



POLLEIT & RIECHERT
Investment Management



- Smart meter for your portfolio -



Presentation on the Widemoat Investing Summit 2014

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Idea summary

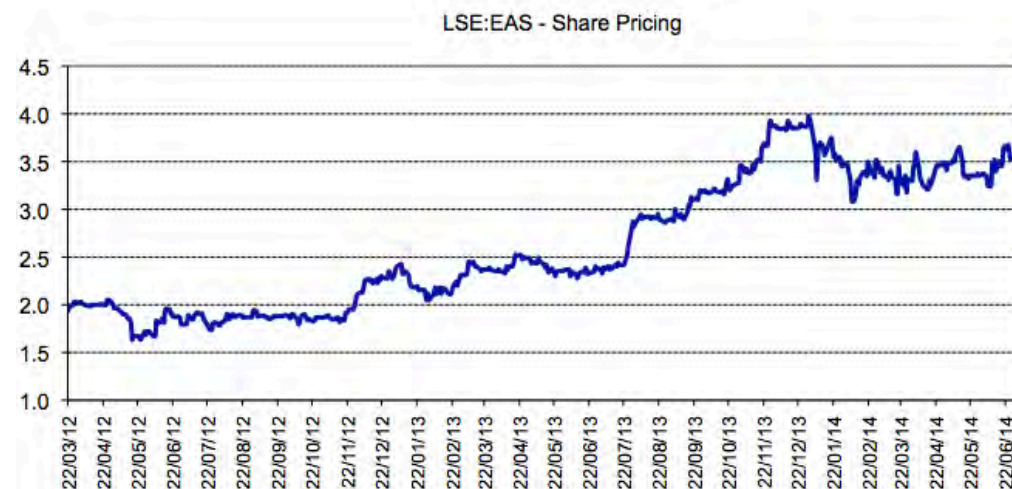
A UK micro cap company that collects stable, inflation-protected cash flows from gas meters and data loggers. Ideally positioned to profit from a land-grabbing opportunity – the exchange of old to new “smart enabled” meters.

Name	Energy Assets plc
Ticker	EAS.L
Price	£3.57
MCap	£96m
EV	£148m
FY15 ¹ EPS	£0.26
P/E	13.9x

Target price²: £5.90

(14x 2017EPS of £0.42)

>>> Upside of 65% or CAGR of 20%



Source: Capital IQ

¹ FY ending in March

² Estimate by P&R

Business Overview



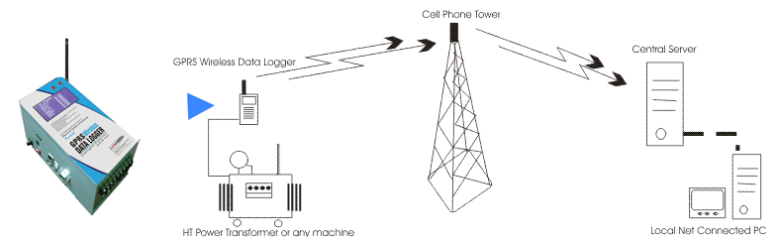
How do they make money? (1)

Energy Assets plc (EAS) installs, owns and manages gas meters in the industrial & commercial (i&c) sector in the UK.

1. Meter Asset Management (MAM)



2. Automatic Meter Reading (AMR)



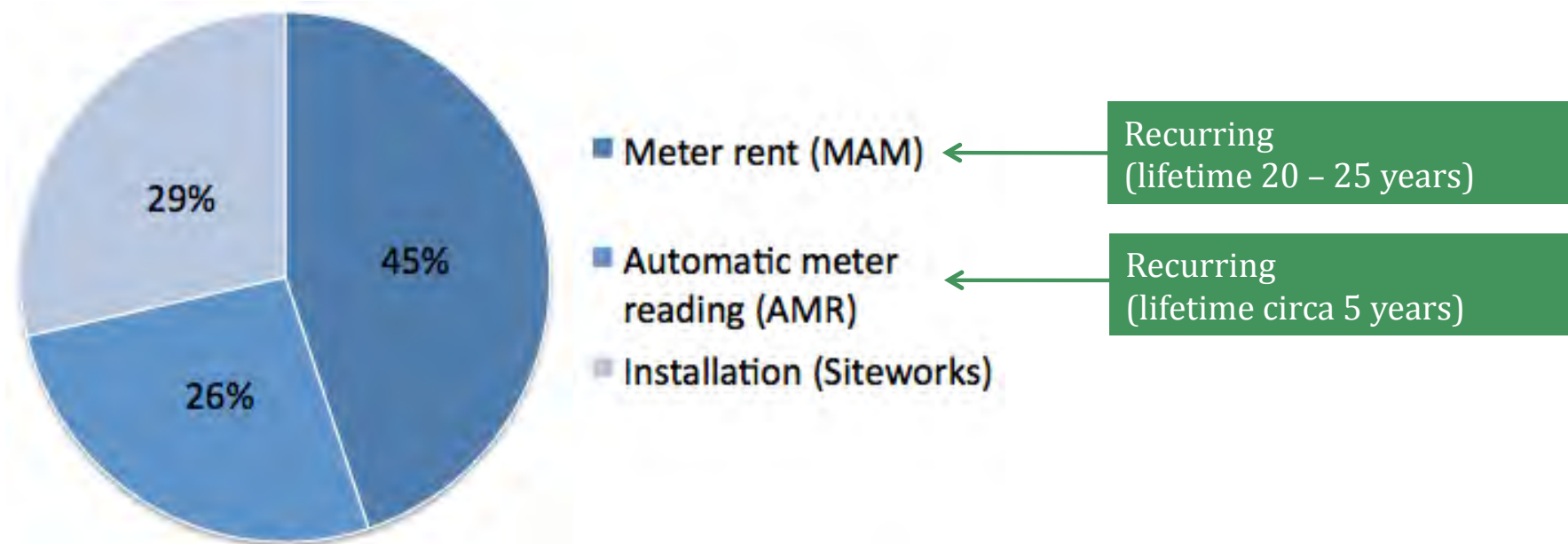
3. Installations (Siteworks)





How do they make money? (2)

More than 2/3 of revenues are recurring.





Market landscape - competitors

The majority of meters is (still) owned by National Grid (the ex-monopolist). EAS is the largest independent owner and manager of i&c gas meters. The i&c market consist of circa 1.5 million meters.

1. Meters



market share: >85% 5.7% 1.8% 1.0%

2. Data Points



...

meter points: >60k 62.5k 16k

3. Siteworks



...

revenues: £38m £7.3m £14m



Market landscape - customers

For meter asset management services customers are gas suppliers. For data services customers are either gas suppliers or commercial end users (E.g. tesco, hospitals).

I&C gas vol. market share	Estimates
Total	15%
Gazprom	14%
Dong (Shell)	12%
Corona	10%
Southern UK British Gas	9%
Statoil	9%
ENI	7%
EON	6%
GDF	6%
Other	6%
Wingas	5%
	100%

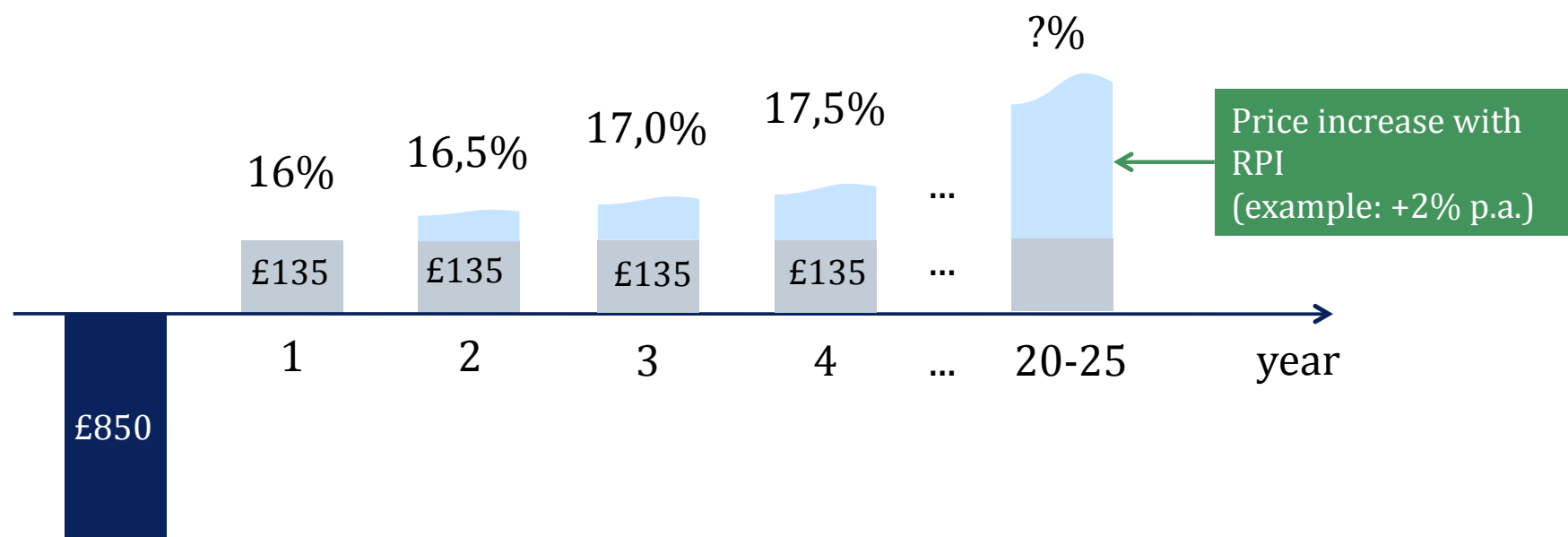
EAS customers:





Unit economics - cash flows of a single gas meter

An industrial gas meter costs between £200 and £2,000 depending on size. Rent is paid automatically with the gas bill. The annual rent is reviewed each year and has a soft link to RPI (Retail Price Index).



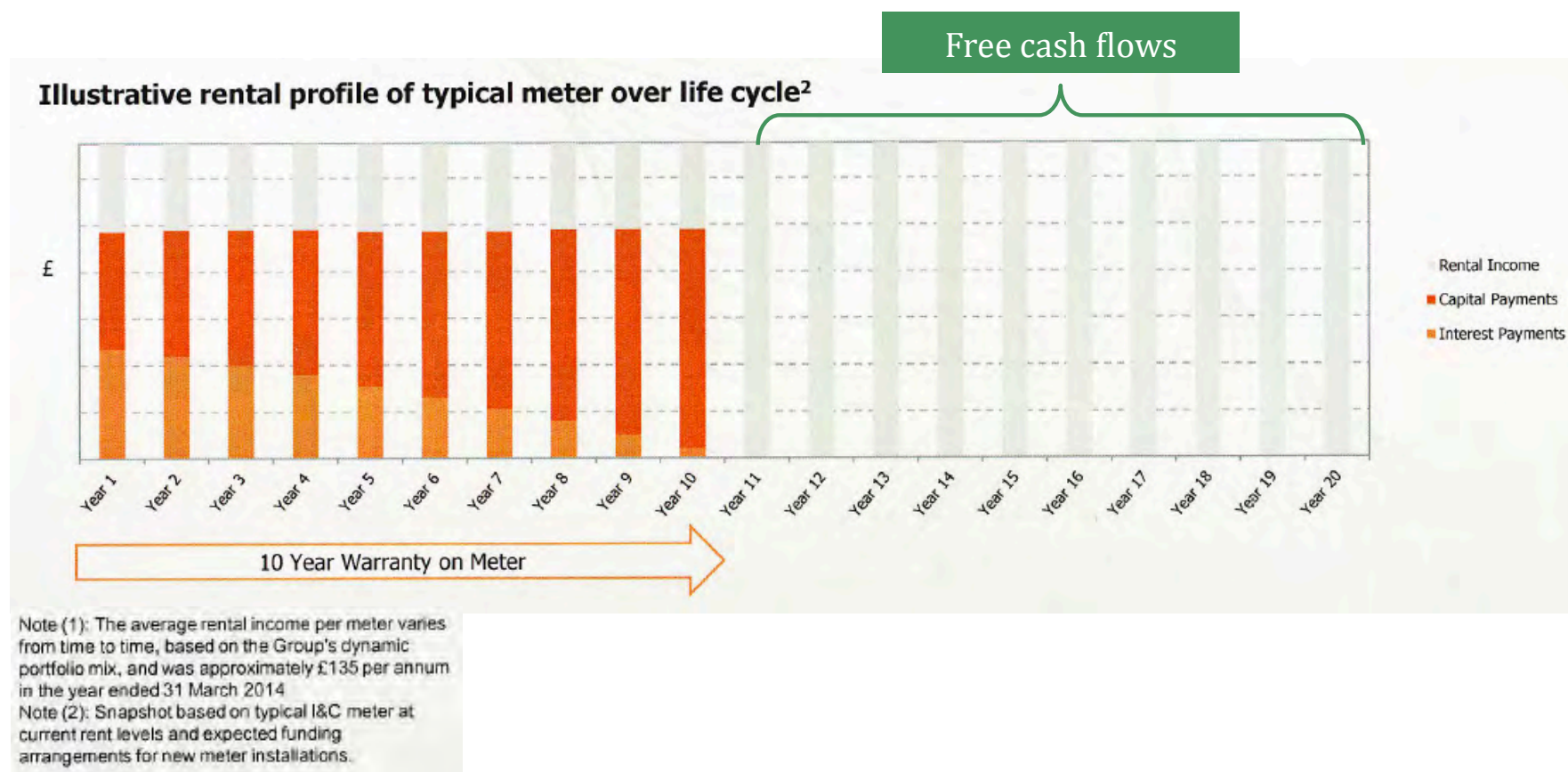
Average Capex per meter

The average initial rental yield (gross) is between 16% and 18%. The lifetime of a gas meter is between 20 and 25 years. The early termination risk is mitigated by a contractual early termination fee. Source: Company data and own research



How are meters financed?

Meters are typically >80% debt financed. Debt is fully amortised over first 10 years of asset life. Afterwards meters will produce huge free cash flows.



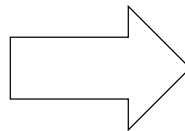
Elements of a Great Business



Is there a large market potential? (1)

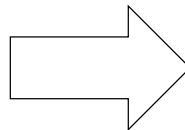
Drivers are Energy efficiency and regulation.

1. Regulator (Ofgem) has broken up monopolistic market structure



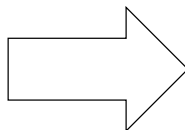
Independent Meter Asset Manager can enter the market. National Grid has to accept exchange of their old meters.

2. EU 2020 target for all retail and i&c meters



All meters have to be advanced or smart. Massive capex exercise will start within next 12 to 15 months.

3. Focus on energy efficiency & saving costs



Data management and analysis can save energy consumption. For gas suppliers, AMR can save costs and increases customer service.

>>> Strong signs of large demand for the foreseeable future



Is there a large market potential? (2)

EAS has exclusive relationships with Corona Energy and Gazprom. EAS is upgrading their meter portfolios which gives us visible growth for the next 3-4 years.



>>> *Clear evidence of near term growth*



Value creation – customers

Based on our conversations with suppliers, meter manufacturers, competitors and other industry participants we have learned that the company possess specialised technical skills, is reliable and produces a high standard of quality.

Example statements:

“Think of this in terms of quality: If SMS is a Skoda then Energy Assets is a Mercedes.”

- A customer

“Very reputable. They trade on their reputation, absolutely capable. I would buy shares if I were allowed to.”

- One of their bankers

>>> Strong signs of high reputation and customer satisfaction



Value creation – shareholders

Top and bottom line growth over the last three years.

Meter Portfolio



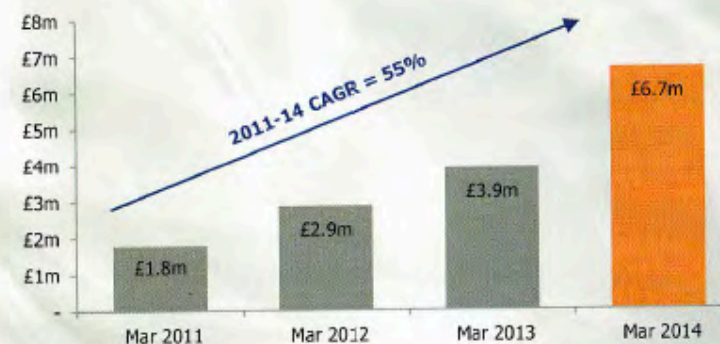
Data Collection Points



Revenue



Profit Before Tax¹



Source: Company presentation.



Does the business have barriers-to-entry? (1)

We use the “Greenwaldian” methodology of competitive advantage analysis.



Barriers-to-entry checklist

Demand side/Consumer

- ✓ Search costs
- ✓ Habit
- ✓ Switch cost

Supply side / producer

- ✓ Protected technology
- Learning curve
- Location / Access to resources
- Economies of scale
- Network Effect



Does the business have barriers-to-entry? (2)

Once meters are installed strong B2E exist. Switching cost are costs for site visit + capex for new meter + gas supply interruptions. Unlikely to happen in order to save a few basis points of the gas bill.

Switching Costs

Search Costs /
Reputation

Pricing Power: Most end customers do not even know how much they pay (ask yourself). Even a hefty price increase of 10% would hardly be recognised. For gas suppliers metering is insignificant in terms of price but it is crucial for correct billing. That's why they prefer reliability to price. This constellation together with high switching costs results in barriers-to-entry and thus pricing power for incumbent meter asset manager. Rental prices are annually reviewed to allow for inflation adjustments.

>>> Strong evidence: For existing portfolio B2E are switching costs; for new business the company can compete based on reputation.



Management – capital allocation

We have met several times with management and believe they have high integrity, depth and an appropriately focused entrepreneurial mindset. They get things done and can grow the firm over the next years.

- ✓ Turned business around after 2007/8
- ✓ Since IPO in 2012 focussed on asset growth & top + bottom line
- ✓ 2014 acquisition of Bglobal
Bought for 2.3m for 7.4m revenues and > 2m in NOLs
>>> Looks cheap
- ✗ Shareholder friendly capital allocation in steady state (in a few years?)
>>> We would like to see more long-term “skin in the game”

Valuation



Earnings estimate

Based on growth from existing customers Corona and Gazprom only.

Fiscal year (ending in March)	2014A	2015	2016	2017	2018	2019	2020
Number of meters	101.195	124.195	147.195	159.598	165.799	169.000	176.000
Total Revenues	24,2	30,4	35,4	40,6	44,1	45,2	45,6
EBIT	9,9	15,6	18,8	22,1	24,4	24,7	24,4
– finance costs	3,2	4,4	4,9	5,4	5,1	4,7	4,2
– tax	1,2	2,0	2,5	3,0	3,6	3,8	3,9
= adjusted Profit after tax	5,4	7,0	9,2	11,4	13,4	14,2	14,7
adjusted EPS	0,19	0,26	0,34	0,42	0,49	0,52	0,54
Mcap = 96							
Earnings Yield	5,6%	7,2%	9,5%	11,7%	13,7%	14,6%	15,1%

“Coupons” will go up further if pricing power is exercised with higher inflation



Target price

We estimate that EAS will grow its EPS to 0.42 in less than three years. Growth is less predictable (but not unlikely) afterwards.

Fiscal year (ending in March)	2014A	2015	2016	2017
adjusted EPS	0,19	0,26	0,34	0,42
yoy growth		35%	31%	24%
FW P/E		13,9	10,6	8,5
Exit multiple in March 2017	14x			
Exit value	5,87			
Purchase price	3,57			
CAGR	20%			
years until exit	2,7			

Note: Price appreciation is based only on EPS growth, not on multiple expansion.



Comparison with competitor

Hello Mr. Market – what mood are you in?

	Energy Asset plc EAS (March 2014)	Smart Metering Systems plc SMS (Dec 2013)	
Revenues (m)	24,2	27,9	}
Recurring revenues (m)	16,9	14,1	
EBIT (m)	9,2	8,6	
PBT (m)	6,0	7,5	
			Operating results: similar
Market cap July 14 (m)	97	340	}
EV (m)	149	373	
EV/SALES	6,1x	13,4x	
EV/EBIT	16x	43x	
			Valuation: Huge gap!



Risks and other considerations

Important to consider:

- Micro cap firm with lack of liquidity. Average daily volume is around £200k volume.
- Reliant on debt financing for growth.
- Senior management has a strong engineering background but has limited track record in capital allocation.
- Concentrated share register. Macquarie owns 39% of the shares.



Conclusion

EAS offers predictable growth - independent of economic cycles. The stock is cheap on an absolute basis on on a relative basis compared to SMS. Earnings growth will act like a pressure cooker pushing up the intrinsic value over time. The price will have to follow eventually.

- ✓ High earnings yield
- ✓ Recurring revenues
- ✓ Independent of economic environment
- ✓ Rental income goes up with inflation
- ✓ Market environment offers more upside

That's all. Thank you.



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