
PrimeStone

Long Term Value Added Investors



“Strengthening Mears for a brighter future”

8th May 2019

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Agenda

- Executive Summary
- How Did We Get Here?
- Strengthening the Board
- Conclusion

Executive Summary

Mears is the market leader in an attractive industry

Financial performance and communication has been poor

Board needs to be strengthened as soon as possible

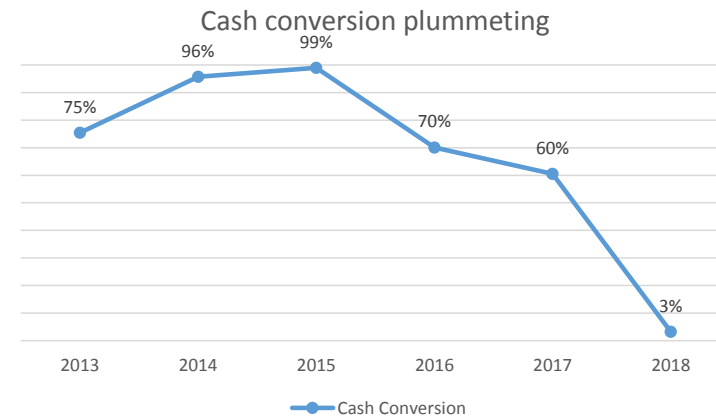
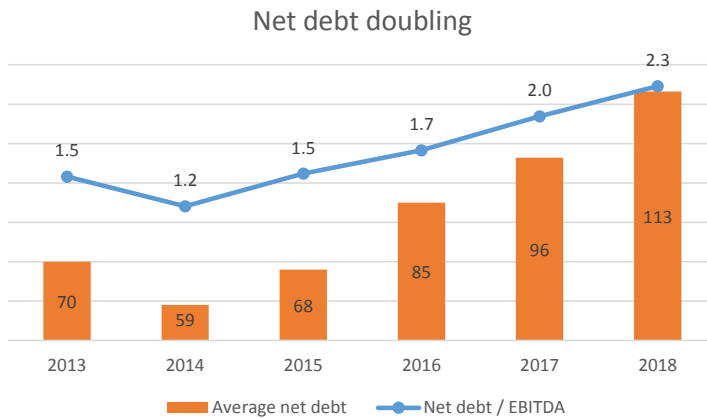
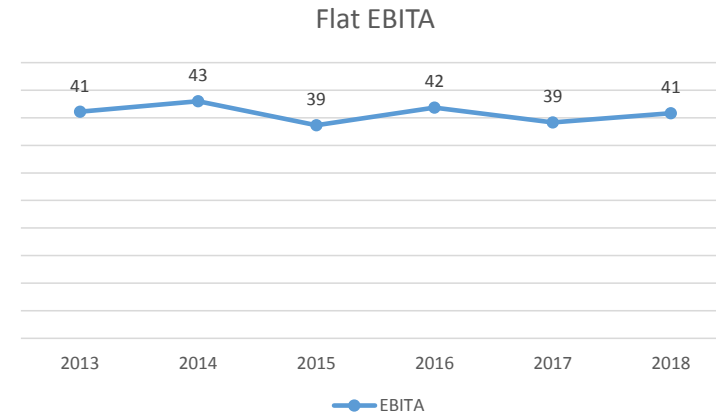
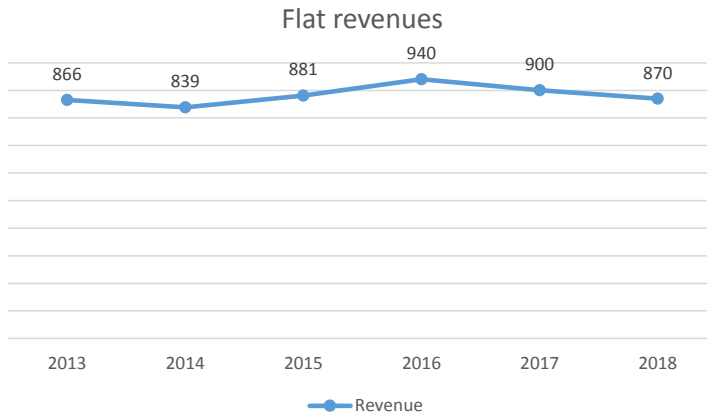
- Strong core Housing Maintenance business:
 - Stable margin, defensive business with revenue backed by government credit and entrenched regulation
 - Exclusive long-term contracts, cost advantage vs. insourcing, excellent quality of service track record
- Exciting expansion into Housing Management business:
 - Longer-term contracts of 10+ years, higher margin, increased scale benefits
- Attractive growth prospects: social rent increase (CPI + 1% from 2020), reduced competition
- Flat revenue and flat profit over the last 5 years
- 11 profit warnings since 2014
- Average net debt has doubled in the last 4 years
- Cash conversion has collapsed from historic 90%+ level to 3% in 2018
- Mears' share price has fallen by more than 50% in the last two years
- Current Board has failed to evaluate the situation and take the necessary corrective actions
- The Board lacks critical financial and commercial competencies needed to restore Mears' performance
- PrimeStone has identified two talented and highly experienced candidates with strong financial and commercial skills after a thorough external recruitment process
- These candidates are independent of PrimeStone and would benefit all shareholders and all other stakeholders

We request your support to help strengthen Mears
Please support our resolutions to appoint two talented NEDs to the Board

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- **How Did We Get Here?**
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Poor Financial Performance

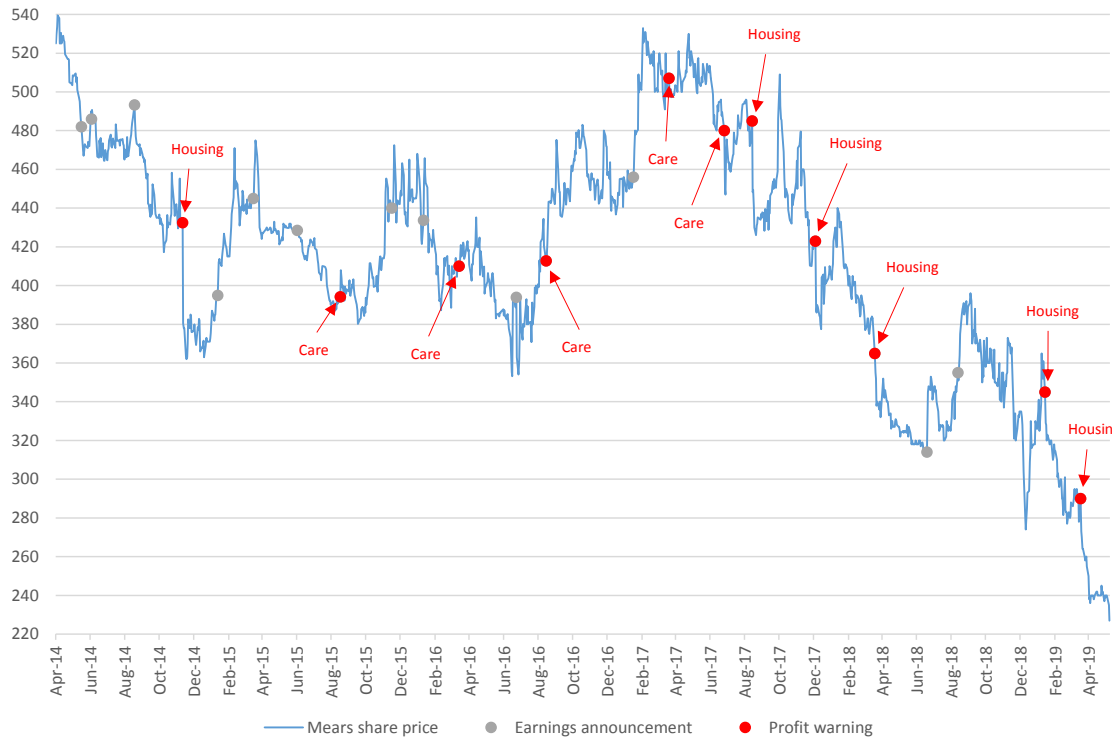


Source: Company reports and PrimeStone analysis

Unacceptable deterioration of cash flow and balance sheet over the last 3 years

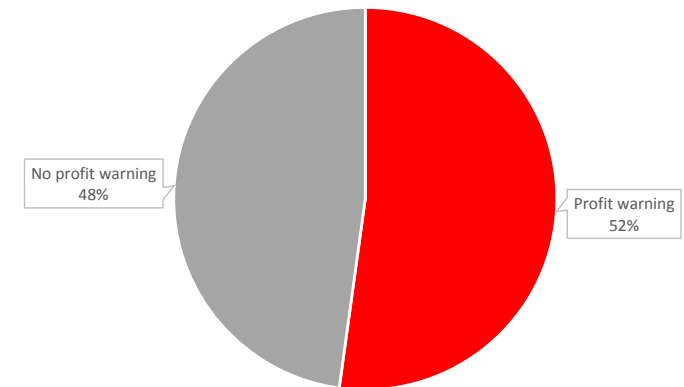
Serial Profit Warnings and Poor Share Price Performance

11 profit warnings in the last 5 years



Source: Bloomberg, analyst reports and PrimeStone analysis

More common for Mears to issue a profit warning than not



Source: Bloomberg, analyst reports and PrimeStone analysis
 Note: chart shows percentage of earnings releases in the last 5 years that contain a profit warning

The market has lost confidence in the company's ability to forecast

Poor TSR Performance – Absolute and Relative to Peers

Total Shareholder Return:						
Absolute %	5-Year	4-Year	3-Year	2-Year	1-Year	YTD
Mears	(49%)	(41%)	(38%)	(52%)	(28%)	(30%)
FTSE Support Services	40%	26%	34%	10%	6%	15%
FTSE All-Share	31%	22%	33%	8%	(0%)	10%
FTSE SmallCap	45%	35%	35%	7%	(2%)	10%

Total Shareholder Return:						
Mears relative to indices %	5-Year	4-Year	3-Year	2-Year	1-Year	YTD
FTSE Support Services	(89%)	(67%)	(72%)	(62%)	(33%)	(45%)
FTSE All-Share	(80%)	(63%)	(71%)	(59%)	(27%)	(41%)
FTSE SmallCap	(94%)	(76%)	(74%)	(59%)	(25%)	(40%)

Source: Bloomberg

Note: Performance relative to indices is performance of Mears less performance of index in percentage points

Mears has materially underperformed its peers against all time periods

Mears has Lost Credibility with the Market and Good News is Ignored



Source: Bloomberg, Company reports and PrimeStone analysis

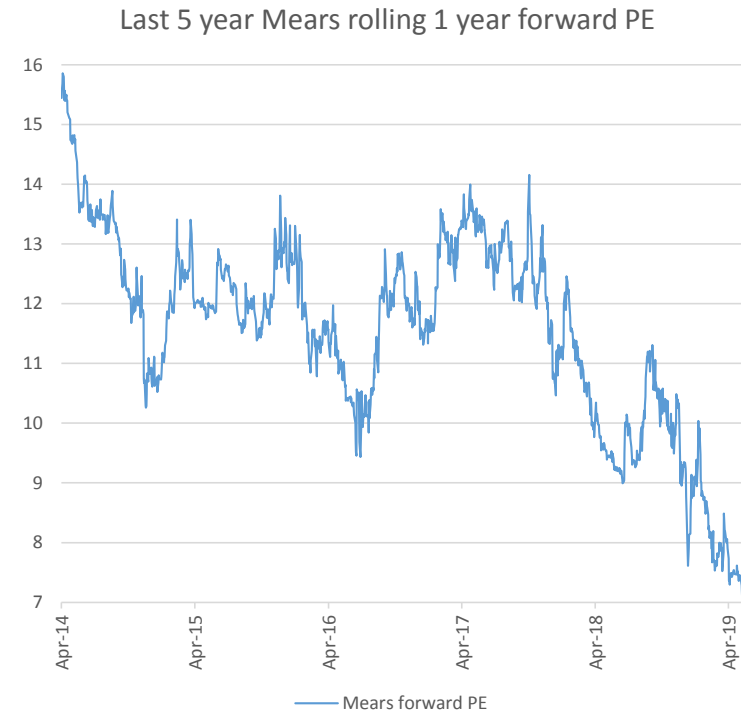
Unfortunately the market no longer gives Mears credit for good news

Attractive Prospects Not Reflected in Current Valuation

Social housing to enter a new growth period

- More money in industry
 - The four-year period of 1% rent cuts per year ends in Apr-20
 - Going forward rents will increase by CPI + 1%
- Much improved industry structure
 - Mears has fewer competitors today
- Number of Social Homes to increase
 - Undisputed demand for more social housing
 - There is political will to build more housing
- Increased need for Maintenance and Management
 - New regulations in industry driving the need for further maintenance and management

... yet the market has “thrown in the towel” on Mears



7x PE not reflective of quality of business nor future earnings growth

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- **Strengthening the Board**
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Current Board is Responsible for Failings at the Company

- Lack of commercial and financial skills has resulted in:
 - The decline of the core Housing Maintenance business (sales declined by 18% since 2015)
 - The foray into capital intensive, low/negative profitability housebuilding
 - Ballooning working capital (£77m of cash consumed over last three years)
 - Poor financial communication (11 profit warnings in 5 years)
 - A lack of material remedial action

This Board has been unable to monitor the business or appropriately challenge the executives

Current Board Lacks Critical Commercial and Financial Skills

Name	Role	Tenure	Sector	Short CV
Kieran Murphy	Chairman	4 months	Banking	H M Treasury, Klienwort Benson, Gleacher Shacklock
David Miles	CEO	12 years	Social Housing	Mears
Andrew Smith	FD	12 years	Social Housing	Mears
Alan Long	ED	10 years	Social Housing	Mears
Geraint Davies	NED	3.5 years	Accounting	Grant Thornton, Deloitte
Julia Unwin	NED	3.4 years	Charities	Joseph Rowntree Foundation, Joseph Rowntree Housing Trust
Jason Burt	NED	1.9 years	Legal/Health & Safety	Plexus Law
Roy Irwin	NED	1.9 years	Social Housing	Chief Inspector of Housing for England and Wales, City of Bristol
Elizabeth Corrado	NED	1.6 years	Charity/Social Investing	Power to Change, Nesta Impact Investments, Engaged Investment
Amanda Hillerby	Employee rep.	0.9 years	Social Housing	Mears

How can the current Board do a good job at recruiting directors with skills (commercial and financial) it does not have?

PrimeStone Took Action

- PrimeStone hired an independent reputable search firm to find two independent NEDs with the following attributes:
 - Strong reputation and track record as UK plc Chairman, CEO, CFO or NED
 - Strong financial capabilities with a focus on cash flow and capital allocation
 - Substantial experience of operational improvement
 - Experience in the sector in which Mears operates
- Andrew Coppel and Ian Lawson were identified as the leading candidates
- Both candidates are completely independent from PrimeStone with no existing or previous relationship

Mears would benefit from a strengthening of the Board
to improve the balance of experience and expertise

Two Talented Candidates to Strengthen Mears Board

Andrew Coppel
(68)

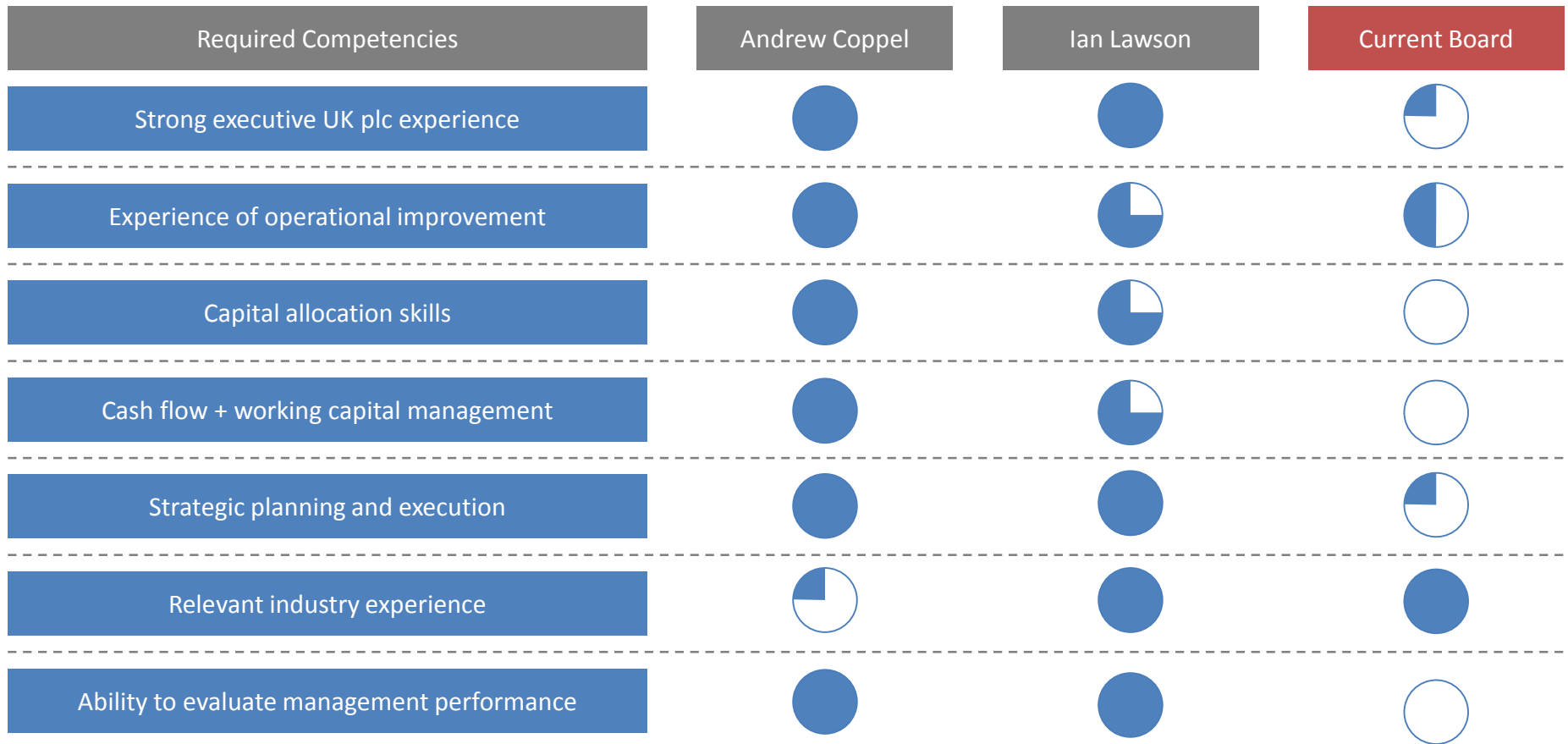
- ✓ 33 years of distinguished experience as an Executive and Non-Executive for both public and private companies:
 - ✓ Non-Executive experience: 3x Chairman, 4x NED (including housebuilder Crest Nicholson plc)
 - ✓ Executive experience: 2x Chairman, 5x CEO, 1x CFO
- ✓ Strong financial background and in-depth experience:
 - ✓ Coopers & Lybrand accountant by training and former investment banker
- ✓ Extensive track record of financial and operational improvement as an Executive and Non-Executive

Ian Lawson
(61)

- ✓ Over 35 years industry expertise, a Fellow of both the RICS and CIOB, with significant executive PLC experience
- ✓ 13 years at Kier Group plc (2000 – 2013)
 - ✓ Group Executive Director (2005 – 2013, responsibility for the Services, Housing and Property divisions)
 - ✓ Managing Director, Services (2003 – 2005)
 - ✓ Managing Director, Project Investment & Construction (2000 – 2003)
- ✓ 5 years as CEO of Severfield plc (2013 – 2018)

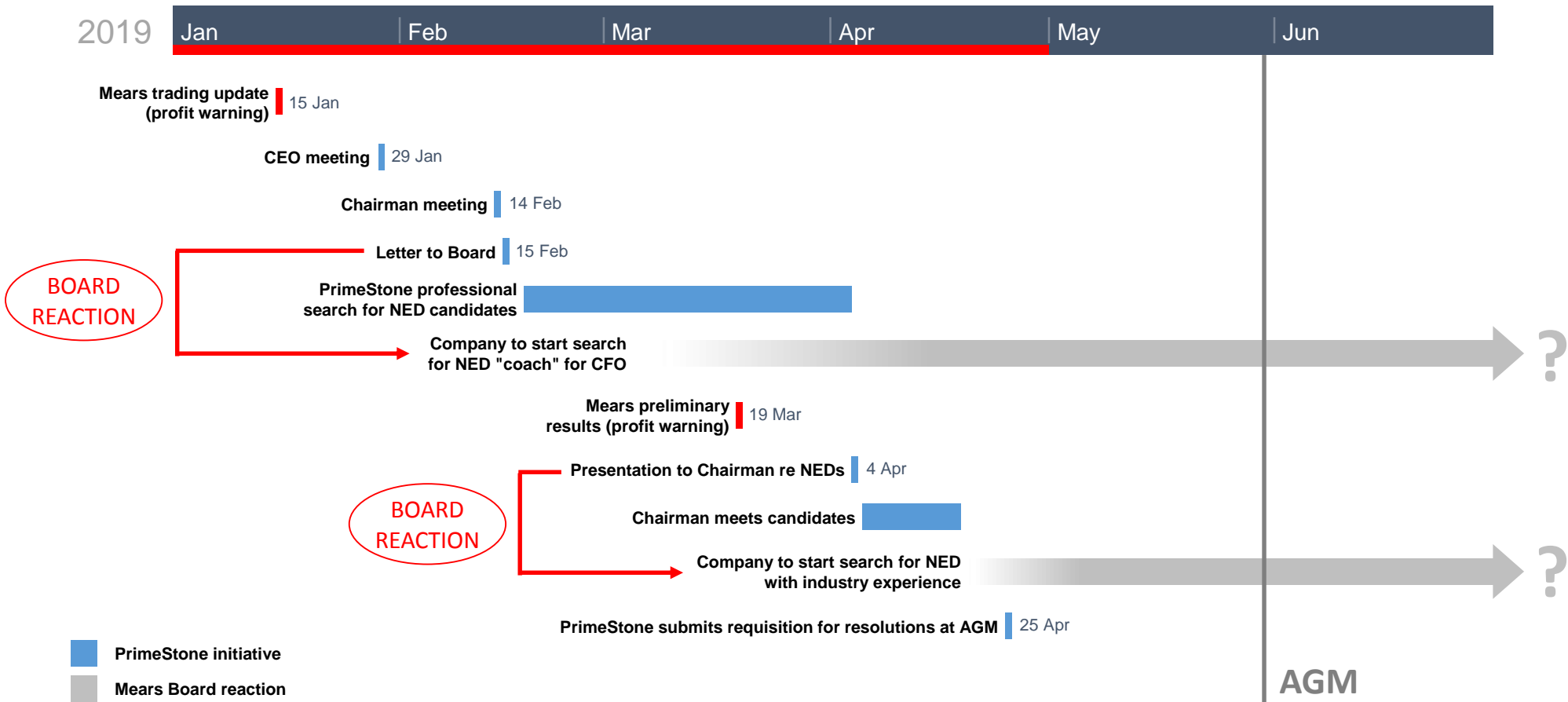
These high calibre NEDs have support from significant shareholders of Mears

Comparison of Required Competencies of Candidates vs. Current Board



Andrew Coppel and Ian Lawson will fill the competency gaps in the Mears Board

Timeline of Constructive Engagement with PrimeStone (2019 only)



Mears NED search processes only launched in reaction to PrimeStone initiatives

The Board Failed to Engage with PrimeStone's Professional Process

PrimeStone Process

- ✓ Professional search firm hired
- ✓ Extensive external search process
- ✓ Excellent independent candidates selected
- ✓ Chairman and the nomination committee invited to meet and assess candidates
- ✓ Quality of candidates not disputed by Mears

Mears Actions

- ✗ The nomination committee refused to meet candidates
- ✗ Chairman met candidates, not to determine quality, but to dissuade and disrupt PrimeStone process
- ✗ Candidates were told they would only be part of the new Mears search if they dropped out of the PrimeStone initiative

Mears Board more focussed on their own process
than on the quality and timeliness of the outcome

Profound Flaws in the Mears Process

Lack of competency
at Board

- ✗ The current Board has presided over the recent strategic, commercial and financial failings
- ✗ The current Board does not have the requisite financial and commercial capabilities
- ✗ Without these capabilities it is not possible to evaluate and recruit the right candidates

Precedent of
Chairman
recruitment is
worrying

- ✗ Elongated process took over five months
- ✗ Original deadline of October was missed by two months
- ✗ Two highly credible candidates (successful PLC CEOs in relevant industries) suggested by separate major shareholders were discouraged / discarded

Shareholders do not
get a say

- ✗ Shareholders will not get to vote on outcome of Mears' process until the AGM in 2020

No certainty of
outcome

- ✗ There is no certainty on timing of appointments
- ✗ There is no certainty on quality of appointments

Andrew Coppel and Ian Lawson offer certainty of quality and timing
Why should shareholders take the risk of the flawed Mears process?

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Conclusion

- Mears needs a strengthened Board to turn around its financial performance and to be in a position to grasp the significant market opportunities
- After a professional search process, we have identified two talented individuals, Andrew Coppel and Ian Lawson, to join the Board. They bring highly relevant and complementary experience and can help Mears restore its financial strength and prosper again for the benefit of all shareholders and stakeholders
- The Board has refused to properly engage and evaluate the candidates, instead reacting by launching its own protracted and competing process and seeking to frustrate our proposals instead of assessing their merits
- We believe that in these circumstances, the Board recruitment process is a waste of time and shareholders' money
- We believe it is absolutely necessary for shareholders to take action now, to appoint these candidates to the Board at this year's AGM

We hope you will vote in favour of Andrew Coppel and Ian Lawson at the upcoming AGM

About PrimeStone

- PrimeStone is a long-term valued added investor in European listed companies applying a private equity approach to public investing
- We take substantial minority stakes in a select number of companies that we believe have significant potential for value creation. We are important to them, they are important to us
- We then engage constructively with management and stakeholders to create long term enduring value
- PrimeStone was founded by three former partners from The Carlyle Group, who have invested and worked together across Europe for more than 20 years
- Our founders have chaired or sat on more than 30 boards. They all share prior experience as consultants advising on strategy and operational improvement with The Boston Consulting Group
- We manage money for long term focused investors. We consider the stability of our capital as a significant competitive advantage

PrimeStone is the largest shareholder in Mears with c.13.5% of ISC
PrimeStone has been invested since July 2016