fleet Heroes 2019

Finalist for Efficiency Project of the Year

BusinessGreen Leaders Awards

CELEBRATING THE GREEN ECONOMY

Green Economy Classification & Mark Award

GREEN ECONOMY LONDON STOCK EXCHANGE

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 vehicle and across our sites

Smart meters essential to achieve Net-Zero ambition

Supply and demand side decarbonisation	Decarbonisation scenario	Why smart meters
Electricity generation and supply	Renewable electricity generation provides one of the lowest cost, highest CO2 saving	Smart flexible networks - storage and flexibility services
Demand side: Energy efficiency	Energy efficiency forms the foundation of saving CO2 through reducing baseline demands	Data analytics and demand disaggregation provides insights into energy efficiency improvements
Demand side: Decentralised generation and storage	Localised generation (distributed and storage) and balancing reduce the need for centralised generation and network reinforcement	Need to flexibly manage generation, storage in order to allow greater uptake of large-scale renewables
Demand side: Innovative energy services & business	Innovative energy services and business models will transform the way energy is traded and will allow more flexible operation and high levels of decarbonisation	Innovation in services and business models will be heavily reliant on demand profiles

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

	Homes	Transport (car travel)	Electricity generation
Contribution to UK GHG emissions	14%	15%	19%
	Smart meters will contribute to a **25% CO2 saving** by 2035 (from 2015 levels)[(1)]	Smart meters will enable **54% CO2 reduction** by 2035 (from 2015 levels)[(1)]	Smart meters contribute to **77% CO2 reduction** by 2035 (from 2015 levels)[(1)]

(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 Smart Operating Review

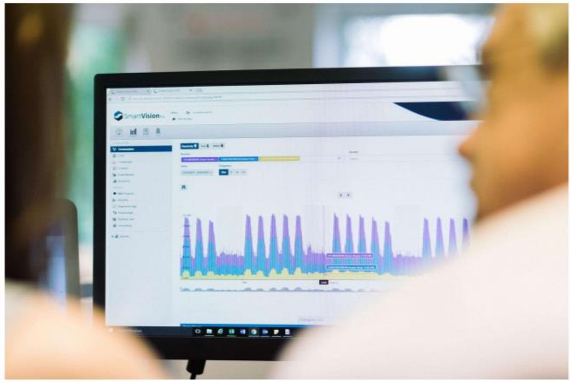
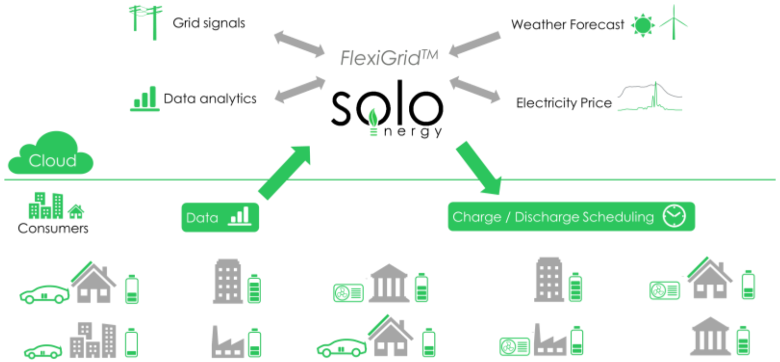
- **ILARR current and order book**
  - At 31 May 2020 (post disposal basis): £75.9m ILARR
  - Existing c.2m smart meter order book expected to add c.£40m ILARR

- **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

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 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

Verticals[1] of potential CaRe assets

Energy Efficiency Systems	Lighting	Energy Storage	Distributed Generation	EV Charging	Data & Control
HVAC	LEDs	Battery	BTM[2] Solar & Wind	Public Charging	Virtual Power Plant

Scope of CaRe assets

Residential	Commercial	Industrial
• Energy suppliers • Local authorities • Housing Associations • Student Accommodations	• Hotels • Retail • Banks • Leisure • Data Centres • National Pub Chains	• Telecoms majors • Rail companies • Utilities

Key Target markets (existing relationships)

Partnership with ESIF to fund these projects

- ESIF provides funding whilst SMS receives long-term asset management fees

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

Financial Review & Capital Structure

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

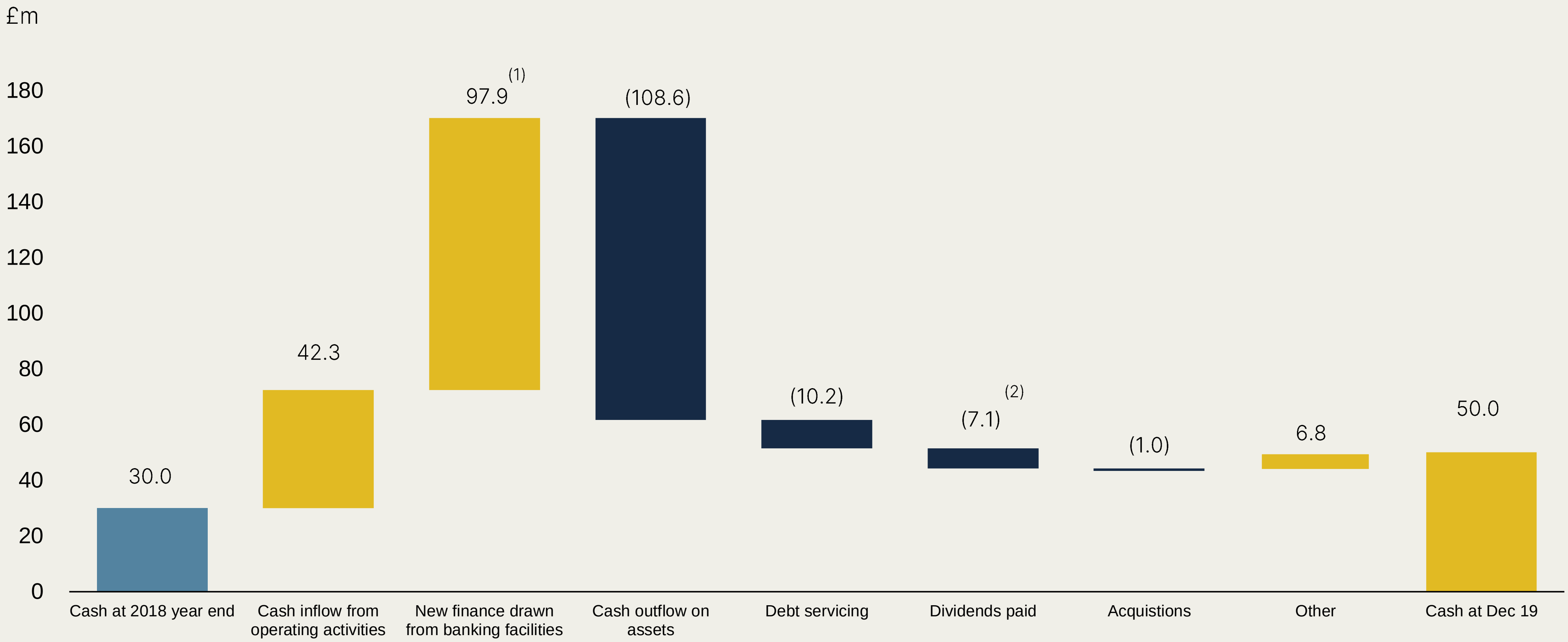
Energy Management

	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

Demonstrates capital deployment and ability to fund dividends



(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

Growth Funding Strategy

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

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

Outlook

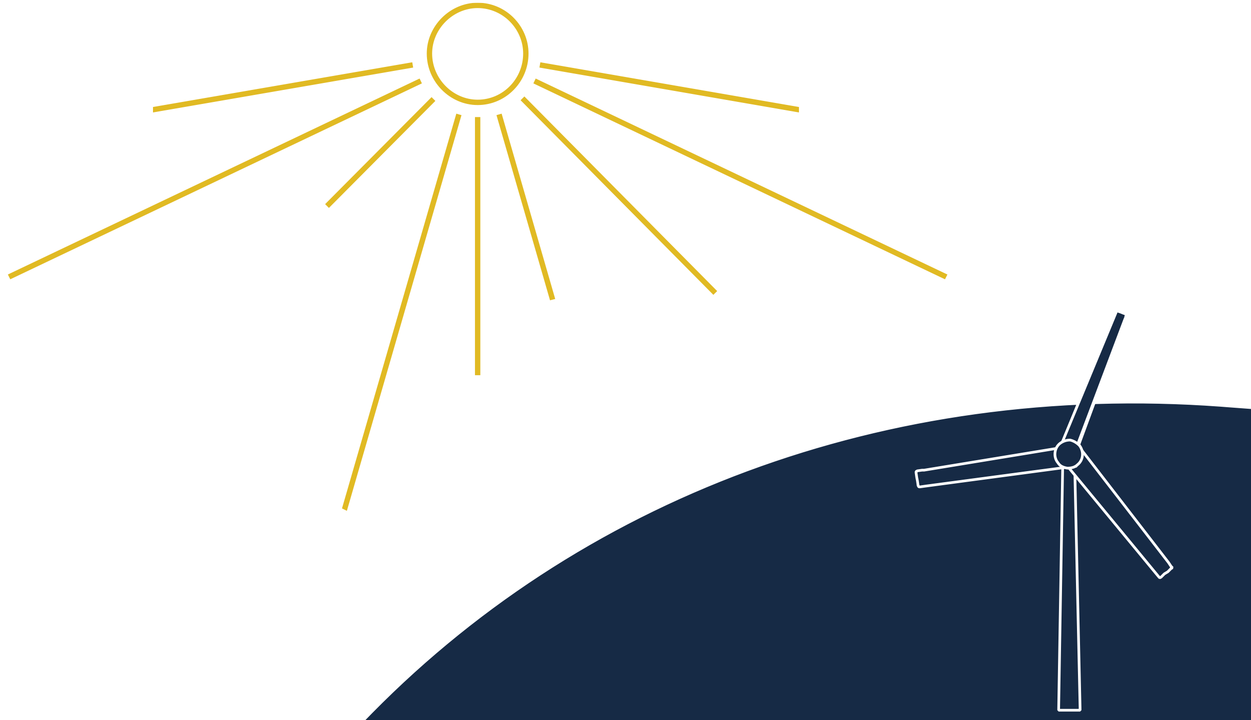
Business Strategy and Outlook

- **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

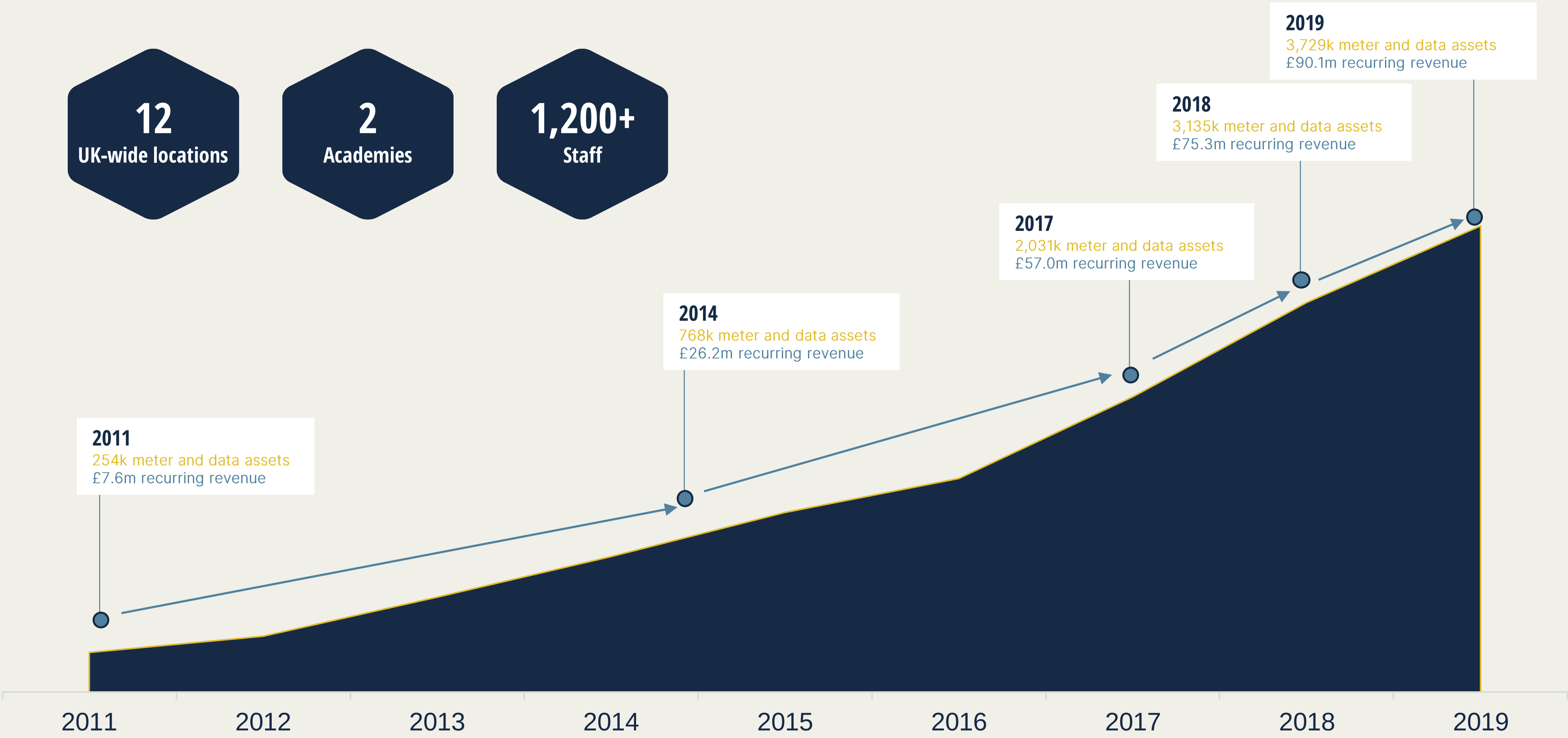
Q&A

Appendices



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 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 31 May 2020 stood at £75.9m
  - 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
- As at 31 May 2020, cash at bank stood at £48m and a £300m banking facility

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