



# CYANCONNODE

INTERIM RESULTS | 2019 |

A WORLD LEADER IN NARROWBAND RADIO FREQUENCY (RF) SMART MESH NETWORKS



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- Revenue of £1.0m achieved for H1 2019 (H1 2018 restated £1.3m)
- 24% reduction in operating costs from £4.6m in H1 2018 to £3.5m in H1 2019
- Cash and investments totalling £2.4m at the end of H1 2019 with £0.8m receipt for R&D tax credit expected in Q3
- £1.3m of follow-on orders signed in 2019 for near term delivery
- UK Smart Metering Programme gaining momentum
- New long-range (up to 12 kms) RF module developed
- New product for district heating

# Financial Results – P&L

Consolidated Profit & Loss	30-Jun-19 6 months £'000	30-Jun-18 6 months £'000	31-Dec-18 12 months £'000
<b>Revenue</b>	<b>1,014</b>	<b>1,344</b>	<b>4,465</b>
Cost of Sales	-537	-342	-1,724
<b>Gross Profit</b>	<b>477</b>	<b>1,002</b>	<b>2,741</b>
<i>Gross Profit Margin %</i>	<i>47%</i>	<i>75%</i>	<i>61%</i>
R&D Costs	-1,030	-1,231	-2,466
Amortisation and Depreciation	-235	-238	-472
Other Operating Costs	-2,249	-3,142	-6,123
<b>Operating Costs</b>	<b>-3,514</b>	<b>-4,611</b>	<b>-9,061</b>
Investment Income	10	6	13
Finance costs	-2	-1	-2
<b>Loss before tax</b>	<b>-3,029</b>	<b>-3,604</b>	<b>-6,309</b>
<b>Tax Credit</b>	<b>300</b>	<b>250</b>	<b>927</b>
<b>Net Loss</b>	<b>-2,729</b>	<b>-3,354</b>	<b>-5,382</b>

# Financial Results – Balance Sheet / Cash Flow Statement



	30-Jun-19	31-Dec-18	30-Jun-18
Consolidated Balance Sheet	£'000	£'000	£'000
Intangibles	6,776	6,978	7,189
Investments (Bank Securities)	99	44	43
Property/Plant/Equipment	66	73	57
Inventories	294	319	1,138
Receivables (Trade/Other)	4,187	4,827	2,358
Cash	2,288	4,564	2,753
Total Assets	13,710	16,805	13,538
Trade and Other Payables	(1,505)	(1,994)	(1,984)
Total Liabilities (includes deferred tax)	(2,195)	(2,684)	(,843)
<b>Net Assets</b>	<b>11,515</b>	<b>14,121</b>	<b>10,695</b>

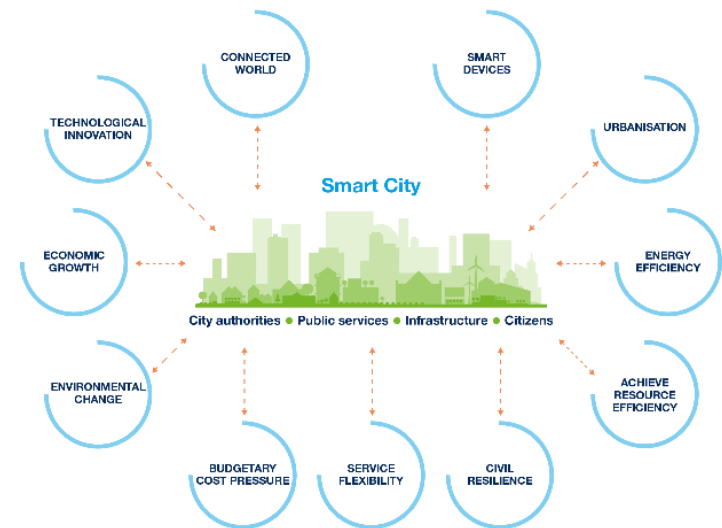
Consolidated Cash-Flow Statement	H1 2019 £'000
<b>Cash at 1/1/2019</b>	<b>4,564</b>
Net cash-flow from operating activities	(2,211)
Interest received	10
Purchase of investments	(55)
Fixed asset purchases	(18)
Interest paid	(2)
<b>Cash at 30/06/2019</b>	<b>2,288</b>

- H1 2019 cash outflows from operating activities were £0.5m lower than H1 2018
- H1 2019 cash and investments, including R&D tax credits of £0.8m due = £3.2m compared to £2.8m in H1 2018
- Approx £2m cash received from customers in H1 2019

# About CyanConnode



- World leader in Narrowband Radio Frequency (RF) Smart Mesh Networks for smart city solutions
- Blue-chip client base and partner eco-system validates technology offering
- Vendor agnostic model allows multiple routes to market
- Revenues in 2019 from existing contracts in UK, India, and Scandinavia
  - Opportunities for growth in China, Iran, Bangladesh, and UAE
- Significant revenue growth expected in H2 2019
- High margin revenue model
- Targeted breakeven profitability in 2020
- The first Licensing Agreement with Beijing Instruments, potentially worth \$4m (£3.1m)
- Opportunities using new opex model being progressed

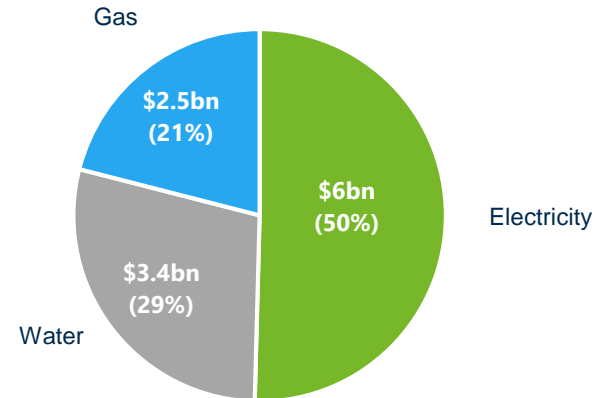


# Market Opportunity

- CyanConnode's technology is focused on smart metering – a huge growth opportunity, with fewer than 25% of the world's 3bn meters currently smart
- Global meter market estimated at \$12bn in 2017 - expected to grow by 14% CAGR p.a.
- Smart meter penetration expected to increase rapidly driven by energy efficiency regulation
- To date, the Company has primarily focused on electricity meter market, which accounts for ~50% of the global meter market
- CyanConnode also targets gas meter market – number of large, advanced opportunities in place which have the potential to be applied to the smart water market in the future
- Deployed technology in the smart lighting market – an \$8bn market in 2018 expected to grow at a CAGR of 22% to 2023<sup>1</sup>

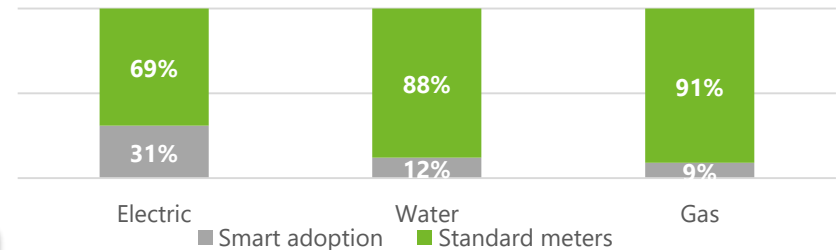
Well positioned to benefit from rapid forecast market growth

Global meter market (2017)



Source: McKinsey analysis from the Xylem Investor Presentation – April 2017

Global smart meter adoption (2017)<sup>2</sup>



Source: 1. Markets and Markets; 2. McKinsey analysis from the Xylem Investor Presentation – April 2017

## Blue-chip client base and partner eco-system validates technology offering

### Customers

- Deployed over 1m electricity meters and streets lights to date across approximately 20 customers globally
- End customer typically an electricity utility with the direct customer (often a major prime contractor partner or meter OEM)

### Partners

- Formed deep relationships with major local partners in target geographies which hugely enhances ability to win and deliver landmark projects
- Have integrated technology into a number of major global meter manufacturers' devices meaning it can rapidly deploy its technology with these OEMs on new projects

#### Key customer deployments

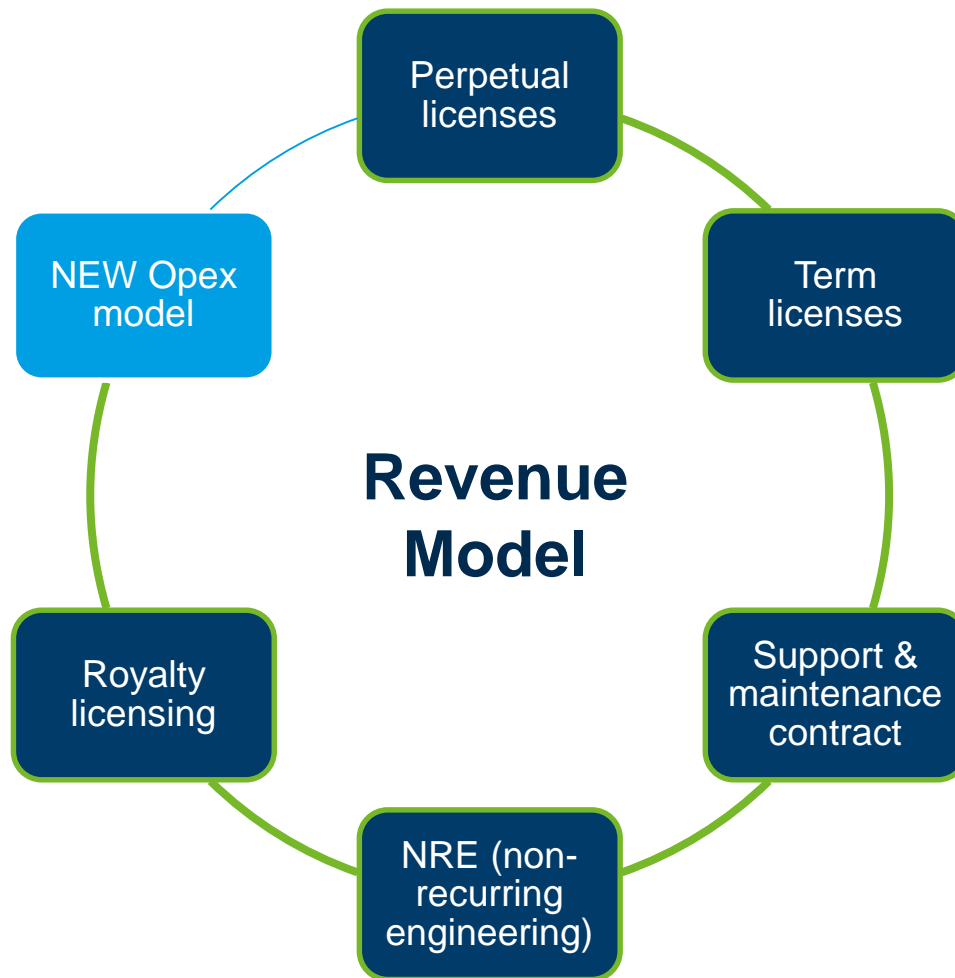


#### Eco-system partners



Deployed with major end customers, partners and hardware providers





- **Perpetual licences** for: Modules, Gateways and Software – one off payment plus 22% annual SMC
- **Term licenses** for: Module, Gateway, Software over X years, plus 22% annual SMC
- **Support & maintenance** contract: per device once installed, recurring revenue
- **NRE (non-recurring engineering):** rate card, per engineering day
- **Royalty licensing:** manufacture of hardware via reference design
- **Opex Model:** per meter per month

# New Opex Model – realizing the vision of a new world



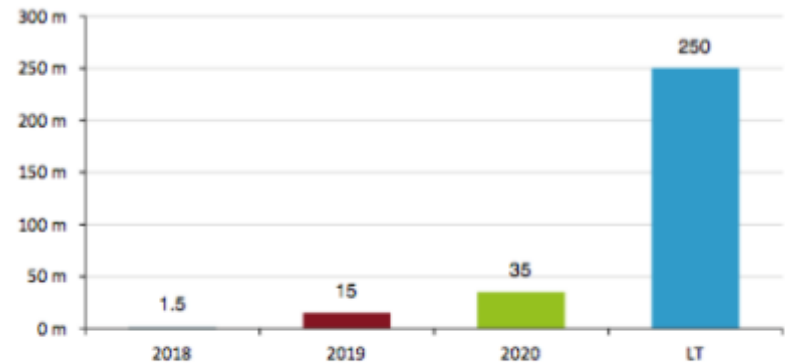
- No upfront investment needed

Per meter per month over a period of years (typically 10 years)

- Barriers of high initial cost and comparative end use are subsequently overcome
- Skills and knowledge transfer to local in-country teams
- Local creation of jobs
- Incentives for all stakeholders
  - Aggregation of demand to leverage economies to scale and deliver at affordable prices
- Encouraging all sections of the value chain including social, economic and Environmental

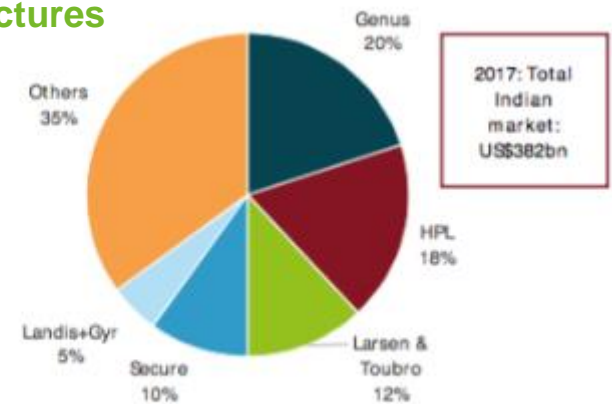
- Market leading position in India
- Following the general election in May 2019 we expect to see a material acceleration of the Indian Smart Meters National Programme
- In July, the government announced India plans to change all electricity meters to prepaid smart meters by 2022
- The Company is working on several large tenders for the Indian market that we believe will result in substantial new contract wins
  - 800K units over 6 contracts = \$24m
  - Significant growth in 2020
- Established strong partner eco-system in country to facilitate contracts through tenders
- In August, participated in Metering in India event as part of a panel discussion. Visits with customers and partners, government bodies... such as MoP, Director of Distribution, NSGM, RECL (in discussion regarding doing an opex model for 1MU)
- Renewal of orders started happening after seeing the benefits of Omnimesh solution

## Indian smart metering market set to grow



Source: Bloomberg, 2018.

## Established market - smart metering manufactures



Source: Frost & Sullivan, 2018.

# Market Potential in India

Accelerated Growth through Government initiatives



## Indian Smart Grid

- Projected Spent \$44.9 bn (2017 to 2022) (Smart meter, storage, Distribution automation)
- Eleven Smart Grid demonstration/pilot projects with 50% govt grant in progress. (India Country Report by DST, Govt of India)
- 3 Full Smart Grid Project sanctioned

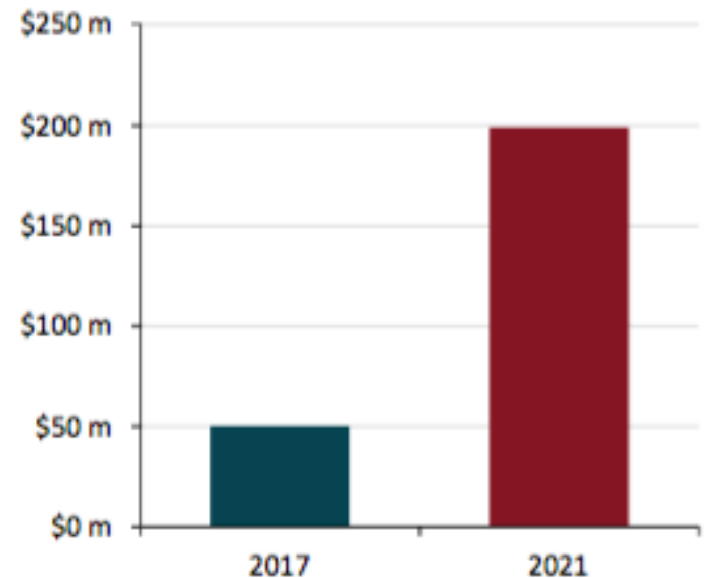
## Indian Smart Meter Market

- **Govt plan to replace 220 million meters in next three years (Statement of Power Minister R K Singh quoted in Economic times)**
- Government has mandated the use of smart prepaid electricity meters in the country from April 2019
- Current size of energy meter market \$340 Million with Projected CAGR 9.34% (2017-2022)(Source: ReportsnReports.com is an online market research company)
- India produce Approx. 35 million meters per annum with annual growth of 29% (source IEEMA report)
- Electrical Industry has grown by 18.7% whereas Energy Meter sector has the highest growth of 42.8% in 2018



- Part of UK Smart Meter roll out of 53 million devices – Mesh radio – Not spots
- South East Asia (ex-India) presents attractive market opportunity – pipeline for region > \$200 million
- Large opportunities in UAE, Thailand, Indonesia
- First licencing agreement secured in China in 2018
- Continue to form strategic alliances to help build market position
  - In August 2019 signed MOU with Hexing Electrical Co. Ltd
- New contracts signed in Scandinavia District heating, Long Distance 12km

## South East Asia smart meter estimated growth



Source: Landis+Gyr company estimate, 2018.

- Rollout meters commenced in Q4 2018. To date 1.8m SMET2 meters have been installed
- Assumption that 10% of SMET2 meters under the Telefónica “not-spot” projected to deliver £25.7 million of revenues over a 15-year period
- 500,000 prepaid licenses were purchased from Connode prior its acquisition. Some revenues already taken in previous years.
- CyanConnode does not expect material revenue from this contract during 2019
- >£2m revenue taken from this contract to date
- Revenues from rollout expected to grow from 2020

- December 2018, the Company signed its first agreement to license Beijing Instrument to manufacture its hardware
- BI will pay a royalty to CyanConnode for each item manufactured under its reference designs
- Experienced as Contract Equipment Manufacturers (“CEM”) to manufacture its products
- Potential \$4 million and this fee will be recognized as revenue as the modules and gateways are manufactured over several years
- Additional revenue for CyanConnode’s Omnimesh smart meter platform
- Now at the Firmware testing stage, the stage after will see Beijing Instruments find customer projects.

## China's shipment of smart meters was 200 million units in 2018, at a CAGR of 6.8% during 2013-2018

- As IoT penetrates the public utility sectors, charging by meter allows the smart meter industry to grow at a solid pace.
  - Growth rate is expected to hold steady at 6.5% between 2019 and 2025
- Chinese vendors are moving into new markets

### CyanConnode has established a partner eco-system of meter manufacturers

- Working collaboratively on existing customer contracts and new opportunities outside of China
- Licensing models to support partners business needs

#### Eco-system partners – meter manufacturers

