



HEXAGON

Q2

OSLO, 16 AUGUST 2017

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# Agenda

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- Group highlights
- Group financials & segment overview
- Outlook
- Q & A

## Highlights from Q2 2017

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- Growth of 23% in revenue in the LPG segment versus Q2 2016
  - Record high sales for consecutive quarters
  - Received a substantial order from Iraq
- Light-Duty Vehicles
  - Resolved product acceptance delay
  - Significant deliveries to Indonesia
- Soft Mobile Pipeline<sup>®</sup> sales in the quarter
  - Sound order backlog in North America
- Continued growth and profitability within Agility Fuel Solutions
  - Expands new Powertrain Systems business unit, accelerating propane product sales
- Strong Hydrogen volume growth
  - Awarded a major development contract for hydrogen cylinders for new FCEV models





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2<sup>ND</sup>  
QUARTER 2017  
**FINANCIALS**

## Financial highlights Q2 2017

- Key factors impacting **EBITDA** this quarter:
  - Record LPG performance
  - Strong Hydrogen product sales
  - Light-Duty Vehicles contribution negatively impacted by delays
  - Soft Mobile Pipeline® sales
- Solid, profitable contribution below the line from Agility
- Strong cash and liquidity

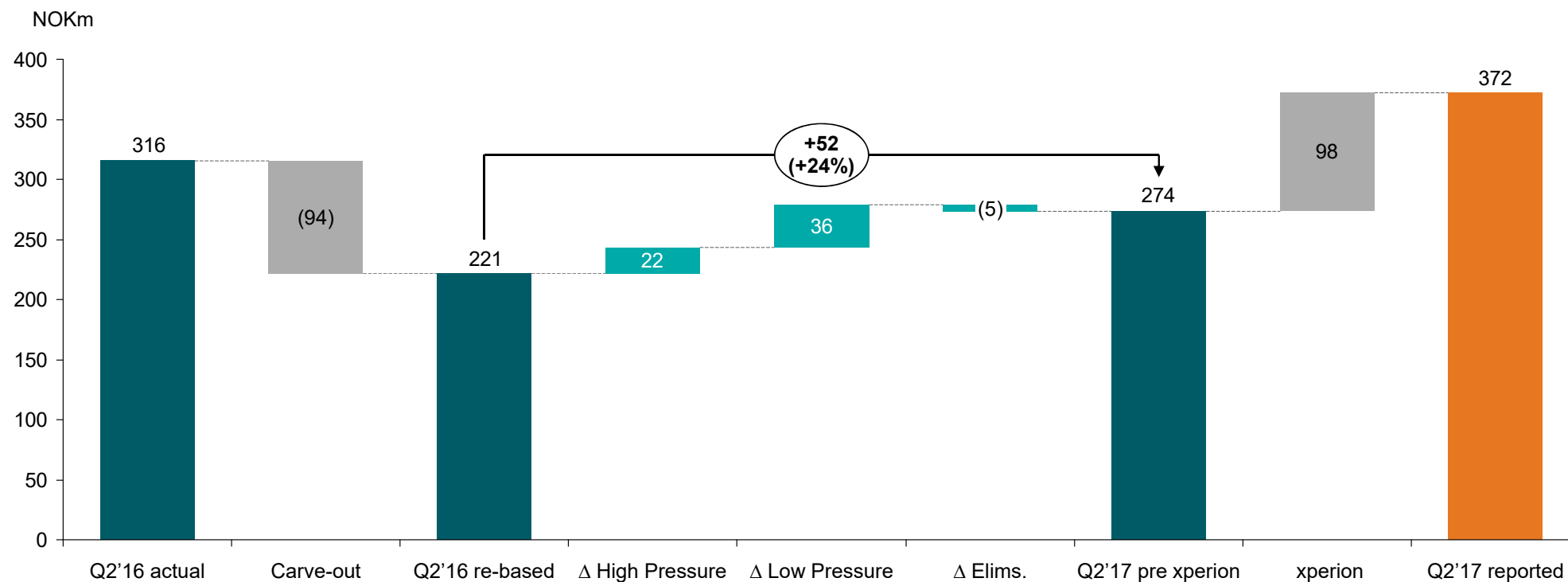
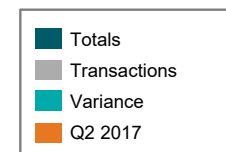
Group key figures NOK million	Q2 2016			Q2 2017		
	Reported	CNG carveout	Pro-forma ex xperion	Pro-forma ex xperion	xperion	Reported
Operating Income	316	(94)	221	274	98	372
EBITDA	37	(3)	34	46	1	48
Net profit / (loss)	15	n.a.	n.a.	n.a.	n.a.	15



## Q2 and H1 2017 Group income statement

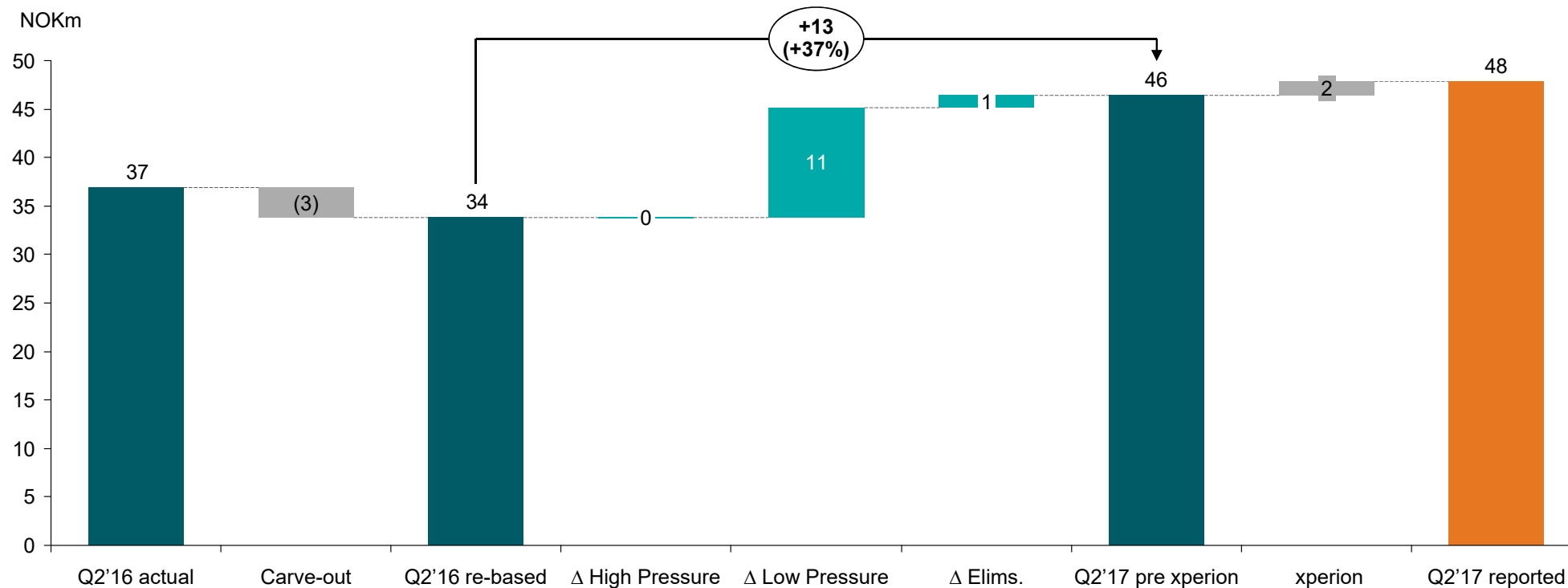
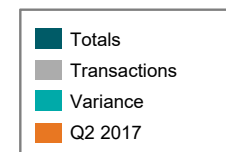
NOK MILLION	QUARTER			HALF YEAR			FULL YEAR
	Q2 2017	Q2 2016	Variance	H1 2017	H1 2016	Variance	2016
<b>Operating Income</b>	<b>372,0</b>	<b>315,6</b>	<b>56,4</b>	<b>718,2</b>	<b>607,2</b>	<b>111,0</b>	<b>1 220,5</b>
Operating expenses	(324,2)	(278,6)	(45,6)	(635,3)	(551,6)	(83,7)	(1 193,8)
Exceptional Gains	0,0	0,0	0,0	0,0	0,0	0,0	348,2
<b>EBITDA</b>	<b>47,8</b>	<b>37,0</b>	<b>10,9</b>	<b>82,9</b>	<b>55,6</b>	<b>27,3</b>	<b>374,9</b>
Depreciation on tangibles	(13,4)	(16,3)	2,9	(26,7)	(30,9)	4,2	(59,8)
Amortisation and impairment	(5,3)	(0,9)	(4,4)	(10,4)	(1,7)	(8,7)	(15,8)
<b>EBIT</b>	<b>29,1</b>	<b>19,7</b>	<b>9,4</b>	<b>45,8</b>	<b>22,9</b>	<b>22,8</b>	<b>299,3</b>
Share of profit/(loss) from associates	12,9	0,0	12,9	11,6	0,0	11,6	2,1
Amortisation of associates intangibles	(3,5)	0,0	(3,5)	(7,0)	0,0	(7,0)	(3,6)
Other financial items (net)	(20,5)	(1,3)	(19,2)	(26,2)	(7,1)	(19,1)	14,1
<b>Profit/(loss) before tax</b>	<b>18,0</b>	<b>18,4</b>	<b>(0,4)</b>	<b>24,2</b>	<b>15,8</b>	<b>8,4</b>	<b>311,9</b>
Tax expense	(2,9)	(3,3)	0,4	(1,9)	(0,3)	(1,6)	(103,6)
<b>Profit/(loss) after tax</b>	<b>15,1</b>	<b>15,1</b>	<b>(0,0)</b>	<b>22,3</b>	<b>15,5</b>	<b>6,8</b>	<b>208,3</b>
<i>EBITDA %</i>	12,9 %	11,7 %		11,5 %	9,2 %		30,7 %
<i>EBIT %</i>	7,8 %	6,2 %		6,4 %	3,8 %		24,5 %
<i>NET PROFIT / (LOSS)%</i>	4,1 %	4,8 %		3,1 %	2,6 %		17,1 %

# Revenue walk Q2 2017



**Solid underlying growth in both High and Low-Pressure segments**

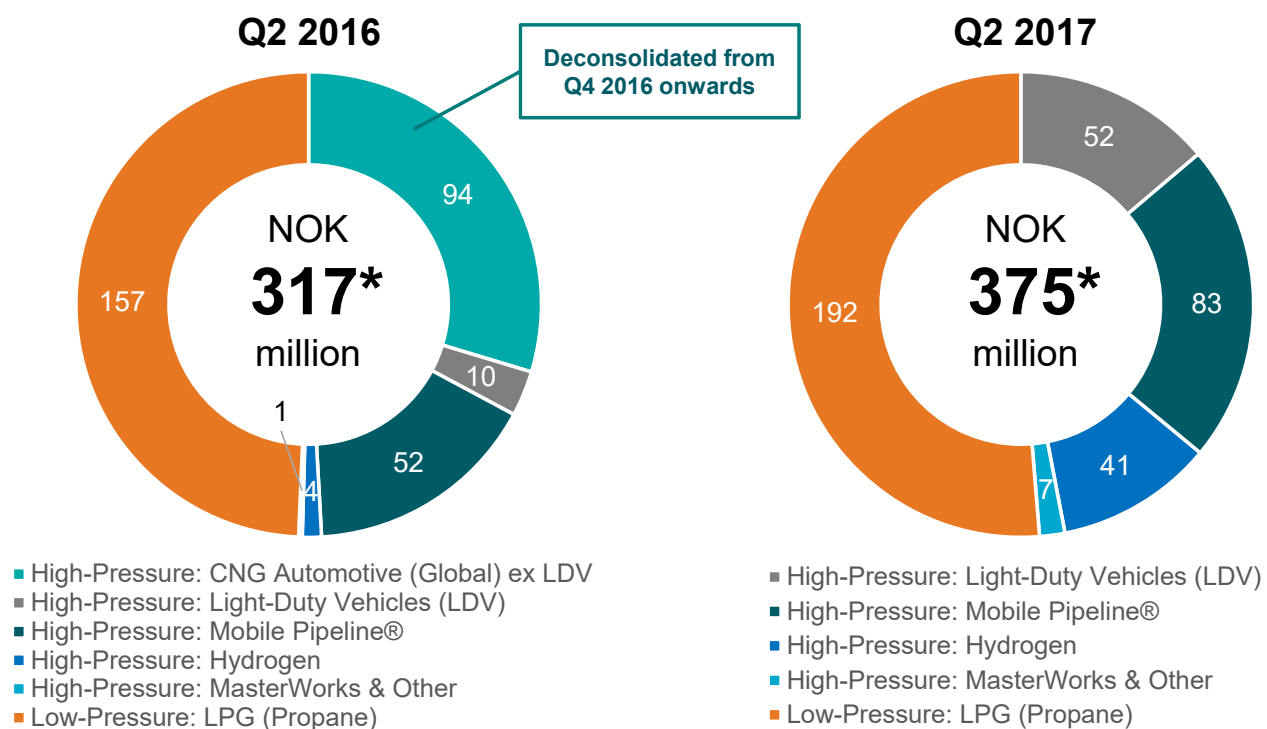
# EBITDA walk Q2 2017



**Solid underlying EBITDA growth driven by Low-Pressure segment**

# Segment shares Q2 2017 | Before Group eliminations\*

## SHARE OF OPERATING INCOME



## Q2: High-Pressure segment

- Soft Mobile Pipeline® sales
  - However balanced between North America and Rest of the World
- Hydrogen is in early but exponential growth phase
  - Positive EBITDA from solid product sales in transportation sector
- Light-duty impacted by a customer acceptance delay
  - Product acceptance resolved towards end of Q2
  - Impact partially mitigated by higher call-offs to other customers
  - Still profitable overall
- Improving profitability remains a primary focus for the segment

NOK MILLION	SUMMARY FINANCIALS			RE-BASED*	
	Q2 2017	Q2 2016	Variance	Q2 2016	Variance
<b>Operating Income</b>	<b>182,7</b>	<b>160,9</b>	<b>21,8</b>	<b>164,8</b>	<b>17,9</b>
Operating expenses	(182,8)	(161,0)	(21,8)	(166,6)	(16,2)
<b>EBITDA</b>	<b>(0,1)</b>	<b>(0,1)</b>	<b>(0,0)</b>	<b>(1,8)</b>	<b>1,7</b>
Depreciation on tangibles	(8,8)	(10,5)	1,6	<i>n.a.</i>	<i>n.a.</i>
Amortisation and impairment	(5,3)	(0,9)	(4,4)	<i>n.a.</i>	<i>n.a.</i>
<b>EBIT</b>	<b>(14,2)</b>	<b>(11,4)</b>	<b>(2,8)</b>	<i>n.a.</i>	<i>n.a.</i>

\* Re-based = excluding CNG carveout and including xperion acquisition

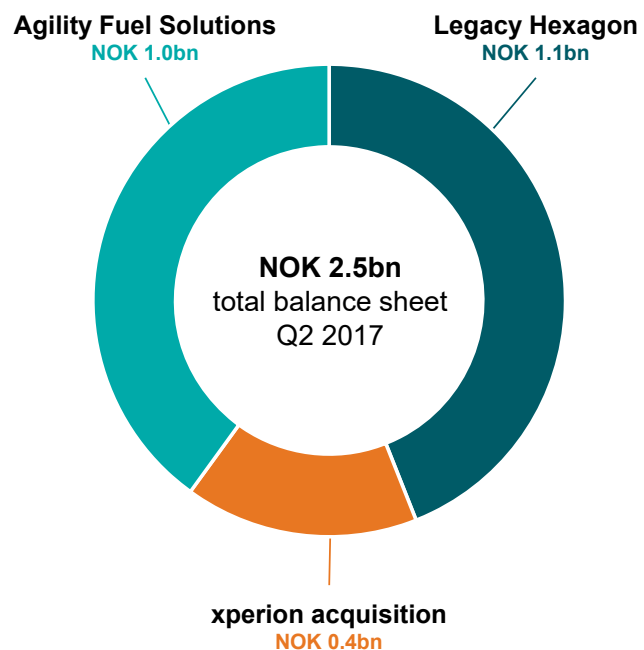


# Investment in Agility Fuel Solutions (50%)

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# Agility investment is a significant part of the Group balance sheet



**Agility Fuel Solutions represents a significant portion of Hexagon Composites' total balance sheet – where P&L contribution from this investment is not included in EBIT**

**Legacy Hexagon:** Pre xperion acquisition Mobile Pipeline®, Light-Duty, Hydrogen and LPG

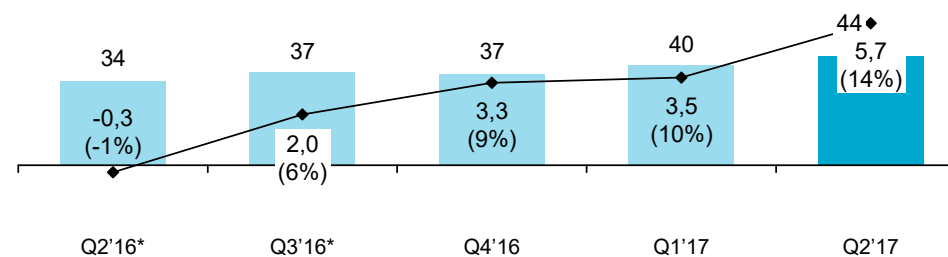
**xperion acquisition:** Closed in Q4 2016 for purchase consideration of NOK 293m in cash and contingent earn-out of up to NOK 103m

**Agility Fuel Solutions:** Closed in Q4 2016 at value of NOK 971m

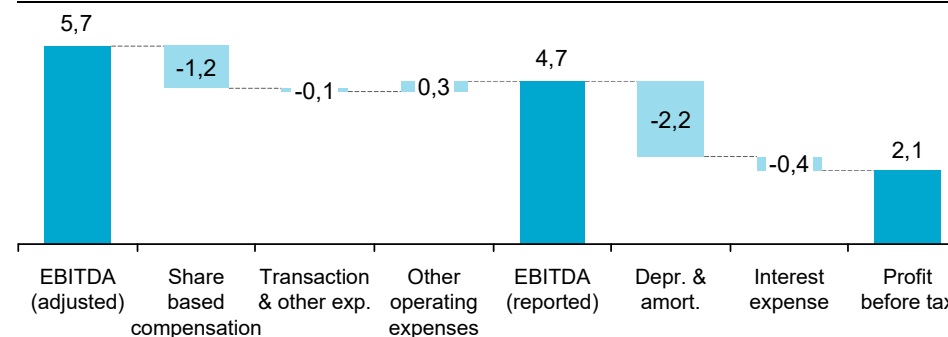
# Agility Fuel Solutions Q2 2017

- Continued uptick in revenues and cost efficiencies drive higher margin
- Good cash / working capital
  - Fully-funded with net cash position
- Positive recovery trend in Heavy-duty truck
- Transit bus overall solid
- Refuse truck sales relatively soft
- Powertrain Systems recording revenue already

## Revenues and adjusted EBITDA (USDm)\*



## Q2 2017 EBITDA to profit before tax (USDm)

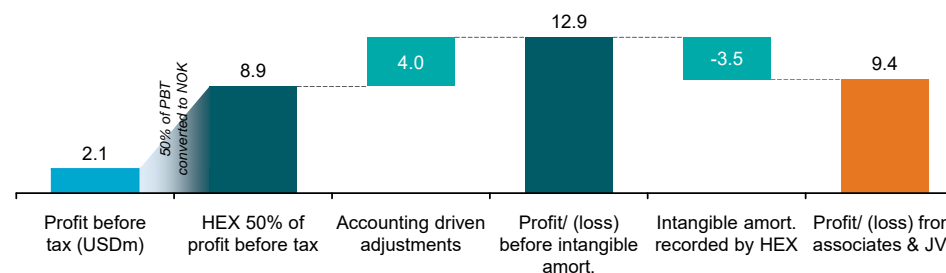


\* Proforma figures presented for Q2'16 and Q3'16

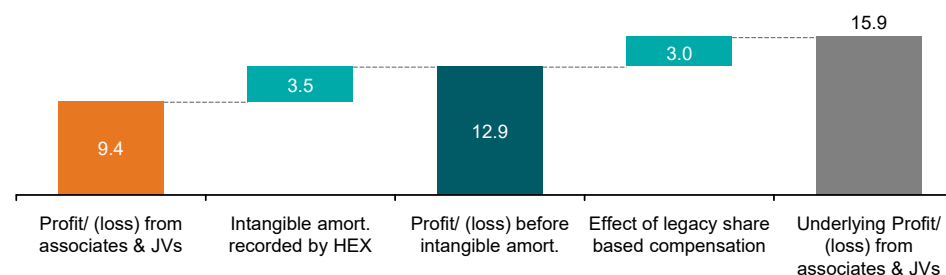
## Effects for Group reporting Q2 2017

- Underlying Agility investment contribution is significantly higher than as recorded in Group results
- Intangible assets from Agility deal are depreciated over its lifetime
- The level of the share-based compensation P&L charge is primarily driven by legacy company valuations
- This accounting cost deviates significantly from the current cash value of the share-based compensation
  - We estimate this impact to Agility, after IFRS adjustments, to be **USD 3.4** million from 2017 through to 2020; **50%** of this flows to Hexagon
  - We estimate ~80% of this is in 2017 alone
- The accounting cost is ultimately reversed within Equity

### Agility impact to Group P&L (NOKm)



### Positive underlying contribution from operations



## Q2: Low-Pressure segment

- 23% year-over-year sales growth
- Consecutive record sales quarter; record EBITDA – Volume driven
- Deliveries primarily to traditional European markets
- Strong order book as at end of Q2

NOK MILLION	SUMMARY FINANCIALS		
	Q2 2017	Q2 2016	Variance
<b>Operating Income</b>	<b>192,3</b>	<b>156,5</b>	<b>35,8</b>
Operating expenses	(141,2)	(116,8)	(24,4)
<b>EBITDA</b>	<b>51,1</b>	<b>39,8</b>	<b>11,4</b>
Depreciation on tangibles	(4,4)	(5,7)	1,3
Amortisation and impairment	0,0	0,0	0,0
<b>EBIT</b>	<b>46,7</b>	<b>34,1</b>	<b>12,7</b>

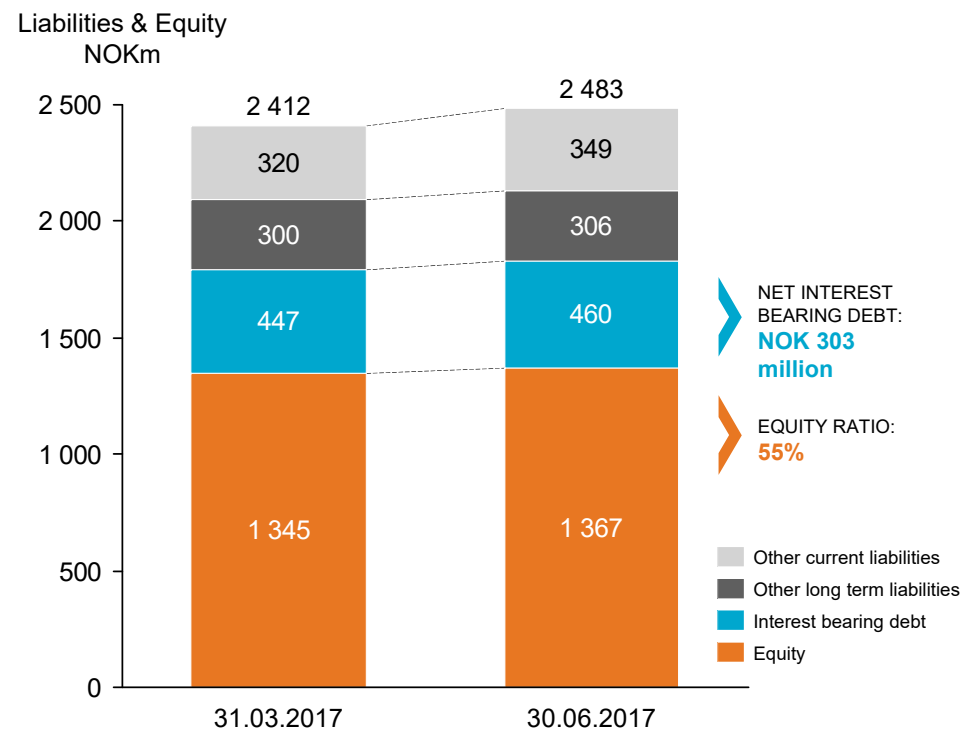
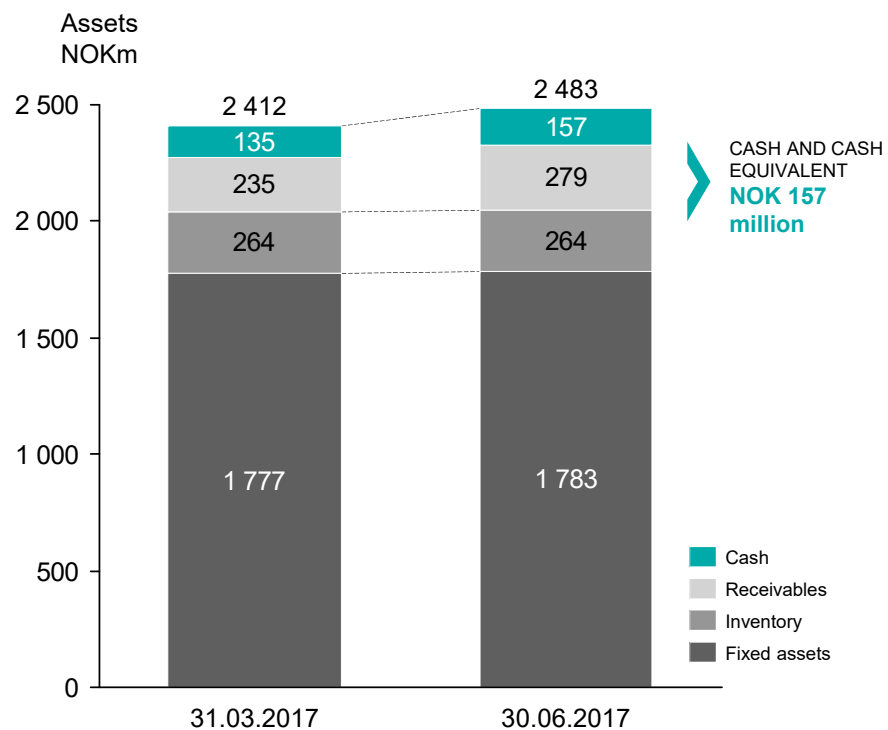


## Financial position vs previous quarter

NOK MILLION	BALANCE SHEET		
	30.06.2017	31.03.2017	Change
Intangible assets	567,6	549,0	18,6
Tangible fixed assets	252,9	254,9	(2,1)
Investments in JVs and associates	960,4	970,8	(10,4)
Other non-current assets	2,0	2,4	(0,4)
<b>Total Non-current Assets</b>	<b>1 782,9</b>	<b>1 777,1</b>	<b>5,8</b>
Inventories	264,0	264,4	(0,4)
Receivables	278,8	235,0	43,8
Bank deposits, cash and similar	157,0	135,2	21,7
<b>Total Current Assets</b>	<b>699,8</b>	<b>634,6</b>	<b>65,2</b>
<b>Total Assets</b>	<b>2 482,7</b>	<b>2 411,7</b>	<b>70,9</b>
<b>Total Equity</b>	<b>1 367,4</b>	<b>1 344,9</b>	<b>22,5</b>
Long-term interest-bearing debt	445,6	432,8	12,8
Other non-current liabilities	305,9	300,0	5,8
<b>Total Non-current Liabilities</b>	<b>751,5</b>	<b>732,9</b>	<b>18,6</b>
Short-term interest-bearing debt	14,5	14,2	0,3
Other current liabilities	349,3	319,9	29,5
<b>Total Current Liabilities</b>	<b>363,8</b>	<b>334,0</b>	<b>29,8</b>
<b>Total Liabilities</b>	<b>1 115,3</b>	<b>1 066,9</b>	<b>48,4</b>
<b>Total Equity and Liabilities</b>	<b>2 482,7</b>	<b>2 411,7</b>	<b>70,9</b>

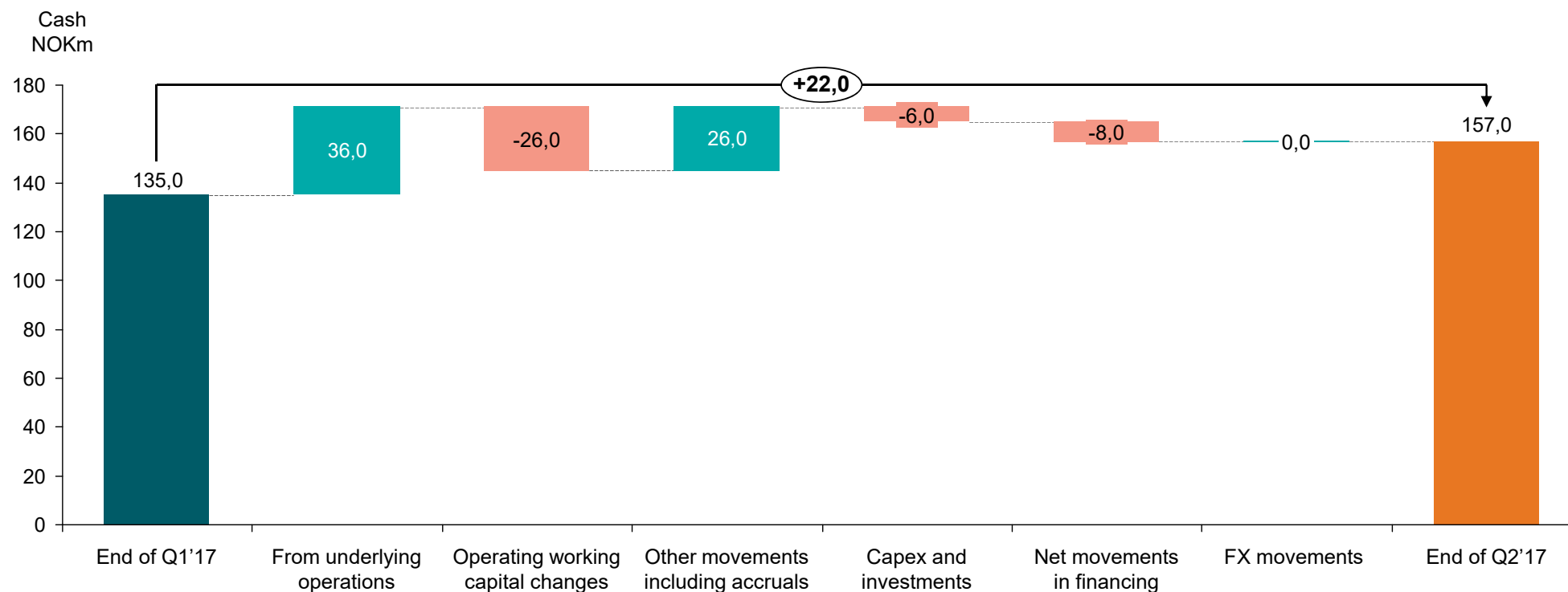
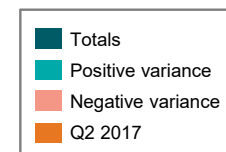
- No significant changes for the quarter
  - Less volatile working capital movements
  - Currency effects both in Assets and Liabilities
- Improved cash position

# Solid balance sheet



Reported NOK 303m net interest bearing debt and 55% equity ratio

# Group cash movements Q2'17



**Stable working capital; Capex spend somewhat offset by sales of formerly leased-out units**



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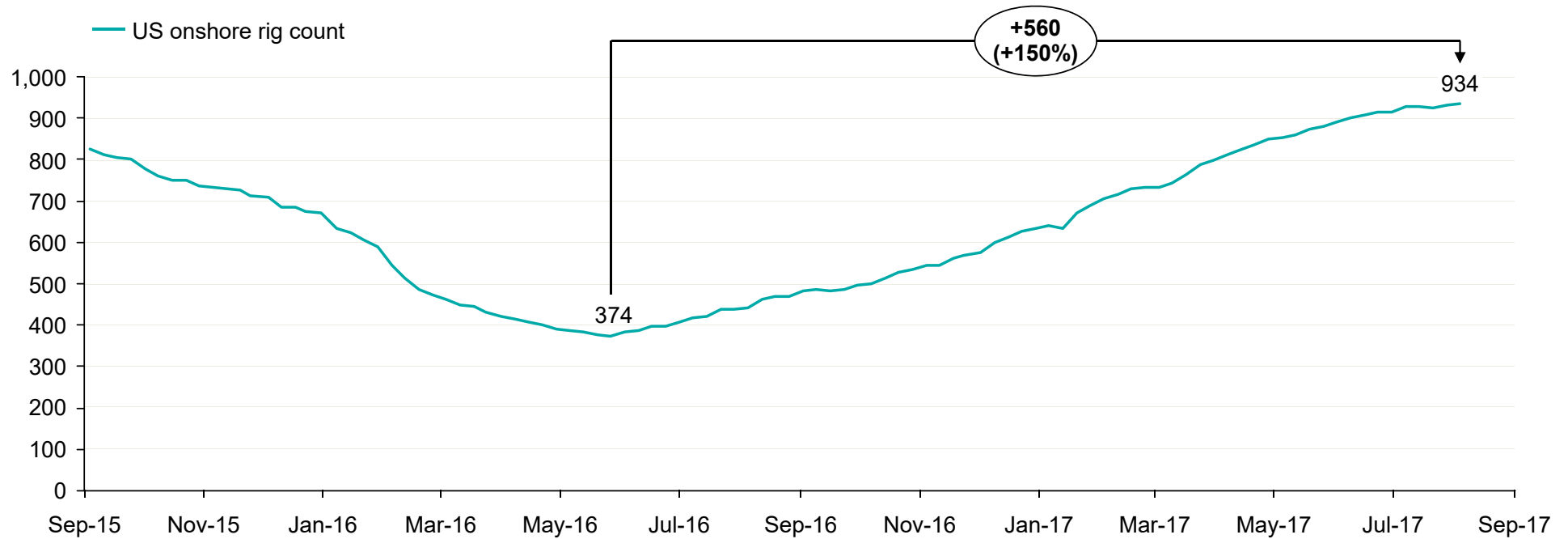
# OUTLOOK

## Mobile Pipeline®

- Order backlog satisfactory in North America driven by high shale oil & gas activity
- Slow market outside North America following several project postponements
- Competitive market has put pressure on margins
  - At the same time increasing relative competitiveness of type 4 mobile pipelines
- Hexagon will focus on further development of products and business solutions achieving the lowest cost per delivered gas volume unit



# Mobile Pipeline® | US onshore rig count



Source: Baker Hughes (data per August 8<sup>th</sup> 2017)

Continued upward trend in US onshore rig count | +560 rigs from bottom in late May 2016

## Mobile Pipeline®

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# The automotive industry is changing

- Diesel downturn
- Significantly stricter environmental regulations
- Shifting consumer preferences
- Shift in powertrain technologies
- Disruptive players stepping up
- Biomethane potential being realized

Automotive industry Revealed: nearly all new diesel cars exceed official pollution limits

Health experts lambast 'deceitful' carmakers as data suggests 97% of vehicles fail to meet NOx emissions standards in real-world conditions



## OEMs choosing different strategies

- Volvo going all electric
  - First OEM to phase out combustion engines
  - All cars to be electric or hybrid from 2019
- Japanese OEMs developing FCEVs platforms
  - Supporting the government’s 2020 target of 40,000 FCEVs
- Volkswagen pursuing CNG
  - CNG and biomethane’s short-term availability realize immediate CO2 reductions
  - CNG technology will build on existing product platforms and supplier base



[CNG bewegt](#) [Key Messages](#) [CNG Modelle](#) [Strategie](#) [Industriepartner](#) [FAQ](#) [Zahlen, Daten, Fakten](#) [Download](#)

CNG ALS KRAFTSTOFF – MEHR ENERGIE, WENIGER EMISSIONEN



*“The CNG is a bet of the Volkswagen group”*

Luca de Meo, CEO of SEAT

## Environmental demands favor CNG vehicles

- New EU legislation sets mandatory emission targets for new cars
  - In 2020 the target value for all new cars is 95g CO<sub>2</sub>/km
- Stiff penalties for OEMs failing to meet the regulation
  - €95/gram of CO<sub>2</sub> above target for each car sold
  - Potentially billions of Euros
- Biogas and e-gas strengthen CNG value proposition
  - Increased share of biomethane in the natural gas blend makes it greener
  - Biomethane is 100% renewable and can be net carbon-negative
- Regulators should shift focus from tail pipe emissions to “well to wheel” requirements
  - Electric vehicles measured by tailpipe emissions have an incorrect advantage vs. CNG
  - CNG vehicles measured as natural gas instead of the real mix of natural gas and biomethane have an incorrect disadvantage vs. alternatives



Audi A3 Sportback g-tron CNG edition meetings new emissions regulations

Photo: Volkswagen

## Light-Duty Vehicles CNG

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- Healthy Q3 and Q4 market outlook
  - Deliveries to a new CNG model commenced in Q3 with ramp-up expected from Q4
  - Product acceptance issue resolved
- Longer term demand should be strong

“Its short-term availability makes natural gas an important component of our overall strategy for eco-friendly mobility of the future. Owing to the addition of methane from renewable resources, the propellant can gradually become even greener. This makes it an important constituent of the energy revolution in the transport sector in the long run, too.”

- Volkswagen Group



Photo: Volkswagen

# Hydrogen

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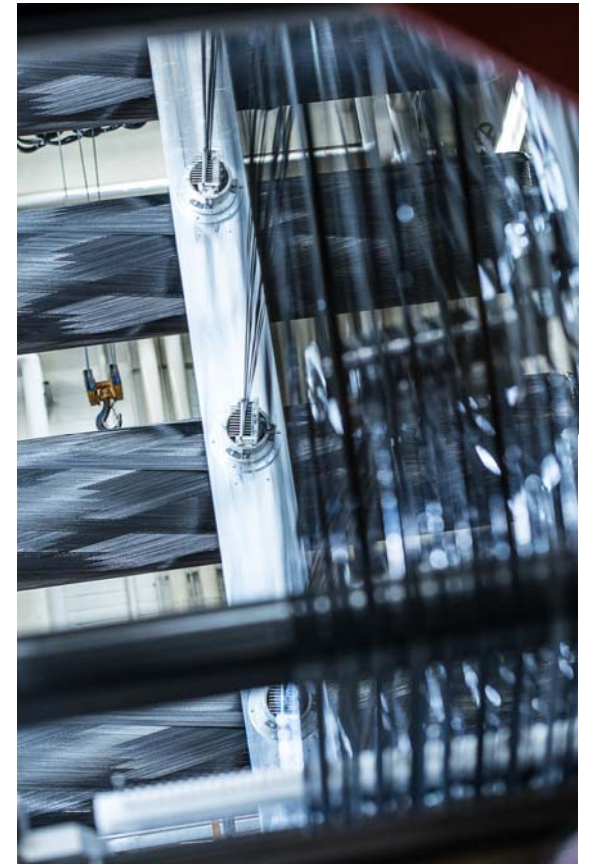
- Awarded a major development contract for hydrogen cylinders for new FCEV models
  - Development contract worth more than MUSD 10 (approx. MNOK 80)
    - Targeted to run until 2020
  - Leveraging our long term investments in the US and recent strategic investment in xperion in Germany and the US



## Will utilize existing production footprint short term

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- The feasibility study with Mitsui & Co. and Toray has concluded on a two-phase manufacturing strategy
- Following Hexagon's acquisition of xperion late 2016, utilization of existing structure is optimal for phase 1
  - California appearing as #1 market opportunity near term
  - Japanese opportunity also significant
  - Ambitious infrastructure roll-out in Germany
  - Other European countries expected to follow suit
- A phase 2 joint venture and capacity expansion in Japan will be considered in due course



## Heavy-Duty and more

- First orders to heavy-duty vehicles
  - ASKO's first hydrogen-powered Scania trucks in Norway
  - Toyota's proof-of-concept in Los Angeles
- Commercialization of bus market
  - New projects and initiatives announced in Europe, China and South Korea
- Multiple projects in other applications, including Marine



Photo: Toyota



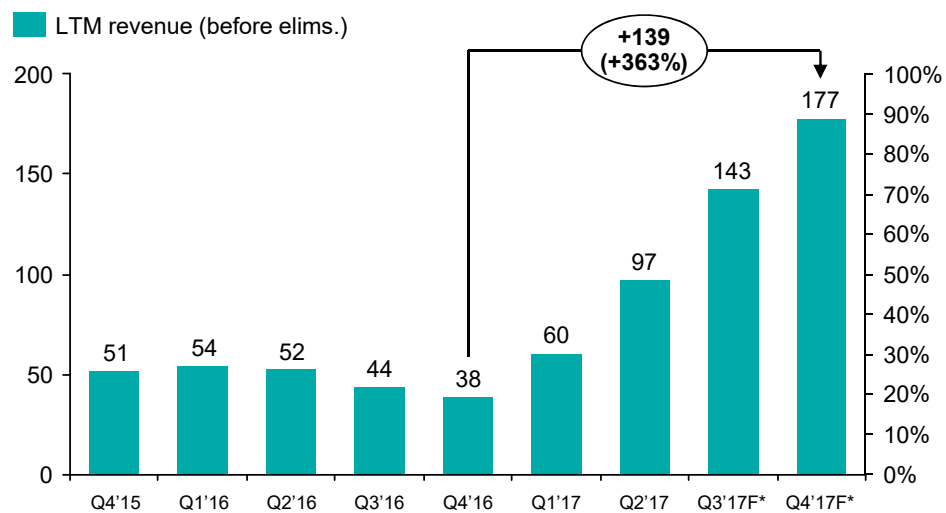
Photo: ASKO

*“The use of batteries to power heavy duty trucks would be very expensive. They would also be so large and heavy that the trucks’ payload capacity would be considerably reduced. We have to obey the laws of physics and respect material-related constraints.”*

- Anders Ødegård, Project manager, of SINTEF's department of sustainable energy technology

# Strong H2 growth and increasing relative importance

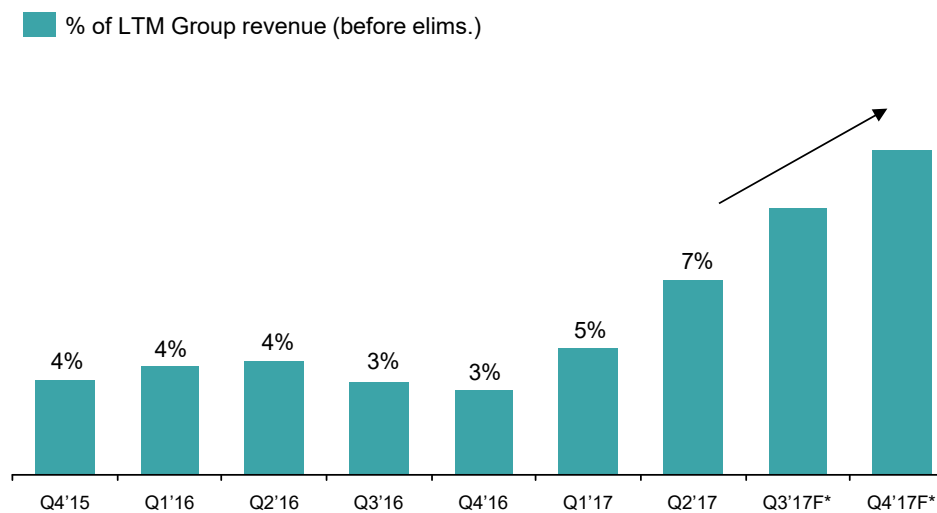
Last twelve months Hydrogen revenues (NOKm)\*



Last twelve months H2 revenues are expected to increase to NOK 177m\* by year-end 2017 (+363% from 2016)

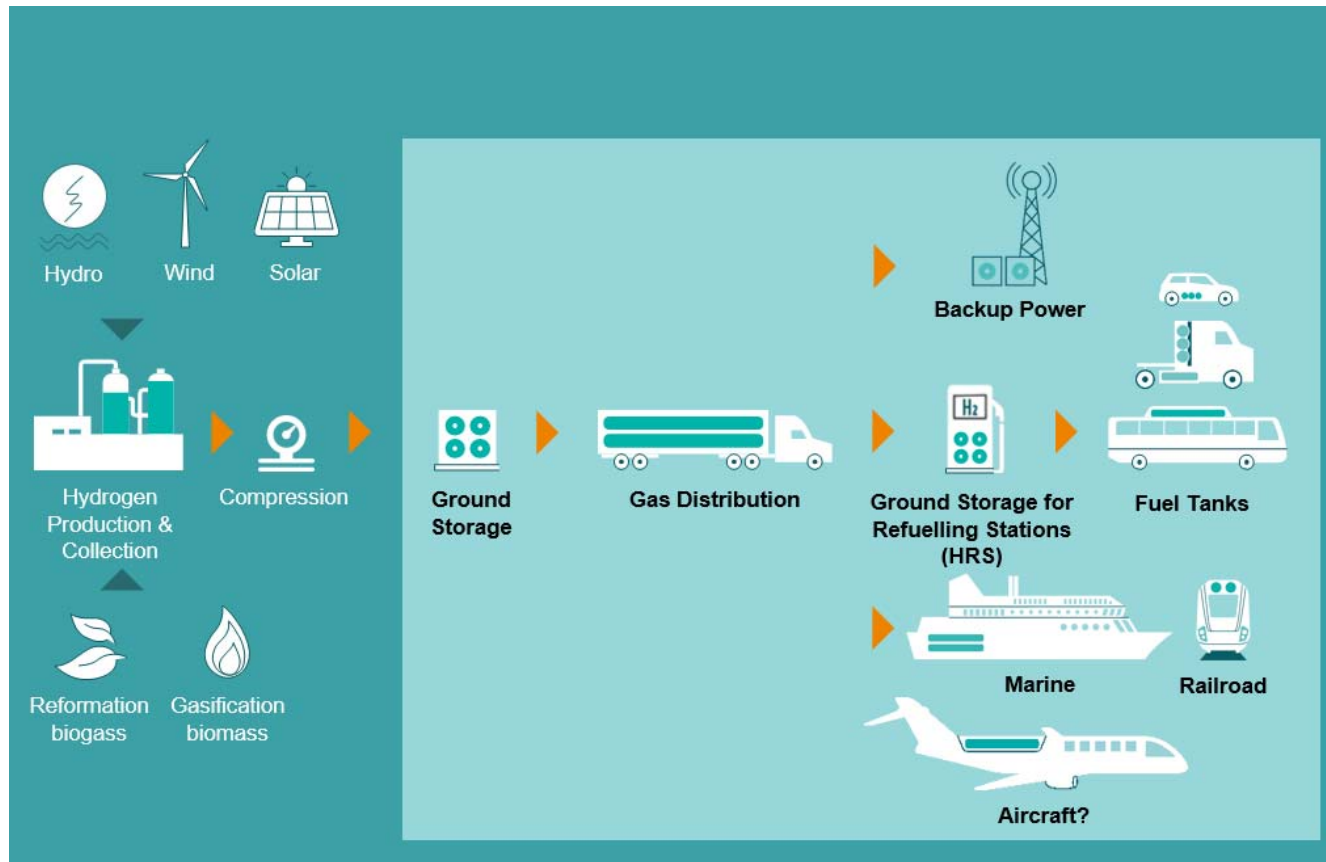
\* Estimate, before eliminations

LTM Hydrogen revenues\* as % of total group sales



Hydrogen revenues are expected to increase to more than 10%\* of Group total by year-end 2017

# And we thought we were visionary...



## Agility Fuel Solutions

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- 2017 Heavy-Duty market relatively flat
  - Strong focus on cost, plant optimization and vertical synergies are expected to continue to drive sound profit levels despite the still relatively soft market
- UPS setting the standard, investing in natural gas infrastructure
  - Updates its sustainability goals for more alternative fuels
  - 25% of new vehicles will be an alternative fuel or advanced technology vehicle
    - Up from 16 % in 2016
- Deliveries of fuel solutions to biogas double-decker buses in the UK
- Expanding Powertrain Systems business unit (propane)
  - Partners with a US bus manufacturer to target the school bus market with propane fuel systems



*Nottingham City Transport (NCT) has unveiled the first new biogas powered double-decker buses that will begin service in the city (photo courtesy NCT).*

# LPG

- Solid order backlog for 2<sup>nd</sup> half
  - High capacity utilization planned but more complex product mix
  - Maintenance break in Q4
- High sales to south European core markets where LPG is used for cooking and heating
- Good traction in the Middle East
  - Received new major order to Iraq expected to start deliveries within 2017
  - Introductory orders from two new markets



# Investing in product differentiation, faster cycle-times and capacity improvements

- Investment program of MNOK 45 concluded in 2016 increased capacity by debottlenecking key production steps
  - Main objective was product differentiation
  - Annual production capacity increased from 1.55 million to 1.75 million cylinders
- MNOK 75 investment (2017-2019) program will grant further differentiation and capacity increase
  - Meet customer specific design requirements through branding, design and features
  - Increase annual production capacity from 1.75 million to 2.0 million by mid 2019



## Outlook – Summary

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- Challenges to be overcome in the Mobile Pipeline® segment
  - Sound in North American oil & gas market
- Healthy market growth expected for Light-Duty Vehicles in 2017 and exciting longer term prospects
- Highly satisfactory hydrogen development
- Sound Agility performance despite stagnant US market
- LPG continues to prosper



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## Questions Please

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Jon Erik Engeset, CEO

David Bandele, CFO