

# DRIVING ENERGY TRANSFORMATION







HEXAGON

# Q2

2019 SECOND QUARTER  
HALF YEAR INTERIM REPORT

OSLO, 14 AUGUST 2019

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# Agenda

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- Strategy update
- Summary Group highlights and financials
- Outlook
- Q & A
- Appendix: Segment financials & other material

# Strategic context

1

## The shift to clean energy alternatives past the point of no return

Governments, companies and the public at large are seeing **global warming** and local pollution as **main threats to civilization**



### Reducing China's CO<sub>2</sub> Emissions Would Curb Deadly Air Pollution in the U.S.

China's move away from fossil fuels would mean 2,000 fewer premature deaths in the U.S. by 2030

By John Paulus, E&E News on July 26, 2019



Credit: Wang Dong/Getty Images

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2

## Financiers prefer ESG papers

**Financial investors** are generally **looking favorably at ESG investment opportunities** – and capital is available at **attractive terms**

Generation SRI

### Sustainable investment joins the mainstream

Millennials are coming into money and want to invest it responsibly



### Summa Equity closes its Fund II with SEK 6.5 billion to invest to solve global challenges

TUE, FEB 26, 2019 18:02 CET

### EIB plans to cut all funding for fossil fuel projects by 2020

EU's lending arm financed oil, gas and coal projects in 2018 with more than €2.4bn

# Strategic context

3

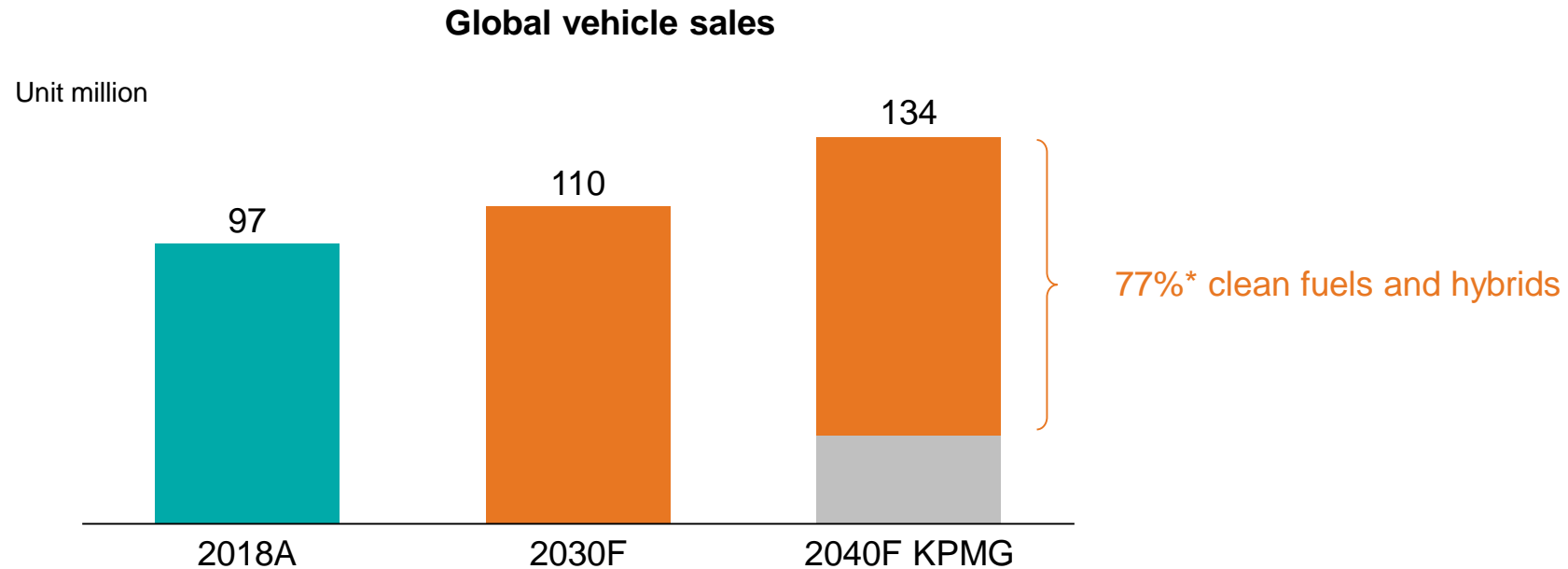
## Significant push for greener transportation

- Short to medium term (5-10 years), **natural gas** represents the energy carrier with the **largest potential** for a **positive environmental impact**
  - Further improved by blending with **Biogas (RNG)**, with its **carbon negative** characteristics
- The automotive industry is shifting towards **electric drive trains**. **E-drives** are more **energy efficient** than mechanical drive trains
  - The jury is still out on Battery Electric vs Fuel Cell (Hydrogen) Electric vs Hybrids
  - Infrastructure is a huge challenge, less so for hybrids
- Centre of gravity of **Hydrogen** development shifting towards East Asia and towards heavier applications – LDV projects in Europe and North America delayed



We expect **significant growth**

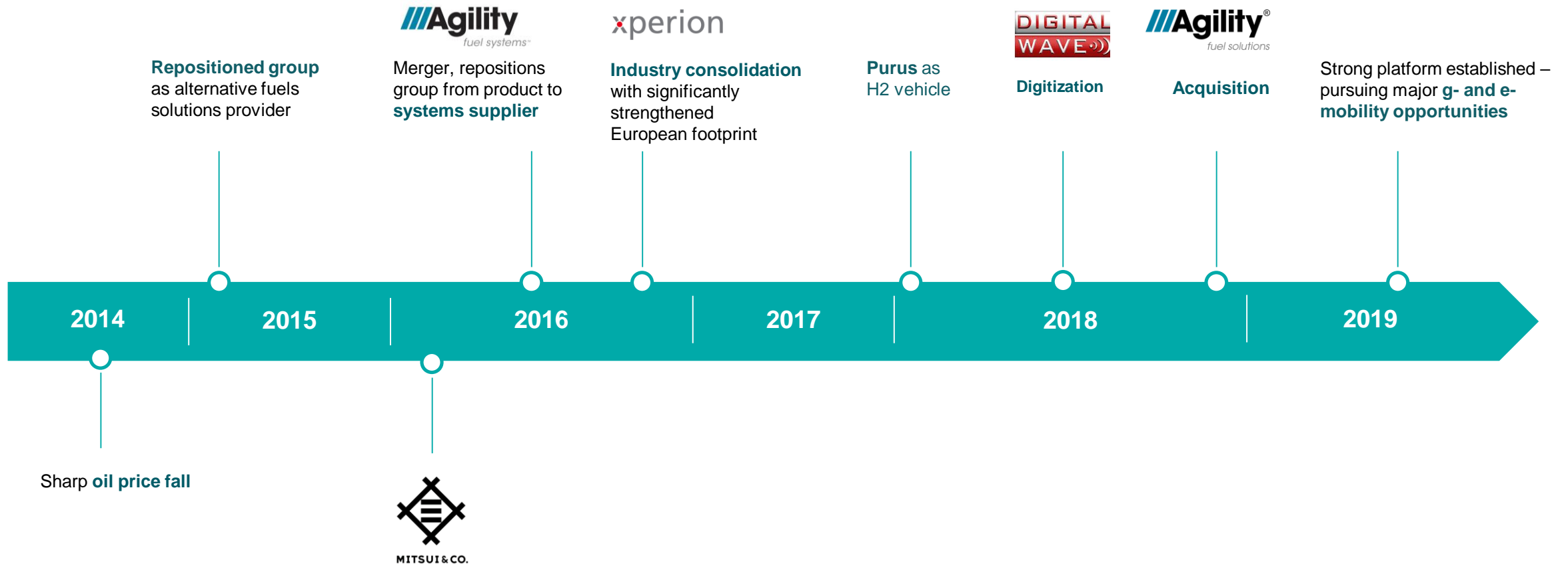
# Mobility shifting to cleaner solutions



In 2018 Hexagon's addressable g-mobility and e-mobility market was estimated to **0.04%** of all vehicles sold, corresponding to **~NOK 4 billion**

**If 10% by 2030 → more than NOK 600 billion addressable market**

# Strategy recap – from shale gas play to world leader in clean fuel systems







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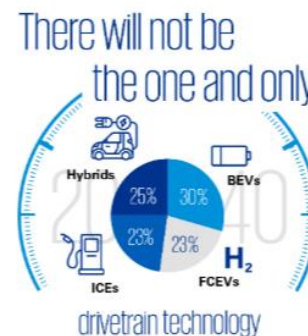
# World leading engineering capabilities



# Hexagon has solutions across the clean fuels spectrum

## g-mobility

LOW EMISSION



There will not be a 'one and only' drivetrain technology: executives project a similar split by 2040 for BEVs (30%), FCEVs (23%), ICEs (23%) and hybrids (25%).

## e-mobility

ZERO EMISSION



CNG	Biogas / RNG	Hybrids	Battery Electric	Hydrogen
<ul style="list-style-type: none"> <li>Tier 1 products and systems supplier</li> </ul>		<ul style="list-style-type: none"> <li>Combining g-mobility and e-mobility</li> </ul>	<ul style="list-style-type: none"> <li>Electric drivetrain and vehicle integration</li> <li>Own battery pack design</li> </ul>	<ul style="list-style-type: none"> <li>Tier 1 products and systems supplier</li> </ul>

# Hydrogen momentum building up strongly

- Hydrogen core topic at G20 summit in Japan
  - The US, EU and Japan formed a new hydrogen and fuel cells partnership
- German government targeting leadership position
  - Desire to break out of coal dependency
- Cummins acquiring Hydrogenics

**The world should not miss this unique chance to make hydrogen an important part of our clean and secure energy future.**

The Future of Hydrogen



Source: IEA report "The Future of Hydrogen", June 2019

**"Hydrogen is one of the hottest topics in the energy transition in the country (Germany) at the moment. The interest from the private sector is really huge."**

Inga Posch, Managing Director at FNB Gas e.V., the federation of Germany's gas network operators



# China's "father of electric cars" says hydrogen is the future

- Government targets 1 million hydrogen fuel cell vehicles by 2030
  - Home to half of the global EV fleet
  - Delivery vans, buses and trucks prioritized segments
- Energy independence and local pollution main drivers
- Significant hydrogen capacities available



**"We will sort out the factors that have been hindering the development of fuel-cell vehicles."**

Wang Gang, Vice Chairman of China's national advisory body for policy making

# Renewable natural gas (RNG)

## – the fast track to emission reductions

- UPS targets 40% alternative fuels by 2025
  - Makes record RNG deal of 170 million diesel gallon equivalents
- RNG gives 45% - 382% CO<sub>2</sub> reductions compared with diesel\*



By switching from diesel to RNG UPS vehicles will realize a significant CO<sub>2</sub> reduction

**“It’s (RNG) a winning solution that will help UPS to reach our ambitious sustainability goals. At the same time, we hope our unprecedented seven-year commitment serves as a catalyst for wider adoption of RNG by other companies.”**

-Mike Casteel, UPS director of fleet procurement

# CNG and RNG core to VW's decarbonization strategy

## 19 gas-powered passenger car models

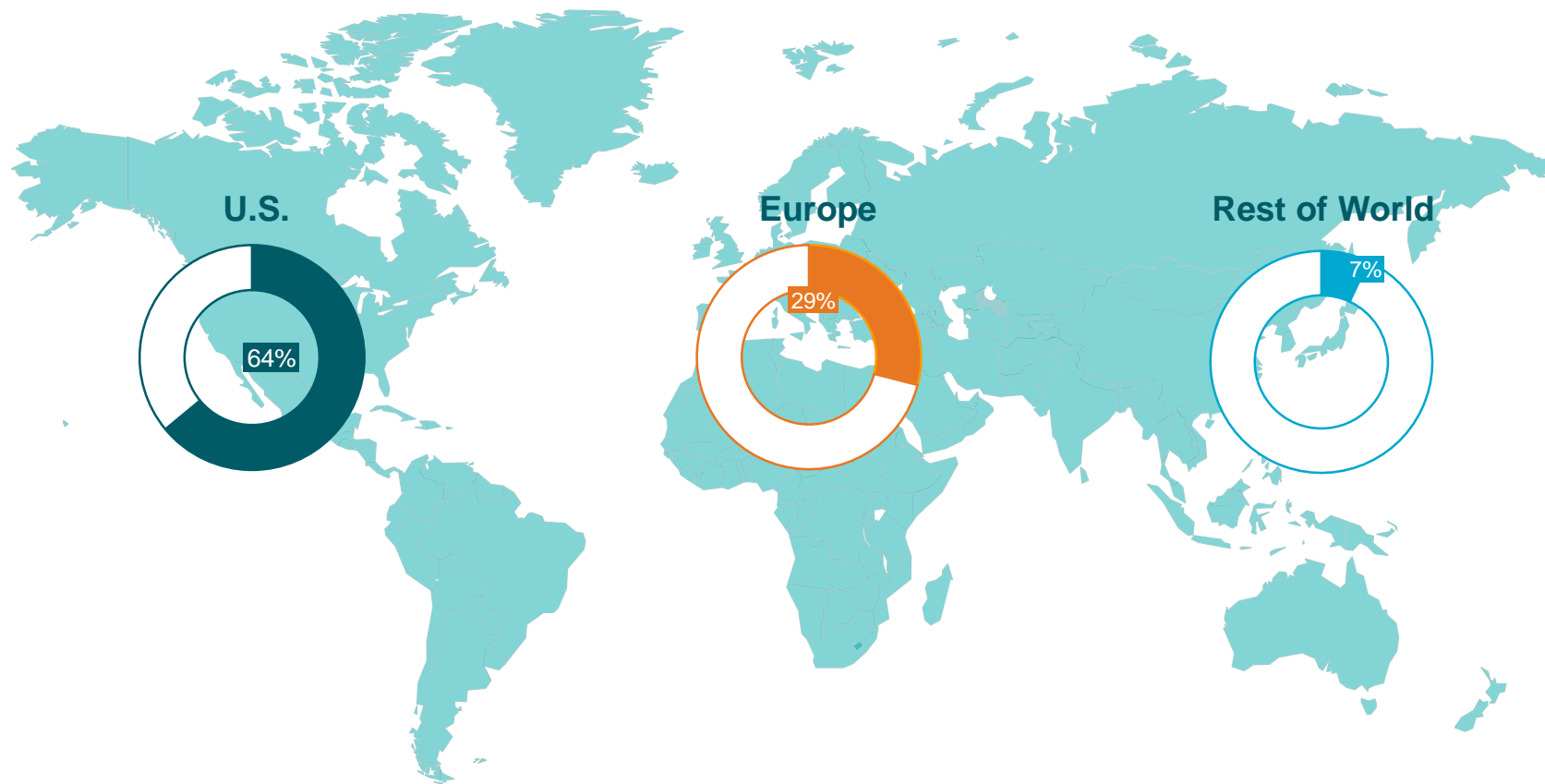


**“Volkswagen is committed to the Paris Climate Agreement. CNG has an important role to play in the alternative drive systems strategy that runs alongside the Group’s electrification offensive. It is sufficiently proven, immediately available, efficient and cost-effective.”**

Stephen Neumann, Volkswagen Group Representative for CNG Mobility



# Leverage established leadership position to pursue even stronger growth



% of sales

- R&D
- World Class Organization
- Asian footprint



# DRIVING ENERGY TRANSFORMATION







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2nd

QUARTER 2019

# FINANCIALS



# Highlights from Q2 2019

- Strong Agility Fuel Solutions growth
  - 44% increase in overall revenue versus Q2 2018
  - Driven primarily by Refuse Truck volumes
- Strong CNG Light-Duty Vehicle volumes
  - Volkswagen pushing CNG in Europe;
    - Tripling of annual production volume from 2018 to 2019
- Relatively soft Mobile Pipeline volumes
  - Pick-up outside North America
- Solid LPG sales volumes
  - Profitability impacted adversely by mix factors
- Dynamic Hydrogen market
  - Delay in a hydrogen light-duty project
  - Joined H2Bus Consortium focused on heavy-duty

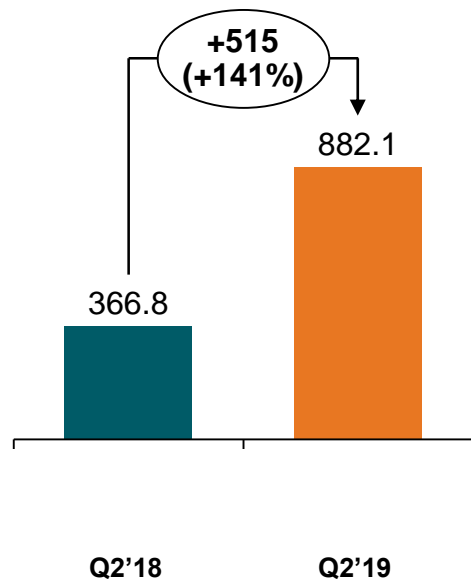


# Financial highlights Q2 2019 | Agility consolidated from 2019

## Hexagon Composites Group

### Revenues

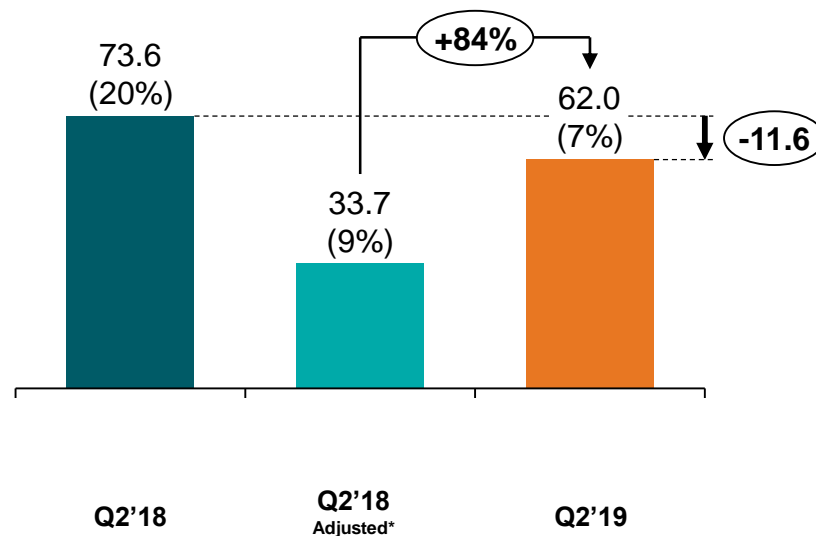
NOKm



- Growth driven by inclusion of Agility contributing +NOK 450m and strong CNG LDV

### EBITDA

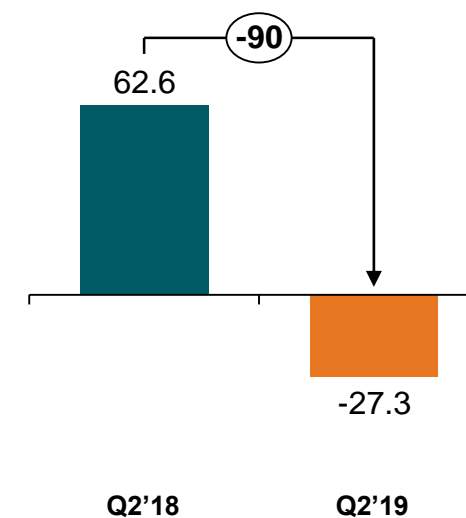
NOKm



- Agility contributes +NOK 38m incl. -NOK 7m transaction impacts
- Hydrogen dilutes by -NOK 30m (-20m)

### Net profit

NOKm

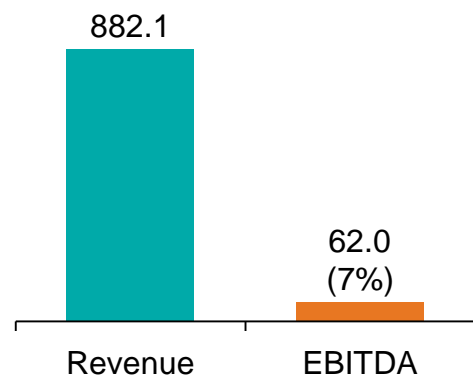


- Depreciation, amortization and reclassified contributions mainly from Agility transaction of -NOK 38m
- Effects of interest & leasing -NOK 20m; FX -NOK 30m; tax +NOK 10m

# Other Hexagon businesses vs Hydrogen results | Q2 2019

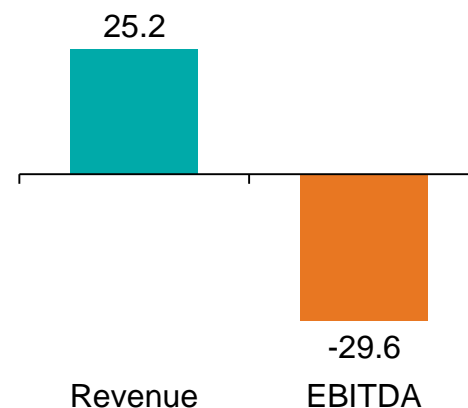
## HEX Group reported

NOKm



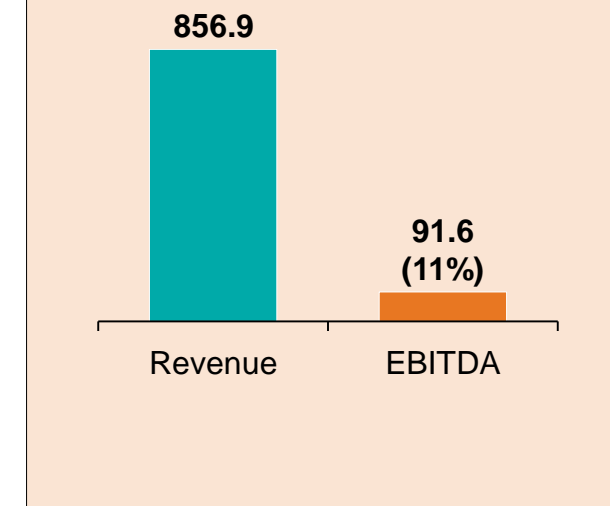
## Hydrogen

NOKm



## Normalized HEX ex. Hydrogen

NOKm

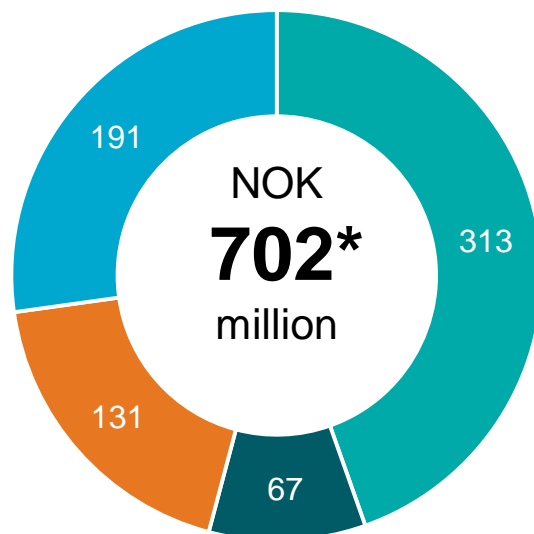


**11% EBITDA margin from normalized non-Hydrogen business**

# Revenue by segment Q2 2019 | Before Group eliminations\*

## Revenue Q2'18 (Proforma Agility & Digital Wave numbers)

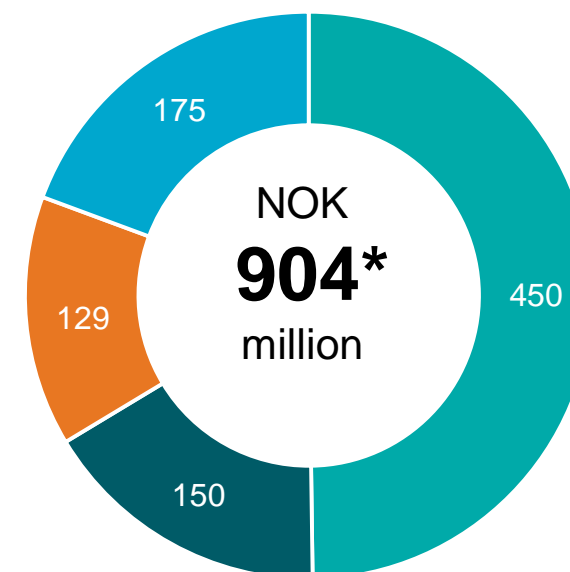
*NOKm, before group eliminations*



- Agility Fuel Solutions (Heavy and Medium-Duty)
- Hexagon Purus (Hydrogen & CNG Light-Duty Vehicles)
- Hexagon Mobile Pipeline & Other
- Hexagon Ragasco LPG

## Revenue Q2'19

*NOKm, before group eliminations*



- Agility Fuel Solutions (Heavy and Medium-Duty)
- Hexagon Purus (Hydrogen & CNG Light-Duty Vehicles)
- Hexagon Mobile Pipeline & Other
- Hexagon Ragasco LPG

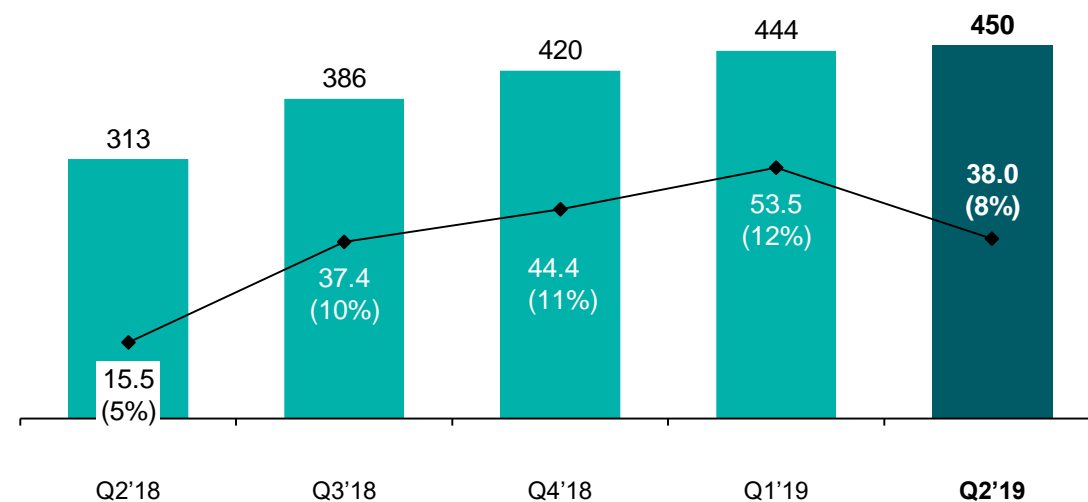


# Agility Fuel Solutions: Q2 2019

- Strong revenue trend maintained
  - Refuse Truck volumes skewed to first half of 2019
  - Accelerating European Transit Bus market
  - Heavy-Duty Truck volumes expected to be skewed to second half of 2019
- Temporary margin reduction is a consequence of
  - PPA and other transaction adjustments of - NOK 7m
  - Adverse mix and ramp-up of EV program
- Self-funded and strongly cash generating

## Revenues and EBITDA\*

NOKm, \*2018 = Pro-forma on reported basis. 2019 = Segment reported

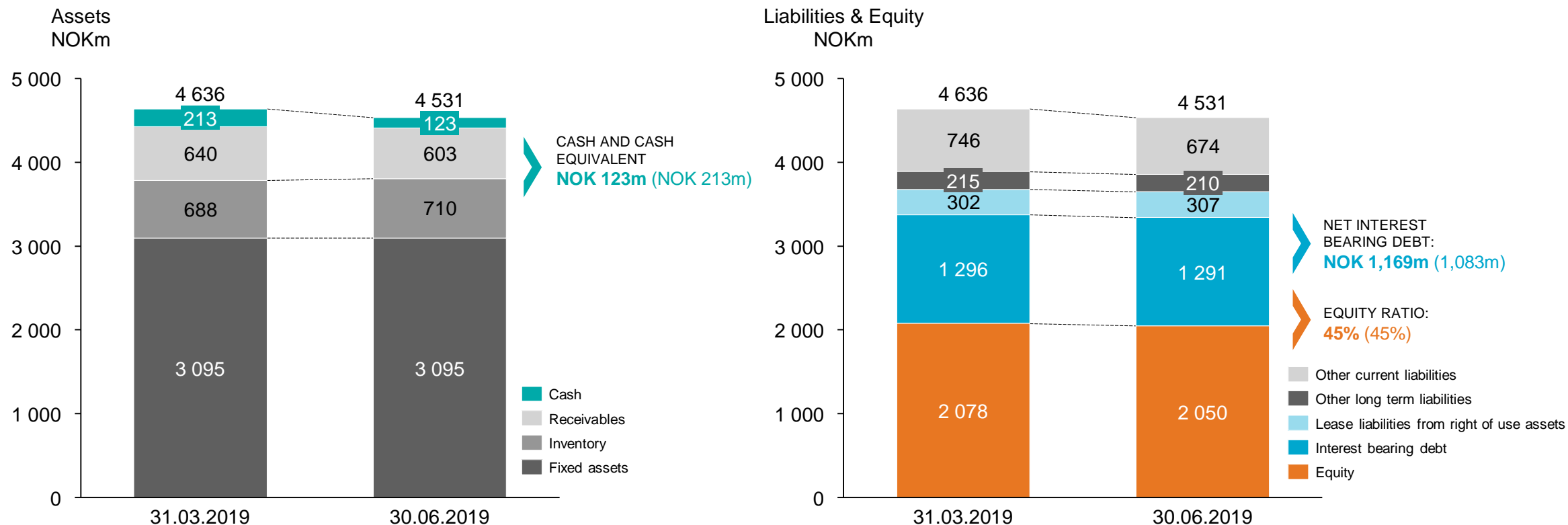


# Balance sheet | Q2 2019 vs Q1 2019

NOK 1,169m Net Interest Bearing Debt & 45% Equity Ratio



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Stable and strong Balance Sheet



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# OUTLOOK



# Agility Fuel Solutions

## Medium and Heavy-Duty Vehicles





## Positive development across all segments

- Accelerated growth in European Transit Bus
  - Backed by more stringent regulations
- Lower 2H 2019 Refuse Truck volumes following a skewed 1H 2019
  - Full year volumes in 2019 remain at high levels
- Growing momentum for low and zero-emission heavy-duty trucks
  - RNG & CNG initiatives help stakeholders achieve sustainability commitments
  - Battery Electric Vehicle pilot programs are on track



Agility is the exclusive supplier of fuel systems to  
MAN Lion's City bus  
Photo: MAN

# Hexagon Purus Hydrogen



# High activity levels especially within Heavy-Duty applications

- H2Bus partnership to drive zero-emission public transportation in Europe
  - Deploying 600 buses by 2023 at competitive price
  - Hexagon to provide hydrogen fuel solutions and distribution trailers
- Strong interest in Asia for hydrogen bus and truck
  - Chinese and Korean markets expanding
- Requiring continued organization ramp-up





# Hexagon Purus CNG Light-Duty Vehicles



# Very strong CNG demand in Europe

- Strong order backlog for CNG Light-Duty Vehicles
  - Order intake at all-time high
- Capacity investment running according to plan
  - Commissioning expected end of Q3
- Growing demand for VW's models in key countries
  - Italy, Germany, Spain, Belgium, Sweden and Czech Republic
  - Target of 1 million vehicles on the road by 2025 in Germany alone



The new VW Golf Variant TGI enabling range up to 440 km (based on WLTP) with CNG alone  
Photo: Volkswagen



# Hexagon Mobile Pipeline



## Strong underlying growth drivers, but challenging near term

- Lumpy demand, with low order visibility for rest of 2019
  - North American oil & gas and industrial users are still main driver of sales
  - Increase in Renewable Natural Gas (RNG) projects provide more diversification
- New order from Certarus of USD 7 million
  - Supporting expansion in eastern Canada e.g. mining sector
- Awarded USD 4 million RNG transportation contract with leading gas utility
  - Enabling reduction of agricultural carbon emissions





# Hexagon Ragasco LPG



## Stable “step by step” development

- Seasonally softer second half of year
- Strategically well positioned in Bangladesh to capture growth opportunities
- Gaining some traction in USA with 7 ongoing pilot programs
- First entry into Bulgaria



Toplivo Gas, Bulgaria

## Group outlook second half of 2019

1

**Weak profitability in Q3; looking strong for Q4**

2

**Agility, CNG LDV and LPG remain strong contributors**

3

**Underlying drivers remain strong with significant push for greener mobility**



# DRIVING ENERGY TRANSFORMATION

A high-angle, vertical photograph of a busy city street, likely in New York City. The street is filled with traffic, including many yellow taxis and various cars. The street is flanked by tall, multi-story buildings on both sides. Lush green trees are visible in the foreground and along the sidewalks, partially obscuring the buildings. The sky is visible at the top of the frame, showing a clear blue color. Overlaid on the center of the image is the text "DRIVING ENERGY TRANSFORMATION" in large, white, bold, sans-serif capital letters.





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# APPENDIX

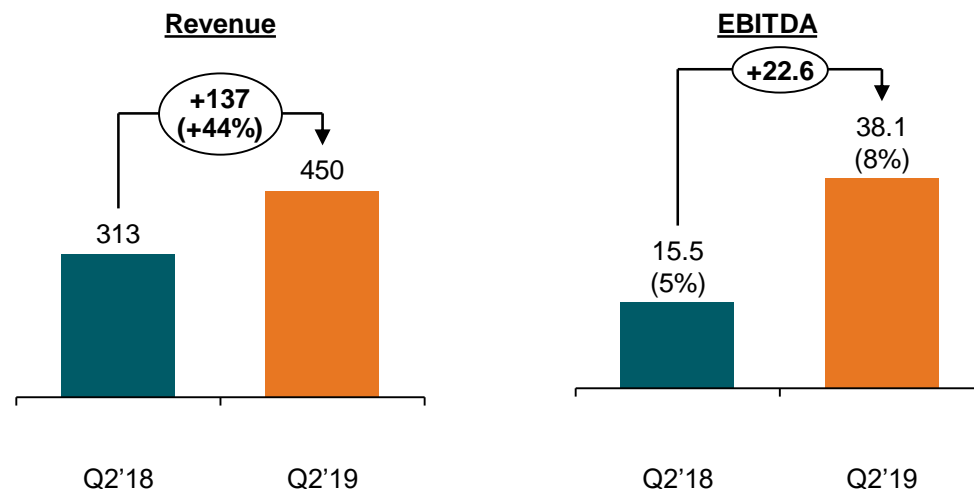
## Q2 2019 Group income statement

NOK MILLION	QUARTER			HALF YEAR			FULL YEAR
	Q2 2019	Q2 2018	Variance	H1 2019	H1 2018	Variance	FY 2018
<b>Revenue</b>	<b>882.1</b>	<b>366.8</b>	<b>515.4</b>	<b>1,703.9</b>	<b>783.0</b>	<b>920.9</b>	<b>1,486.5</b>
Operating expenses	(820.2)	(333.1)	(487.1)	(1,561.0)	(682.8)	(878.2)	(1,360.5)
Earn-out obligation reversal / gain on transaction	0.0	40.0	(40.0)	69.4	40.0	29.4	108.5
<b>EBITDA</b>	<b>62.0</b>	<b>73.6</b>	<b>(11.7)</b>	<b>212.3</b>	<b>140.1</b>	<b>72.1</b>	<b>234.5</b>
Depreciation on tangibles	(44.8)	(13.4)	(31.4)	(87.6)	(26.6)	(61.0)	(52.4)
Amortisation and impairment	(14.3)	(5.9)	(8.3)	(29.5)	(12.0)	(17.6)	(41.9)
<b>EBIT</b>	<b>2.9</b>	<b>54.3</b>	<b>(51.4)</b>	<b>95.2</b>	<b>101.6</b>	<b>(6.5)</b>	<b>140.2</b>
Share of profit/(loss) from associates	(0.3)	1.8	(2.1)	(0.7)	0.9	(1.6)	31.4
Amortisation of associates intangibles	0.0	(3.3)	3.3	0.0	(6.5)	6.5	(13.4)
Other financial items (net)	(34.0)	16.2	(50.2)	(59.7)	4.3	(64.0)	10.6
<b>Profit/(loss) before tax</b>	<b>(31.3)</b>	<b>69.0</b>	<b>(100.3)</b>	<b>34.8</b>	<b>100.3</b>	<b>(65.5)</b>	<b>168.7</b>
Tax expense	4.0	(6.4)	10.4	6.3	(14.6)	21.0	(27.3)
<b>Profit/(loss) after tax</b>	<b>(27.3)</b>	<b>62.6</b>	<b>(89.9)</b>	<b>41.1</b>	<b>85.7</b>	<b>(44.5)</b>	<b>141.5</b>
<i>EBITDA %</i>	7.0 %	20.1 %		12.5 %	17.9 %		15.8 %
<i>EBIT %</i>	0.3 %	14.8 %		5.6 %	13.0 %		9.4 %
<i>Profit/(loss) after tax %</i>	-3.1 %	17.1 %		2.4 %	10.9 %		9.5 %

# Segment financial highlights Q2 2019

## Agility Fuel Solutions

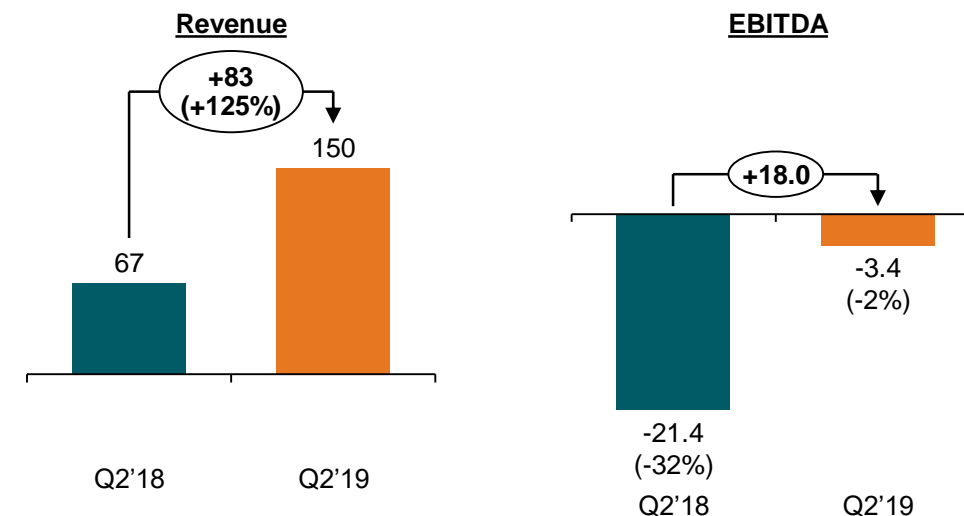
NOKm. Note: 2018 = Pro-forma on reported basis



- Continue strong topline growth with +44% vs. last year, coupled with margin expansion
- Growth primarily from Refuse truck

## Hexagon Purus (Hydrogen & CNG LDV)

NOKm



- Very strong year-over-year revenue increase driven by CNG LDV
- Investing in future H2 growth dilutes EBITDA by NOK -29.6m

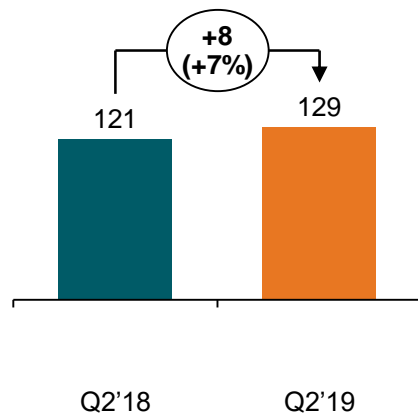
# Segment financial highlights Q2 2019

## Hexagon Mobile Pipeline & Other

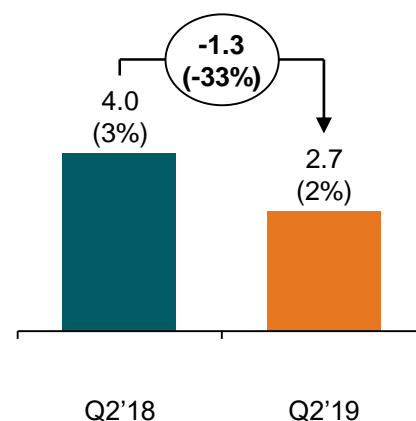
NOKm



### Revenue



### EBITDA



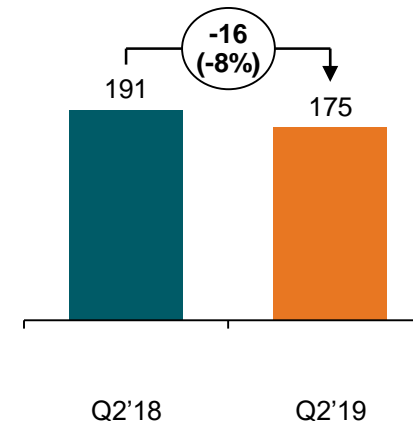
- Flattish development versus last year with adverse product/market mix

## Hexagon Ragasco (LPG)

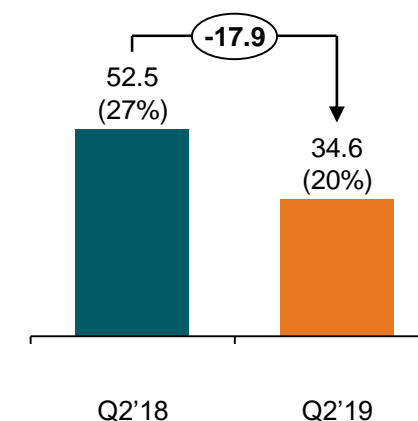
NOKm. Note: 2018 = Pro-forma adjusted



### Revenue



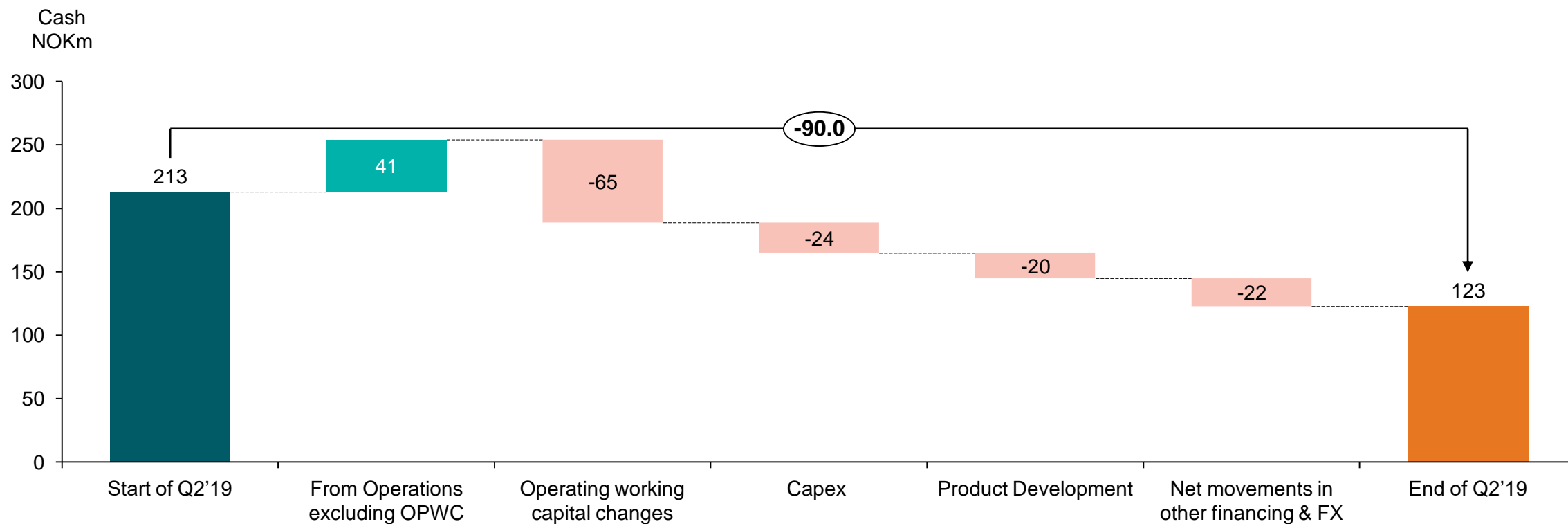
### EBITDA



- Revenues primarily from Asian and core European markets
- Product mix effects drive lower year-over-year EBITDA



# Group cash movements Q2 2019



Cash generation from operations offset by working capital draw