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Sept 24, 2020

Special Sits Research

Yü Group PLC

Poised for Growth After A Reset

Stock Data

Ticker (AIM)	YU. LN
Share Price	80p
Market Cap	£13M
EV	£11.2M
52wk hi/lo	142.50p/52.50p

Price Chart

Yü Group Plc (YU. LN) listed on the AIM Exchange in London is a multi-utility provider to small and medium sized business, as well as larger corporate customers across the UK. As a direct supplier of electricity, gas, water and other solutions such as electric vehicle (EV) charge points, smart meter installations and green energy solutions, Yü Group (YUG) provides a simple approach to a business's energy management offering competitive fixed-price, bundled utility plans. The certainty of utility costs supported by a strong commitment to customer service and product innovation is rapidly solidifying YUG as a trusted supplier in the £35b UK B2B utility market, with more than 3.5m business meter points.

Improved Internal Operating and Corporate Governance Processes: YUG has undertaken an internal restructuring which has resulted in a stronger Board of Directors and a better organized management team with improved reporting and oversight structures in place. The Company has refocused its strategic plan and now has a strong foundation from which to execute its future growth plans.

Growth Achievable During COVID – 19: YUG reported new contract bookings of £6.2m/mth during H120, up 17% sequentially from H219. While there was a temporary pull-back in the early part of H120 as the COVID-19 lockdown was initiated, there appears to be a relatively strong recovery since then. YUG has also successfully acquired an additional 4,000 meter points from Bristol Energy Ltd. at the start of August, increasing its meter point base by ~41%.

The Market is Competitive but Success is Achievable: The large incumbent energy suppliers control about 73% of the total energy supply market. However, there is significant opportunity to draw customers away from these incumbents through improved services, innovative product offerings and transparency of pricing and contract terms. YUG has established multiple sales channels and digital marketing strategies to reach new customers – those who have never switched energy suppliers, those who engage directly with energy suppliers, and those who prefer to use third parties or brokers to source their energy supply. The company also provides multi-fuel products that can be combined with additional services (EV charge points and energy management solutions) to make it easier for customers to manage their utilities.

Financials & Forecasts: We are awaiting H120 financial results, to have a better gauge on operational activities and the impacts of COVID-19 so far this year. Following the reporting of these results, we intend to issue forecasts for F2020 and F2021. We expect a moderate result for F2020 given the COVID-19 impacts, but a more positive F2021 with a potential swing to net profitability.

Outlook
We believe YUG is now firmly positioned in the energy supply market to succeed in its future growth plans and deliver shareholder value with:

- A solid balance sheet and net cash position;
- An established platform that is readily scalable;
- A low-cost subscription model;
- A multi-product utility provider with innovative solutions, and
- Effective management oversight and governance policies.

There is a clear opportunity in the energy supply market to challenge the incumbents' market share by focusing on the needs of the customer base and adhering to strict procedural controls that are now part of the foundation of the Company. Additional investment in automation/technology is also likely to help maintain adequate cost controls and further improve margins.

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Tania Maciver
+44 07 5514 44787
tania.maciver@spangel.co.uk

Equity Sales

Richard Parlons
+44 20 3470 0472
richard.parlons@spangel.co.uk

Abagail Wayne
+44 20 3470 0534
abagail.wayne@spangel.co.uk

Rob Rees
+44 20 3470 0535
rob.rees@spangel.co.uk

INVESTMENT SUMMARY

YUG was established to support an unmet need in the utility supply industry.

Yü Group PLC (YU. LN), listed on the AIM market of the London Stock Exchange in 2016, is a direct supplier of multi-utility services to small and medium sized businesses and larger corporations across the UK. The company was originated by its founder and current CEO, Bobby Kalar, in 2012 to serve an unmet need in the £35b business utility supply market in the UK. The very large, growing, rather complex and highly regulated B2B energy market created a vast number of disengaged and dissatisfied business customers across the UK, made more despondent with few, if any superior alternatives. YUG was designed to fill this gap, with the ability to capture market share because of its fresh and innovative approach in the market, focusing on superior customer service, ease of use from a digitised platform, simplicity of contracts, and transparency of pricing.

Reset and Poised for Growth

Overall, YUG has been transformed into an innovative, transparent and efficient provider of utility services to businesses across the UK with:

- A strong, experienced and independent Board of Directors,
- A committed and efficient management team,
- Unique multi-utility service offering,
- Superior customer service for existing and new customers,
- Innovative and efficient digital platform for quotes & contract sign-up,
- Simple and transparent pricing plans tailored to the needs of customers, and
- Expanding product offering to diversify revenue streams and support customer relationships.

We expect that YUG is better positioned after its restructuring in 2018/19 with an improved management and oversight structure and digitally efficient platform providing the ability to capture market share. Building on this well-established foundation, a clear strategy for future growth within the £35b B2B utility services market has been formulated. The opportunities for growth and value creation for stakeholders in the future are based on adhering to the following strategies:

1. Focus on generating controlled organic growth supplying gas, electricity and water to UK businesses, as well as providing ancillary services to improve the customer value proposition. Leveraging the benefits of the various sales channels results in an increased number of service points to secure new customer and create cross-selling opportunities.
2. Acquiring new growth either through the acquisition of customer books or of competing entities.
3. Achieve sustainable profitability over the long-term through enhanced gross margins and well-controlled operating costs. This requires careful and selective investment in technology and digitisation/automation of certain processes.
4. Generate positive cash flow by closely managing customer billing & payment cycles.
5. Provide effective governance and oversight to ensure security of the business foundation over the long-term.

Achieving Growth Despite COVID-19

YUG reacted quickly to balance its hedge at the start of the COVID lockdown.

YUG deployed its business continuity plan (BCP) at the start of the COVID-19 outbreak. to ensure that key operations and customer service teams could have full functionality, alongside the primary support functions in the business. The impacts of the outbreak on the financial and operating performance of the Company resulted in some significant early stage losses related to the massive drop in customer energy usage at the start of the lockdown period. However, YUG quickly reacted to balance its hedge through its partner SmartestEnergy and has been working closely with its business customers as the lockdown measures have eased, attempting to mitigate additional risk. The ability to continue to provide seamless and effective delivery of services to customers, while maintaining superior levels of contact demonstrates the quality and experience of the YUG team.

The real potential impacts of such a macro shock to the market are on revenue, gross margin and bad debt - lower energy consumption levels resulting from business closures during the COVID-19 lockdown period drives lower revenue and lower associated margin from the need to rebalance the hedge, as well as higher bad debt from customers' inability to pay. YUG is also able to help mitigate the loss in its costs for the unused volumes of energy by selling them back into the market – though this will most likely be below the purchase price given that low demand typically translates into lower prices and depressed markets. Therefore, margins are expected to be lower.

In periods of low energy prices, customers tend to lock-in low prices for longer periods of time.

On the plus side, there has been a reduction in forward gas and electricity commodity markets which commonly has the effect of consumers attempting to take advantage of the low-price environment. This means attempting to lock-in the low prices for a longer period of time, ultimately signing on to longer-term fixed price contracts for energy supply and even renewing existing contracts in advance to take advantage of favourable pricing. This has helped to drive growth in new customer contracts at YUG under its new regime that focuses on superior customer service, and supports sustainable gross margins and positive net customer contribution.

In addition to organic growth, YUG has opportunistically completed the acquisition of the B2B customer book from Bristol Energy Ltd owned by the Bristol City Council. The book includes 4,000 meter points, a material ~41% increase to the meter base of 9,800 points. The book includes gas and electricity supply contracts for public sector and business customers in the region, lasting for as long as 3 years.

Outlook

The forward contract book for F2020 stood at £79.5m at 31 Dec 2019 (down about 10% from F2018) which was prior to the COVID-19 outbreak and subsequent lockdown. While we have described some of the potential impacts of COVID-19 so far, the full impact on F2020 is still somewhat undetermined. There will certainly be a reduction in revenue for the year and gross margin for H120, as a result of some costs associated with balancing the hedging book (too much supply, too little demand, falling energy pricing environment), and some increased bad debt exposure. Assuming we progress to more normalised markets through the end of the year, with limited closures and lockdowns, YUG will be well positioned for higher levels of growth in revenue and gross margin through F2021.

We are awaiting the reporting of H120 financial results, to have a better gauge on operational activities and the impacts of COVID-19 so far this year. Following the reporting of these results, we intend to issue forecasts for F2020 and F2021. We expect a moderate result for F2020 given the COVID-19 impacts, but a more positive F2021 with a potential swing to net profitability creating increased value for shareholders.

YUG has the foundation in place to take advantage of the growth opportunities in the energy supply market.

Strategically, we are of the view that the measures taken by management and the Board of YUG came at a critical time. We believe the focus on providing superior customer service, simplicity and transparency of supply contracts, innovative products and careful management of costs provide a solid foundation for success in the energy supply market. As we describe later in the report, there is a very real opportunity to win new customers from the incumbent energy suppliers which tend to be less nimble and less customer focused. Opus Energy, now owned by Drax Group Plc started out with only a few thousand customers, but with a customer centric strategic plan to drive organic growth the company was subsequently acquired with a few hundred thousand customers. YUG is on this trajectory and has the capability and understanding of what needs to be done to achieve its growth ambitions over the long run.

DISRUPTING THE BUSINESS UTILITY MARKET

YUG is focused on superior customer service, simplicity of contracts and transparency of pricing.

Yü Group PLC (YU. LN), listed on the AIM market of the London Stock Exchange in 2016, is a direct supplier of multi-utility services to small and medium sized businesses and larger corporations across the UK. The company was originated by its founder and current CEO, Bobby Kalar, in 2012 to serve an unmet need in the £35b business utility supply market in the UK. After having been dissatisfied with the services provided to his own businesses, the idea and strategy for YUG was devised. The opportunity was clear. The very large, growing, rather complex and highly regulated B2B energy market created a vast number of disengaged and dissatisfied business customers across the UK, made more despondent because there were few, if any, superior alternatives. YUG was designed to fill this gap, with the ability to capture market share because of its fresh and innovative approach in the market, focusing on superior customer service, ease of use from a digitised platform, simplicity of contracts, and transparency of pricing.

YUG now services ~14,000 meter points in a total market of 3.5m.

YUG is sector agnostic in its supply to customers, as dependence on utility networks is a necessary component of any business operation regardless of its market focus. As such, customers are from a wide range of market sectors, including manufacturing facilities, sports and entertainment venues, retail operations and manufacturing sites. There are an estimated 3.5m business gas and electricity meter points across the U.K., of which YUG currently services about 14,000. This translates to about 0.4% of the B2B utility supply meters in the UK, leaving significant opportunity and room for further growth. It is important to note that not all meters are equal, as some businesses require more volumes than others. On a revenue basis, YUG represented roughly 3%, that is £110m out of a £3.5b total market.

In order to reach customers, YUG has developed a multi-pronged approach that makes it easy for customers to switch energy suppliers to YUG, but also to manage their ongoing utility agreements and cross-sell additional product offerings. Direct access through multiple channels reduces the hassle of deciphering complex agreements, provides solutions with certainty of monthly operating expenses and opens lines of communications to keep customers engaged and satisfied.

- **Direct Sales**: A direct sales team soon to be operating from a new, state-of-the-art innovation centre in Leicester, connects with clients proactively through outbound channels, but also through inbound channels. The sales channels are supported by a new quoting and sales platform that increases the speed and efficiency of targeted campaigns.
- **Online Access**: YUG has an online offering delivered through its own Yü Energy branded website, which is also integrated into price comparison sites. Both are supported through digital marketing programs to optimise communication. This channel provides quick and easy quotes underscoring the simplicity and transparency of the service offering.
- **Brokers**: Carefully selected third-party intermediaries (TPIs) are able to generate quotes and confirm contracts through an online portal. Bespoke services are also provided directly to larger customers through this portal. The addition of water supply services, EV charging and power management services through the TPI portal is expected to drive additional efficiency and scale with bundled services. It is estimated that over 330k businesses source their energy through this sales channel.
- **Partners**: More difficult to reach business customers are accessed through partners using the portal to provide quick and efficient quotes and contract confirmations.

Customer contracts are tailored to deliver a supply of electricity, gas or water, or bundle of all three, combined with superior customer service and competitive pricing. For small businesses consuming up to 500,000kWh/year of electricity, or for large businesses consuming over 500,000 kWh/year commercial utility supply plans are designed with varying terms to suit the needs of the end-user.

- **Business Electricity**: These plans are designed to match the way businesses consume electricity. Customers may choose between fully fixed or partially fixed pricing plans with shorter term 3-month plans (initiated during COVID-19), and longer-term plans up to 3-years. There is also a 'Pure Green' electricity plan which is 100% derived from green and clean generation that is traceable to source with term options of 12, 24 or 36 months.

- **Business Gas**: These plans include competitive fixed pricing tailored to the needs of the business including micro and medium sized businesses, as well as larger corporations with multiple sites. Contract term lengths can be as short as 3-months in the Agile plan, released during COVID-19, and up to 3-years for a longer-term plan.
- **Business Water**: More recently deregulated in England (only since 2017), all businesses are able to switch water providers – not a widely known fact by business operators across the UK. Notably, businesses in Wales may only switch providers if they use more than 50,000m^3/year.
- **Multi-Fuel**: Customers are able to source additional cost savings by adding the supply from YUG of other utility services being used into a bundled offering.
- **Additional Services**: These include: water and energy management solutions for the management of consumption billing through monitoring, auditing and maintenance; Smart meter installations to assist businesses in becoming more energy efficient; Electric Vehicle (EV) charging facilities installations; and New meter connections for developers and businesses.

The customer book has an average term of 22months with an overall renewal rate of 65%.

While the average contract term in F2019 was about 22 months, the renewal rate on contracts sits at about 65%, driven by superior customer relationship management from a dedicated renewals team and relationship management team. Renewal rates are expected to improve over time as the pre-restructuring legacy contracts roll-off, and the post-restructuring contracts approach their end dates. It is estimated that about 45% of the market engages directly with suppliers to switch supply agreements. One of the primary areas of focus for YUG's new client development is to target the 810k businesses that engage directly with energy suppliers and the 635k of businesses that have never switched their energy supplier. YUG aims to simplify and improve the relationships these businesses have with their energy supplier using digital tools and enhanced customer service. YUG has also expanded its offering to brokers offering water supply, EV charging and power usage reporting to the energy supply portfolio, through the new access portal. This provides additional routes for partners to engage their client base and increase revenue.

In summary, YUG is an innovative, transparent and efficient provider of utility services to businesses across the UK with:

- Unique multi-utility service offering
- Superior customer service for existing and new customers
- Innovative and efficient platform for quotes & contract sign-up
- Simple and transparent pricing plans tailored to the needs of customers, and
- Expanding product offering to diversify revenue streams and support customer relationships.

RECENT DEVELOPMENTS

- **(16.09.20) Major Holdings Notification** – Premier Miton Group PLC increased its holdings in YUG in August 2020, from 4.13% to 5.19%, holding a total of 0.85m shares.
- **(10.08.20) Acquisition of Bristol Energy B2B business –** At the start of August 2020, YUG completed the acquisition of the B2B customer book from Bristol Energy Ltd owned by the Bristol City Council. The book includes 4,000 meter points, a material ~41% increase to the current meter base of 9,800. The book includes gas and electricity supply contracts for public sector and business customers in the region, lasting for as long as 3 years. A key point in this acquisition is that it does not include the supply of forward purchased commodities that would have been matched to volume projections of the contract book by Bristol Energy. In a declining wholesale price commodity market, the forward supply can most likely be purchased at lower prices than what would have been paid at the start of these contracts, increasing gross margin and net customer contributions.

YUG paid £1.24m for the B2B book in cash, on the completion date of August 10, 2020. The acquisition includes liabilities to Bristol Energy equal to ~£1m of receivables that were due for payment to Bristol Energy during August 2020, representing energy delivered to customers in July, and assumed liabilities of £0.58m which becomes payable in August 2021. These liabilities are related to the associated Renewable Obligation Certificate fee to Ofgem for the customer contracts for the year. A final payment of £0.1m is payable after three months of completion to reconcile operational costs associated with the transfer of the book and employee costs (around November 2020).

We expect the 4,000 meter point acquisition to be immediately accretive.

Revenue recorded by Bristol Energy for the book at the 31st of March 2020 was £15.2m (~£1.27m/mth) with an operating loss of £0.48m. We note that the customer book and associated revenue purchased by YUG is smaller than this, as some contracts had reached their end date before August 2020 and some were lost due to impacts by COVID-19. However, we do expect YUG to generate much improved monthly operating profits from this book of customers as compared to Bristol Energy, gaining increased margin from resetting the forward supply purchased in the wholesale market, economies of scale on customer take-on to the YUG platform, and customer service and maintenance costs, as well as the potential from the cross-selling of additional products. ***Overall, we expect the contract book acquisition should have a net positive contribution to YUG operating profits, assuming the customer transition process was executed on target. The successful integration of these customers should demonstrate the capabilities of the customer service and sales teams, as well as the strength of the onboarding processes and YUG platform.***

- **(10.08.20) Resolution of Disciplinary Notice:** Recall that during F2018 the new CFO identified reporting inaccuracies in YUG's financial performance. Following an extensive internal review and subsequent restructuring, it was discovered that the Group's financial controls and reporting systems were inadequate to handle the rapid growth that had occurred over the prior year. Management promptly addressed these issues identified in the internal review with the implementation of new internal procedures and controls; the advancement of digital automation for customer onboarding and servicing, marketing and sales distribution, and contract renewals; and the management team was restructured along with the Board of Director's, creating new lines of reporting and new oversight procedures for corporate governance and financial controls. As a result of its prompt and extensive review actions taken, the Exchange has agreed to a settlement and disciplinary action, fining YUG a with a total amount of £300,000, waived in full, for a breach of AIM rules between March 2018 and September 2018. This matter is now considered to be closed. ***This is a good outcome for YUG, recognizing the prompt and extensive remedy taken by management, and does not put any further undue stress on the Company that would augment the stresses already being experienced by the impacts of COVID-19. Ultimately, with the completion of the extensive internal review, the Company and management is in a much stronger position to weather the impacts of COVID-19 and to execute on its well thought out growth plan.***

Energy costs are at their lowest in several years driving increased interest in customer switching.

- **(27.04.20) New Utility Plans Launched through COVID-19:** YUG announced the launch of two new energy plans designed to assist businesses through the COVID-19 pandemic. Two of the challenges facing businesses in this economic climate are being addressed under these plans. The Assist Energy Plan helps companies with short-term cash flow issues by providing up to two months of free business energy at the start of the contract. The Agile Energy Plan provides flexibility of a shorter-term agreement over 3-months helping companies navigate uncertainty. ***With energy costs at their lowest in several years, these plans are likely to increase enquiries and switching rates as businesses seek ways to lower their energy costs and overheads.***
- **(10.02.20) Changes to Board of Directors:** Gary Pickering changed roles from a Director on the Board of YUG to an operating function, overseeing and managing the hedging, risk management and operational forecasting activities for the gas and electricity portfolio. In addition, Garry will be responsible for specialised trading solutions and gas shipping services expansion. Garry is a specialist in the oil and gas markets with over 20 years of experience. ***Leveraging Garry's expertise and network***

within the oil and gas market should serve to save costs and position YUG to take advantages of additional growth opportunities.

- **(23.01.20) New Office Facility in Leicester:** In September 2019, YUG announced the intended expansion to its office facilities in Leicester providing space for up to 250 employees. The new state-of-the-art facility is expected to be open in January 2021, housing the sales, marketing and product teams. ***This positions the Company well for its expansive growth plans.***
- **(08.01.20) Changes to the Board of Directors**: Robin Paynter Bryant was appointed Non-Executive Chairman with over 30 years' work experience and a strong background in regulation, compliance and corporate governance. Tony Perkins was appointed Senior Independent Non-Executive Director having represented many AIM listed companies across a range of sectors. He has extensive experience in financial oversite, governance and risk management, and has advised on corporate strategy and transactions for UK businesses. Ralph Cohen also announced that he would step down from his role as Chairman of the Board after a period of transition.

STRATEGIC PRIORITIES

Resetting the Stage for Growth

A significant amount of work has been completed over the past ~18 months to establish a stronger and much more efficient platform for YUG, providing a solid foundation from which to build. The Executive Management team has been strengthened, systems and internal processes have been augmented and streamlined, and the capital structure has been reinforced through new partnership arrangements. The key components of the restructuring completed were as follows:

- **A stronger and more experience Board of Directors in support of Exec Management**: Robin Paynter Bryant was appointed Independent Chairman of the Board in January 2020 with the mandate to ensure the implementation of a high-quality governance framework that drives effective decision making at the Executive Management level. Two Independent Non-Executive Directors were appointed; Tony Perkins was new to YUG with in-depth experience in financial governance and risk management, as well as audit and compliance for fully listed and AIM listed companies, and John Glasgow remained on the Board bringing extensive industry and technical knowledge. This is balanced with two Executive Directors, Bobby Kalar, CEO and Paul Rawson, CFO and Company Secretary. The Board is complete, with a structured balance of skills and expertise to establish a solid strategic decision-making team for YUG.
- **A re-engineered Executive Management team**: New Senior Management roles were added in 2019 including a Sales and Marketing Director, Head of Commercial Operations, as well as a Group Operations and Transformation Director. A new Exco or Executive Committee, led by the CEO that reports directly to the Board, consists of Executive Directors and Senior Managers and is tasked with driving day-to-day operations and maintaining direct oversight.

YUG now has a strong foundation supported by a focused management team.

- **A new trading arrangement with SmartestEnergy**: In order to acquire the electricity and gas to meet supply obligations under its committed customer contracts, YUG requires access to the wholesale electricity and gas commodity markets. Previously YUG depended on multiple trading arrangements with partners for access which provided the Company with the ability to hedge its position by purchasing energy commodity volumes on a forward basis in the wholesale markets. A new and superior arrangement was negotiated, effective January 2020 with SmartestEnergy, part of the Marubeni Corporation. The arrangement provides access to forward energy commodity markets and permits the hedging of forecasted demand that aligns with signed/agreed customer contracts. However, SmartestEnergy also provided a variable credit line at an initial amount of £13.0m which replaces the requirement of the prior trading agreements to post cash collateral. This leaves the highly valued cash in the hands of YUG for other uses. The credit line is based on the size of the Company's contracted revenues and is expected to grow as the business grows.

  This new structured trading arrangement was expected to free-up approximately £6.1m during Q220, from the £10.4m that was required as collateral at year-end

2019. Though the entire £10.4m previously posted as collateral is expected to become available.

- **Technology development and deployment**: The implementation of digitised processes for pricing quotes and finalising contracts via the new access portal, as well as signing customer contracts serves to provide a level of consistency of service, but also improves efficiencies and reduces manual work flow and associated costs of operations. Over time, we anticipate that there are additional workflow processes that can be automated/digitised to further reduce the cost basis and the potential for human error.

- **Improved internal operating and corporate governance processes**: With changes in the organizational structure to include some additional management positions and lines of reporting, YUG has thoroughly established processes for the oversight and management of its operating segments. There are established internal control forums that monitor and report on the control environment and a compliance and quality team that test key areas of internal control and compliance. There are recently established documented controls, delegated levels of authority and strict management review processes. YUG also engages with third parties for ad hoc reviews of procedures and processes.

Four Pillars of YUG's Medium to Long-Term Strategy

After a thorough review and restructuring of the internal business operations of YUG was completed in 2018/2019 establishing a new and more effective operating platform, management turned its focus to the future potential of the Company. Building on the strong foundation in place, a clear strategy for future growth within the £35b B2B utility services market was crafted.

1. **Focus on generating controlled growth** in a very large addressable B2B market, supplying gas, electricity and water to UK businesses, as well as providing ancillary services. Leveraging the benefits of the various sales channels results in an increased number of service points and helps to secure new customers. The key is providing superior customer service to grow with, and retain, the valuable customers with net positive profit contribution over time. In addition to organic growth, the opportunity to acquire B2B customer books arises from time to time. The ability to opportunistically acquire growth of strong, stable customers, again with a net positive profit contribution, drives strong incremental value for all stakeholders.

The extensive internal review repositioned YUG to capture increased market.

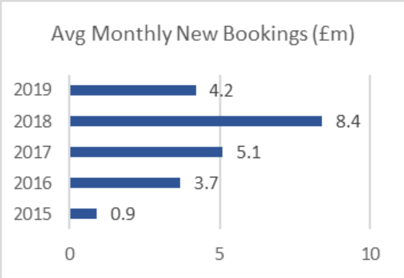
2. **Achieve sustainable profitability** over the long-term through enhanced gross margins and well-controlled operating costs. The contracts are structured such that pricing is continuously rebalanced to align with the then current wholesale commodity costs to limit market exposure, as well as the customer acquisition costs, customer servicing costs and general operating overhead costs – balanced with the goal of achieving competitive price points in the market.

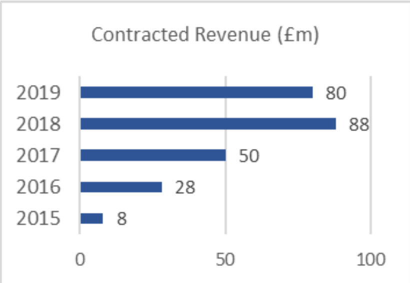
3. **Generate positive cash flow** by closely managing the billing and payment cycles. Cash collection from customers occurs prior to cash outflows by nature of the fixed priced contracts which are payable at the end of each month with 7 to 14 payment terms, and about 70% of customer payments on direct debit. The historic cash risks associated with the wholesale trading partnerships have been reduced under the SmartestEnergy agreement with an initial £13m credit line replacing the requirement to post cash collateral. Careful management of customer receivables, with already short payment terms, is a key component of cash management cycles and keeps a gauge on bad debt levels.

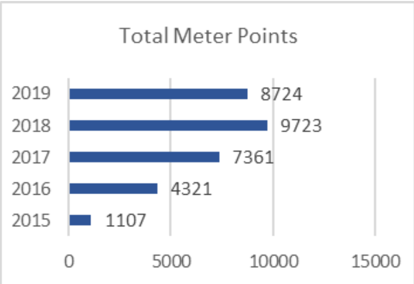
4. **Provide effective governance and oversight** to ensure security of the business foundation. This means continuing to provide superior customer service, exemplifying organisational accountability and maintaining proper financials and governance processes. For a company with such high growth prospects, establishing a core platform with strong internal controls over lines of reporting and communication, operational processes and financial monitoring is essential. This creates a cohesive internal vision and buy-in by all stakeholders.

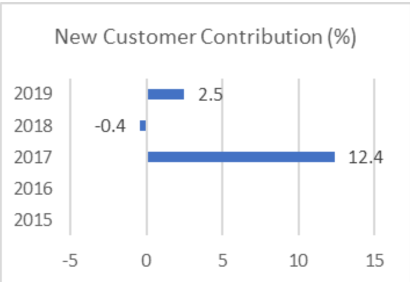
Key Performance Indicators – Ongoing Measures of Success

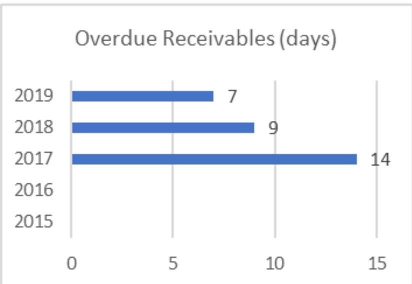
While there are a number of operating metrics and procedural controls that are regularly tracked and monitored in order to drive profitability of the business, the key performance indicators that have been identified include the following:

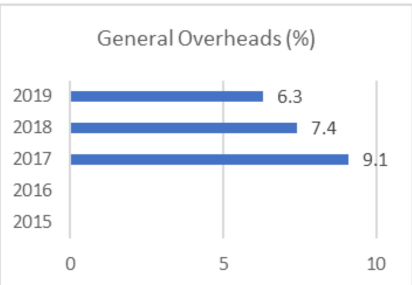












- **Average Monthly New Bookings** – This is the annualised value of contracts secured during a period. The monthly average bookings during F2019 were £4.2m, -50% y/y from £8.4m in F2018. F2019 was a year of restructuring and re-basing the business and so while new bookings were a key part of the business model, the focus was on fortifying the platform before turning to growth of the platform. Notably H219 bookings were £5.3m, 66% above H119 bookings of £3.2m, representing increasing growth of new bookings as the year progressed. During F2020 new bookings at the start of the year were on a strong trajectory; however, with the impact of COVID-19 there was a temporary pull-back in March/April. New bookings numbers began to revive again thereafter, with reported monthly bookings to 30 June 2020 of £6.2m, +17% sequential growth despite the impact of COVID-19. Evidently YUG's strategy appears to be working.

- **Contracted Revenue:** This represents revenue that is expected to be generated from signed customer contracts over the subsequent 12-month period. At year-end 2019, there was £80m expected for contracted revenue during the F2020 period, down 10% y/y from that contracted at the end of F2018. During regular market environments this metric can vary by up to +/-10%. However, with the shutdown of the economy due to the coronavirus outbreak in F2020, customer demand is expected to be materially lower than original projections. The contracted revenue at the end of F2020 will be impacted by COVID-19 recovery, any organic growth that has been achieved through F2020, as well as from acquisition growth.

- **Total Meter Points:** Rather than tracking customer numbers, YUG tracks total meter points, as one customer can have multiple meters (multiple locations/multiple utility services) and each meter can have different volume demands/loads. Not all meter connections are the same. At the end of F2019, total meter points reached 8,724, with a modest increase expected during F2020. With the recent acquisition of the contract book from Bristol Energy, the number of meter points totals ~14,000. With roughly 3.5m meter points for gas and electricity across the UK business market, there clearly remains significant opportunity for market share capture.

- **Net Customer Contribution (NCC):** This is a newer KPI which measures the profit contribution from customer contracts in terms of gross margin, less bad debt and expected credit losses charged in overhead expenses. There are several factors that drive this metric including the scale of the customer and its energy consumption, the credit risk of the customer, the sales channel source, and the underlying performance of the economy. Since establishing NCC as a KPI and the restructuring of processes and procedures in 2018/19 there has been marked improvement in this metric. While the impacts of COVID-19 on individual customer contracts are still being evaluated, the more restrictive criteria used to sign new customer contracts support these improvements. As the legacy, lower margin contracts are expiring and roll-off, it is expected that improvements in margins and customer contributions will follow.

- **Receivables:** Overdue receivables from customers, net of provisions, beyond the standard one-month billing cycle is an indicator of risks to the income statement. A target of ten days, the industry benchmark, has been set as a maximum goal for overdue receivables. In F2019 there was a two-day improvement to 7 days over F2018, and a 7-day improvement over F2017. Of course, F2020 is likely to be viewed as an exceptional year, impacted by COVID-19. Though it is yet to be seen what the level of impact will be.

- **General Overheads (%)**: The percentage of revenue that is charged to adjusted EBITDA on a normalised, recurring basis is included in this metric. This excludes exceptional/one-time items, as well as non-cash items and any bad debt write-downs (which are included in NCC). The restructuring and detailed operational review resulted in a decline of general overheads in F2019 by 1.1% to 6.3% (F2018: 7.4% and F2017: 9.1%). Normalised operating costs for the business in F2019 were equally contributed by the cost to acquire, the cost to serve and general admin costs, though this varies somewhat each year.

Potential in Acquisitions – Building the Customer Base

Opportunities to acquire customer books, augment solid organic growth.

A core part of the YUG long-term strategy in becoming a leader in the utility supply market to businesses across the UK, is to grow by acquisition. While B2B customer books are not often available for sale, we do anticipate that some may become available in the coming months as a result of the COVID-19 outbreak and lockdown. At the smaller end of the utility services market with smaller numbers of clients, the providers are more susceptible to the viability of each individual customer contract as compared to the larger providers. Furthermore, cash resources tend to be more limited and so the smaller players are typically unable to access beneficial trading arrangements to help manage their supply risks. Given that many businesses across the UK are struggling with the impacts of the lockdown and the very slow return to operations, there is the real risk that many will no longer be viable and they will be forced to close. This results in increased bad debt for providers, and reduced revenue to cover their costs. As a result, it may be that utility providers are forced to exit the industry following which their customer books are likely to become available for sale. With YUG's very structured customer integration and service/maintenance platform in place it has a more skilful ability to assess the potential value and bid price for any contract book that becomes available for sale in order to generate higher customer profits. The Company also has the ability to take-on new customers quickly and efficiently. When combined with its strong balance sheet and solid cash position, YUG represents a very serious contender in any bid process to acquire these customer books.

In addition to acquiring B2B customer books that become available for sale, there are some potential corporate acquisition targets that may make a sensible combination with YUG. However, we believe it is somewhat early days to consider any large acquisition, preferring the Company to build its market share through organic growth and the acquisition of customer contract books in the short-term. This demonstrates management's core competencies and generates increased value in the Company and ultimately for all stakeholders.

Growing Through the COVID-19 period

YUG has an established business continuity plan (BCP) that has been deployed since the start of the COVID-19 outbreak. This ensures that key operations and customer service teams can have full functionality, alongside the key support functions in the business. The impacts of the outbreak on the financial and operating performance of the Company resulted in some significant early stage losses related to the massive drop in customer energy usage at the start of the lockdown period. However, YUG quickly reacted to balance its hedge through its partner SmartestEnergy and has been working closely with its business customers as the lockdown measures have eased attempting to mitigate additional risk. The ability to continue to provide seamless and effective delivery of services to customers, while maintaining superior levels of contact and service demonstrates the quality and experience of the YUG team.

After a formal review of revenue sources to YUG, the Board determined that approximately 43% of its contracted revenue through to March 31, 2021 is generated from sectors likely to be at higher risk because of the impact of COVID-19; 41% is generated from sectors at a medium risk impact from COVID-19; and 16% from sectors that are at a low risk impact from COVID-19. The real potential impacts are on revenue, gross margin and bad debt; lower energy consumption levels resulting from business closures during the COVID-19 lockdown period drives lower revenue and lower associated margin from the need to rebalance the hedge, and higher bad debt from customers' inability to pay. We note the fixed price nature of YUG customer contracts means the customer has contracted for a certain volume range of energy supply at a fixed rate. However, if customer usage falls outside of this range, YUG can contractually claim additional fees which are reconciled at the anniversary/expiry of the customer contract. How this fee is charged is ultimately at the discretion of YUG, which may offer some alternatives to the potentially renewing customer to assist with the lump sum payment that would be otherwise due. Of course, YUG does have some means to help mitigate the loss on the cost side for the unused volumes of energy by selling them back into the market – though this will most likely be below the purchase price given that low demand typically translates into lower prices and depressed markets. Notably, the hedged position in the wholesale energy markets is continuously monitored and there is some lead time to assess new trends and to predict demand in order to adjust trading positions accordingly. This means the hedged position can be rebalanced relatively efficiently and in short order in an effort to help mitigate further potential losses from lower than expected energy usage. In addition to this, there is also likely to be a potential delay in collections of receivables and a higher likelihood for increased bad debt, both of which magnify the effects and ultimately risks to YUG of such extreme demand side variations.

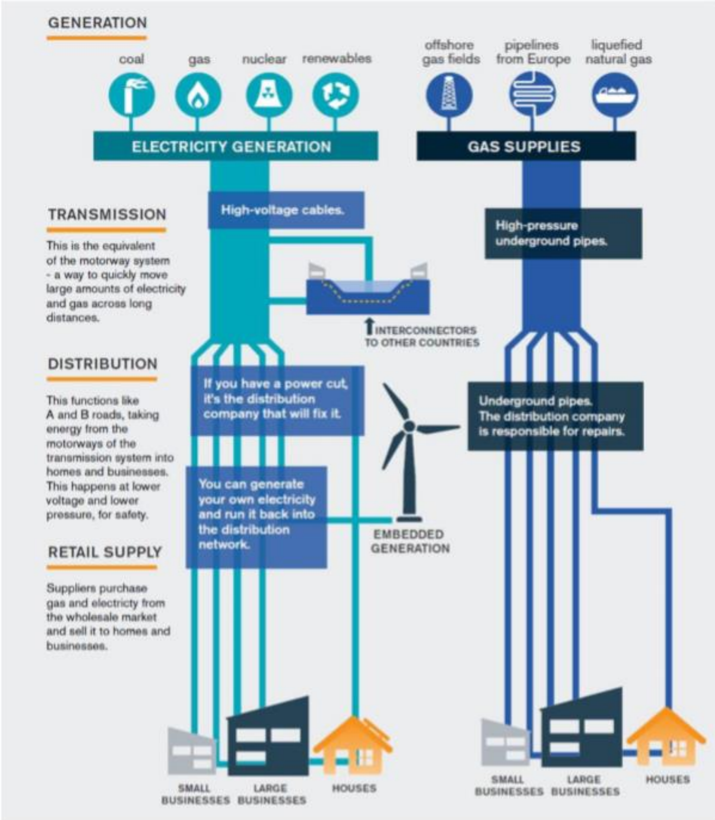
Despite increased risks from COVID-19, decreased commodity prices help drive growth in new customer contracts.

During this period, there has been a reduction in forward gas and electricity commodity markets which commonly has the effect of consumers attempting to take advantage of the low-price environment. This means attempting to lock-in the low-prices for a longer period of time, ultimately signing on to longer-term fixed price contracts for energy supply and even renewing existing contracts in advance to take advantage of favourable pricing. This has helped to drive growth in new customer contracts under the new regime that supports sustainable gross margins and positive net customer contribution.

UNDERSTANDING THE MARKETPLACE

Supporting the operation of businesses and homes across the UK through the supply of heat and power involves the generation of electricity and gas, the transmission and then distribution of electricity and gas across the UK. The final step is the sale of the electricity and gas to the end-user, the part of the market in which YUG competes.

FIGURE 1: BRITAIN'S ENERGY NETWORK

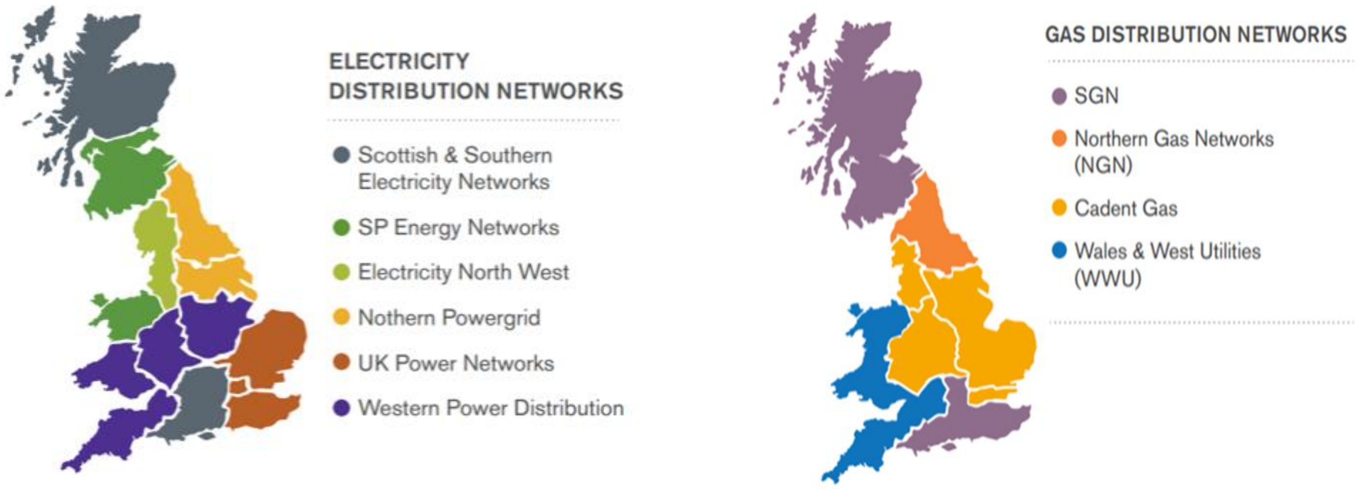


SOURCE: Ofgem

Most electricity is generated at large power stations (coal, gas, nuclear, and renewable energy) connected to transmission networks for distribution, but some is generated at smaller scale power stations (embedded generation by wind and solar farms) connected to regional distribution networks. The large transmission networks are built for carrying electricity across long distances at high voltages, and the regional distribution networks operate at lower voltages to take the electricity from the transmission grid to the endpoint of the customer. A similar infrastructure system exists for gas, sourced from offshore gas fields, pipelines from Europe and liquified natural gas is transported through high pressured underground pipes to gas distributors and ultimately the end-users.

Network operators were privatised in 1986 and 1990, for gas and electricity respectively. A distribution network operator is licensed to distribute electricity and gas in the UK, owning and operating the cables and towers that facilitate the movement of electricity through the network. A Distribution Network Operator (DNO) is responsible for the distribution of electricity/gas from the national gird to a property/site. Some Independent Distribution Network Operators own parts of the network, usually extensions to the DNO networks serving local housing and commercial developments. There are 6 DNO's in the UK covering the 14 regions in the network for electricity and 4 for gas:

FIGURE 2: DISTRIBUTION NETWORKS



SOURCE: Ofgem

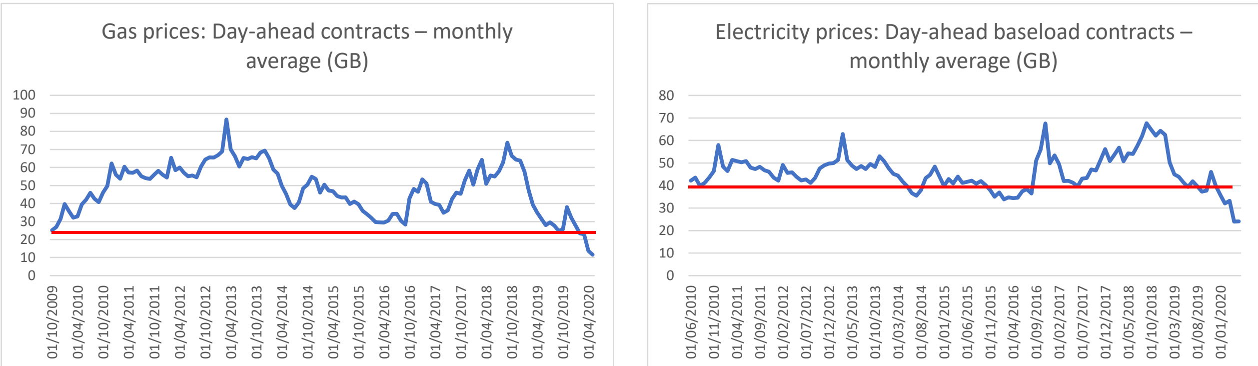
Suppliers buy energy in the wholesale market and then sell it to customers – with a privatised system in the UK, customers can choose any supplier they wish to provide them with the gas or electricity they require. This supports a highly competitive market which is regulated by the Gas and Electricity Markets Authority through the Office of Gas and Electricity Markets (Ofgem). Ofgem issues licenses for those operating in the electricity and gas markets, sets the levels of return that can be achieved by monopoly network companies and makes decisions related to market rules, with an overall objective of promoting competition in the supply market.

Wholesale Energy Markets

Up to 50% of energy bills are comprised of wholesale energy costs.

Prices paid by consumers for electricity and gas are largely impacted by the wholesale price of energy. Up to 50% of bills are made up of wholesale energy costs which can move day-by-day for gas and hourly/half hourly for electricity - changes introduced in April 2017 by Ofgem under the Balancing and Settlement Code means that suppliers now record business energy usage on a half hourly basis for larger customers in a process called settlement. This usage is used to determine the hourly rate the business is charged for its energy usage, typically making the supply in the B2B market less competitive than in the B2C market which does not have a settlement basis. The wholesale market price of electricity is influenced by a number of factors including the price of the input fuel used to produce electricity, changes in demand and changes in supply. The general trend in wholesale electricity prices has been downward in recent years mostly due to a general decrease in gas prices and increase in the proportion of electricity generated from renewable technologies (reflecting the price of carbon). Exchange rates can also have an impact on wholesale prices, however other factors such as supply and demand changes in relation to weather conditions have a greater impact. Figure 3 shows the movement in electricity and gas spot prices from 2009 through to April 2020, depicting the extreme decline in prices in recent months. Notably, the pricing has recovered somewhat through the end of August 2020.

FIGURE 3: MONTHLY AVERAGE ENERGY PRICES



SOURCE: Ofgem

Most wholesale energy is purchased by utility providers in advance (months, years) but some is also purchased in the spot market in order to rebalance the supply in line with actual usage (weeks, days). This typically serves to secure supply and the cost of supply, but also helps to smooth the purchase price and reduce the impacts of volatility in these markets. Other costs included in an energy bill are operating, network and environmental, as well as social costs. Suppliers price their business contracts on an individual basis which can leave them exposed to the daily volatility of the wholesale market. Though they do gain portfolio diversification implying a greater ability to predict the business portfolio. Domestic energy demand, from residential customers is far more predictable by comparison. Disruptive business models, innovative technologies and environmental policies shape the energy sector and feed into consumer energy bills.

Energy Suppliers

Since 2014, there has been a net reduction in the number of suppliers in the market. According to the State of the Market report issued by Ofgem, at June 2019 there were 64 active licensed suppliers in the UK, the majority of which provide both electricity and gas to customers - 2 supply just electricity and 6 supply only gas – and there were 28 white label suppliers. This represents a net decrease by 6 licensed suppliers over the year. Of the total, about 36 were active in the B2B market. The primary reasons for these departures include the approach to hedging against the risk of increasing costs, extreme weather conditions, aggressive customer expansion, withdrawal of parent company support or partners, poor governance and lack of sufficient systems and processes to provide adequate customer service.

The medium sized providers have expanded and are winning customers away from the large incumbents.

The licensed players in the market range from the 'Big 6' to small independent suppliers. The 'Big 6' include British Gas, SSE, EON, EDF Energy, Scottish Power and Npower and between them they represent a 72-73% share of the market. The next group includes the smaller, disruptive players with a 1-5% market share each. These New Energy suppliers include Shell Energy, Octopus Energy and Telecom Utility Workhouse. Between them the 8 players hold a further 19% of the market. Smaller independent energy producers represent the remaining ~8%, each with a much smaller customer base and a few thousand customers, on average. During 2019, the Big 6 suppliers had experienced a net loss of ~1.3m customers, and their combined market share fell by about 5% in each of the gas and electricity markets. The medium sized providers have expanded, and place increasing competitive pressures on the Big 6, achieving a net gain of 1.9m customers in 2019. Bulb, Octopus Energy and OVO, at the top of this medium sized group, experienced significant growth in 2019, mostly due to customers switching away from the Big 6 suppliers. The small providers experienced a market share decline by ~1%, representing 9% market share in the electricity markets, but was flat y/y in the gas markets. Though, some smaller suppliers performed better than others.

Customer Switching

The market is very sticky with customers often unwilling to change suppliers. However, customer switching has been on an upward trend over the last six years. Switching rates by June 2019 were 20.2% for electricity customers and 20.3% for gas customers. Of the customers who switch suppliers, most are switching away from one of the Big 6 providers. In 2019 about 40% of the electricity switching was away from the Big 6, with 25% moving to medium suppliers and 16% moving to small suppliers. Much of the switching, according to Ofgem, is related to saving money. There are also about 10 providers that provide automated switching services, having eliminated the need to supply direct customer service and engagement, almost double that of the prior year. Of those who switched in H120 around 23% and 20% of electricity and gas customers respectively switched to a small or medium supplier.

The 49% of customers who have never switched providers are likely paying too much for their energy.

The proportion of consumers who have never switched or switched once is 49% in 2019, down from 61% in 2018, and 58% in 2017. About 27% have never switched supplier, down from 34% in 2018. Barriers that typically prevent customers from switching include expectations of complications in the process, the concern that something will go wrong, and an overwhelming feeling of choice of tariffs available.

Supplying SMEs

The business energy market in the UK is split into SMEs (small and medium enterprises) and industrial and commercial customers. The SME market includes the regulatory definition of micro-business which includes businesses that:

- Consume less than 100,00kWh of electricity per year
- Consume less than 293,000kWh of gas per year

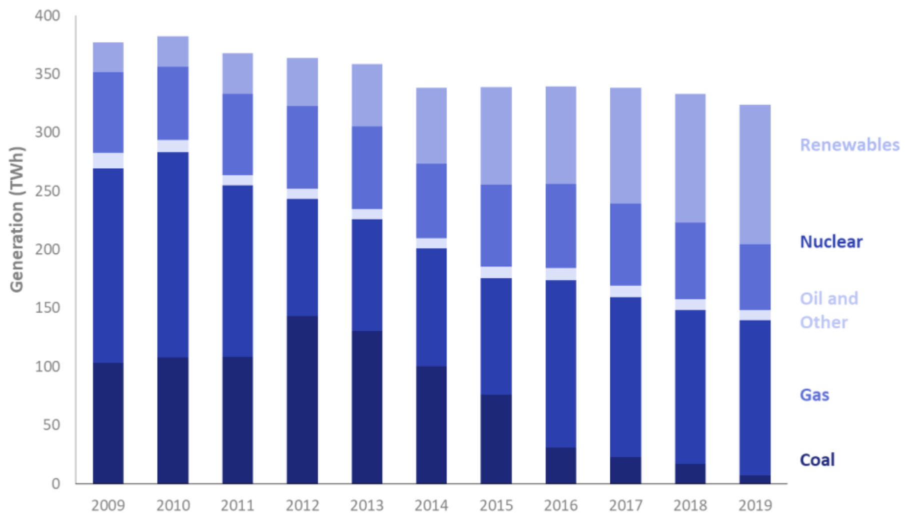
There were 5.9m private businesses in the UK in 2019 of which more than 99% were SMEs according to the Department for Business and Energy. Business energy contracts are written on a case by case basis tailored to the individual business and tend to be more complex than in the B2C market. To begin with, suppliers now record business energy usage on a half hourly basis for larger customers in a regulated process called settlement, and hourly for others. While price in the selection of energy supply is a key concern for businesses, a survey conducted by PWC determined that businesses are becoming more sophisticated in relation to their energy choices. There are an increasing number of business energy strategies that contain renewable energy targets, as well as an increased focus on smart energy technologies, energy consumption monitoring and EV charging. This increases the barriers to entry in the B2B market, making the B2C market less competitive, but also serves as an opportunity for those innovative and nimble energy suppliers like YUG. (PWC).

Two main components drive the level of energy bills paid by customers, commodity prices and consumption levels, though there are additional costs such as levies and taxes that are also part of the bill. If consumption levels are fixed, rising prices result in higher energy bills; and if prices are fixed, rising consumption results in a higher bill. With declining energy consumption and all-time lows in wholesale energy prices, energy costs for businesses this year should be relatively low.

Energy Decarbonisation

Renewable energy generation technologies employ the use of natural energy to make electricity. Sources of renewables include wind, wave, marine, hydro, biomass and solar. More than one-third of the UK electricity production is derived from renewable sources.

FIGURE 4: TOTAL ELECTRICITY BY FUEL TYPE

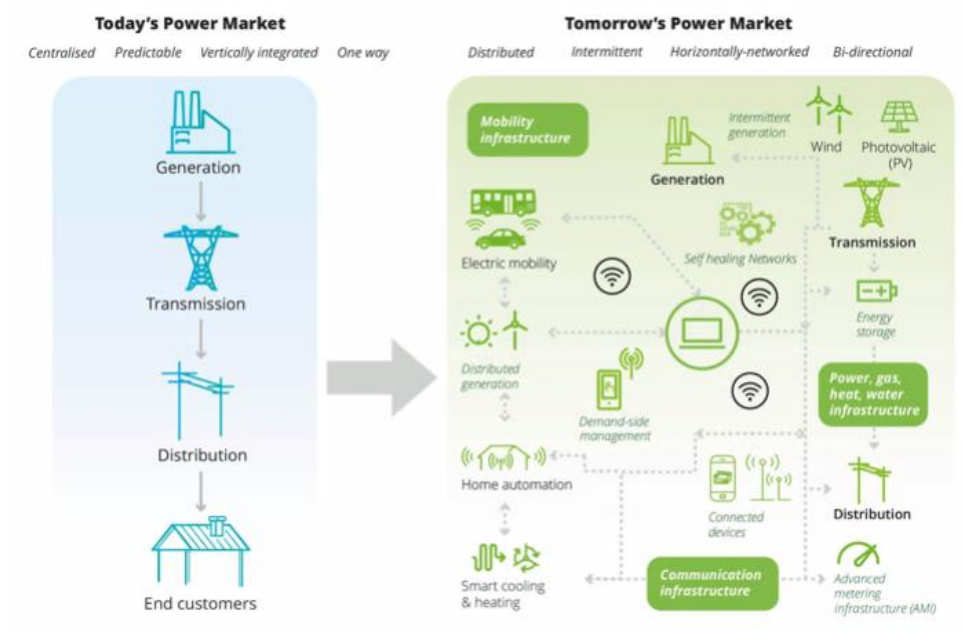


SOURCE: BEIS Energy Trends march 2020

Utility service providers need to become more flexible in their business models and more customer centric.

This is also increasing the complexity of the UK energy network. A report from Deloitte assessing the trends and challenges of the power market suggests that utility service providers need to invest in intelligent demand/supply balancing solutions that can be optimised to meet their customer books, as well as become more customer centric and more flexible in adopting new business models. This will assist them in adapting to new infrastructure systems that are likely to include digitally optimized networks, charging technologies, smart monitoring systems with mobile connectivity and automation.

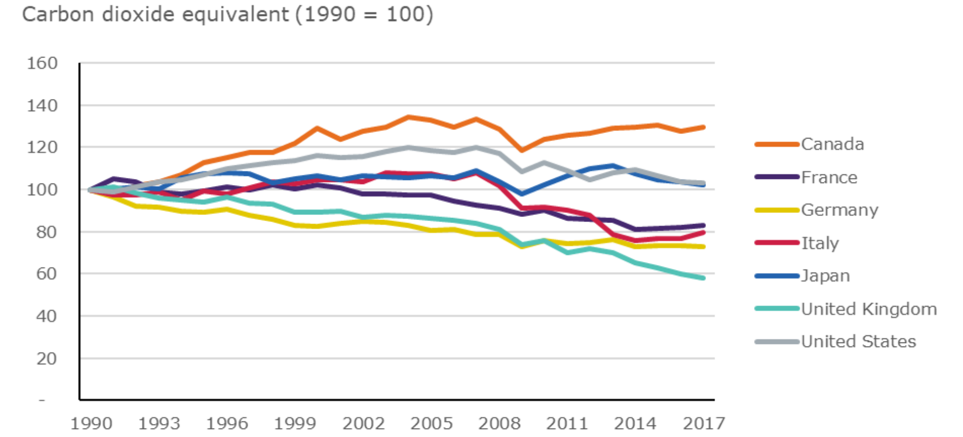
FIGURE 5: POWER MARKET TRANSITION



SOURCE: Deloitte

It is well recognized that the implementation of decarbonisation policies can contribute to greater innovation, productivity and therefore economic growth. So far, the UK has reduced its GHG emissions by a greater rate than any other G7 country, primarily achieved by policies to develop a lower carbon electricity generation mix.

FIGURE 6: TOTAL GREENHOUSE GAS EMISSION IN G7 COUNTRIES



SOURCE: State of the Market 2019, Ofgem

Carbon budgets are set by the UK government in order to progress the reduction in emissions. From 2018 to 2022 the UK has committed to capping GHG emissions at 2,544 tonnes across all sectors of the economy. This is expected to be achievable as emissions fell by 2.5% in 2018 with an 152m tonne reduction in carbon emissions.

TABLE 1: SELECTED DECARBONISATION POLICIES IN THE ELECTRICITY SECTOR

	Policy	Term	Description
Carbon price	EU emissions trading system (ETS)	[2005-ongoing]	Taxes carbon through a limited number of tradeable permits
	Carbon Price Support (CPS)	[2013-ongoing]	Tops up the carbon price as determined by the EU ETS
Large scale renewable subsidies	Renewable Obligation Certificate (ROC)	[2002-2017]	Obliged electricity suppliers to source a proportion of the electricity they supply from renewable sources
	Levy Exemption Certificates (LECs)	[2001-2015]	Granted a rebate to eligible renewable generators
	Contracts for difference (CfD)	[2014-ongoing]	Provides low-carbon generators a fixed price, topping up the wholesale price when it is lower than the agreed price (clawing money back otherwise)
Small scale renewable subsidies	Feed-in tariff (FiT)	[2010-2019]	Subsidises small-scale low-carbon electricity generators
Demand-side policies	Carbon Emissions Reduction Target (CERT) Extension and +20%)	[2008-2012]	Required larger gas and electricity suppliers to achieve reductions in carbon emissions from domestic premises
	Energy Company Obligation (ECO) and Extension	[2013-ongoing]	Obliged energy suppliers to deliver energy efficiency measures to domestic premises
	Renewable Heat Incentive (RHI) Domestic and Non-Domestic	[2012-ongoing]	Subsidises low carbon heat sources
	Smart Metering Domestic and Commercial		Mandates suppliers to roll out electricity and gas smart meters to homes and small

SOURCE: State of the Market 2019, Ofgem

Carbon dioxide emissions from electricity generation in the UK fell by ~11% in 2018. This helps achieve the committed target of reducing UK greenhouse gas emissions to net zero at 2050 (set June 2019). While the nearer-term targets appear to be achievable (and even surpassed), it is estimated that the UK is not on track to meet its legally binding targets from 2023 onwards and additional investment in low carbon generation is required. Ultimately, this target implies that more carbon must be removed from the atmosphere than is emitted, delivering negative emissions, in order to be achievable. Ofgem estimates that the cost to customers to reduce each tonne of carbon emissions over the last 9 years is about £31, while the cost to subsidise small scale renewable projects is about £322 for each tonne of carbon emissions eliminated.

The UK department for Business, energy and Industrial strategy (BEIS) is the regulatory body responsible for setting energy policy, though EU law also has an impact on the UK energy sector while the UK remains a member. To date the effect of leaving the European Union through Brexit on these targets is unknown, but the UK remains committed to its 2050 targets.

Renewable Obligation

The RO scheme compels suppliers to source a specified portion of electricity from renewable sources each year.

There are several support schemes to provide financial support for the development of renewable energy projects. Of significance to the utility producers is the Renewable Obligation (RO) introduced by the BEIS and the Department for the Economy in Northern Ireland in 2002. The RO was introduced to provide incentives for the deployment of large-scale renewable electricity in the UK. The scheme obliges suppliers to source a specified portion of their electricity from renewable sources each year. The obligation is denoted in Renewable Obligations Certificates which are administered by Ofgem. Ofgem assess and approve RO applications and issue Renewable Obligations Certificates. (ROC). Renewable Obligations Certificates are the currency of the RO and used by energy suppliers as a measure of the amount of electricity they have acquired to sell to customers from renewable sources. The certificates demonstrate that a supplier has fulfilled their renewable obligation.

The annual obligation is published on October 1 each year, 6 months prior to the obligation taking effect. It is set by the BEIS and based upon a fixed target and/or a calculation of headroom in accordance with provisions set out in the Renewable Obligations Order (2009). Headroom is a margin between the predicted generation and the level of obligation designed to prevent supply exceeding the obligation for a given year. Headroom provides investors security that there will be a market for ROC and it helps to stabilise the price given it prevents a surplus.

The obligation determines the number of ROCs suppliers are required to produce for each megawatt hour of electricity (MWh) they supply to customers. Each supplier's obligation is calculated by multiplying their total annual supply to customers in the UK (MWh) by the level of the obligation (ROCs per MWh).

ROCs are issued to operators of accredited renewable generating stations based on the amount of renewable energy they generate, which is reported to Ofgem on a monthly basis. The generators sell their ROCs to suppliers and the suppliers then present their ROCs to Ofgem to demonstrate that they have fulfilled their obligation. If a supplier is unable to meet their obligation/tariff the difference is made up through a payment to a buy-out fund, or they purchase their ROCs in the market.

The value of an ROC is determined through a negotiation between the supplier and the generator. There is no fixed price for ROCs. The long-term value of an ROC is the buyout price (the payment avoided by the supplier for presenting ROCs to Ofgem) typically less about 10% as the renewable generators sell them into the market at a discount.

There is a working capital benefit to the energy suppliers embedded in the ROC pricing and payment structure. The suppliers pass-through the relative cost of the RO to the end-user/consumer on a monthly basis in the energy bill. The supplier is collecting the RO from April 1 until March 31 the following year, and the RO payment to Ofgem is not due until August of that year, 5 months later. It is clear that careful management of cash flow resources are required, particularly as the RO increases in size, with lump sums due in August of each year.

Ofgem

Ofgem is the Office of Gas and Electricity, an independent regulatory authority working within UK and EU law. The body works alongside government bodies and industry stakeholders but is independent of these entities.

Ofgem's principle interest is to protect the interests of consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The authority achieves this by promoting competition, rooting out bad practice and working with the government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.

The Authority is required to carry out functions to forward its principal objective to protect the consumer. Where appropriate this is done by promoting effective competition between persons engaged in or commercial activities connected to:

- The shipping, transportation or supply of gas conveyed through pipes
- The generation, transmission, distribution or supply of electricity
- The provision or use of electricity interconnectors

Ofgem is governed by the Gas and Electricity Market Authority (GEMA) which includes non-executive and executive members and a non-executive chair. The Authority determines strategy, sets policy priorities and makes decisions on regulatory matters. The Authority's powers are provided for under the following:

- Gas Act 1986
- Electricity Act 1989
- Utilities Act 2000
- Competition Act 1998
- Enterprise Act 2002

Ofgem is subdivided into directorates and functions. Under the Gas and Electricity Markets Authority board sit 10 Directors responsible for functions within the organisation. These functions include E-serve, Corporate Services, communications and General Counsel but also regulatory areas:

- Networks
- Energy Systems Management & Security
- Enforcement & Emerging Issues
- Retail
- Strategy and Decarbonisation

The body also work on renewable energy and social programs on behalf of the government. These projects are in areas such as renewable heat, renewable electricity, energy efficiency and fuel poverty. Ofgem works alongside stakeholders and the government to ensure policy targets are met with economic and consumer interests at the fore.

Ofgem is funded through licensees’ fees paid via an annual license fee. The regulator is independent of the companies it regulates. All licensees are required to adhere to certain industry codes as set out by the technical standards that apply to all members of the industry. The terms and conditions form the basis of commercial transactions. Market participants may be sanctioned by Ofgem for any breach of the codes.

FINANCIAL OVERVIEW

Following the return to basics in F2018, YUG has restructured is internal operations and controls, as well as its organisational structure to ensure strong management and oversight, as well as stable process flow. This resulted in a slight step back in the rate of growth in monthly bookings in F2019 over F2018. However, we anticipate that the operational repositioning of the Company will establish a much stronger foundation from which to build a larger and more efficient corporate entity with sustainable profitability and cash flow generation in the longer run. Arguably there is already demonstrable evidence of the foundational strength of the repositioned platform with F2019 results and developments in F2020 following the impacts of COVID-19. Though we do expect a decline in total revenue in F2020, but solid profitability levels and an improved cash position.

F2019 Financial Results

YUG reported financials for the year ended 31 December 2019 on April 6, 2020:

Revenue increased 38% y/y, with an overall average contract term of ~22 months.

- **Revenue:** Growth in revenue for the full year was 38% y/y reaching £111.6m vs. £80.6m in F2018. Revenue is generated from a core service of fixed price utility (gas/electricity/water) supply contracts. The contracts are agreed through one of the sales channels and take effect within ~ 90 days of the signing date, for a fixed period of time – 12, 24, 36 months. During the COVID-19 outbreak and lockdown YUG launched some shorter-term options of 90 days under the Agile program to assist its customers through the uncertain times. On average the overall average contract term for YUG's customer book has been increasing and is now at ~22 months. YUG typically buys the appropriate supply to meet the demand from new contracts in the wholesale market, matching to about 90% of the projected volumes (+/- 10%). The customer is billed monthly, and payment is received within 7 to 14 days of invoicing. Approximately 70% of all customers are on direct debit payment, further increasing security of payment and reducing payment risk.

  The YUG revenue model is quite complex in regards to how it builds over time.

  - Existing revenue will have some contracts expiring each year. We estimate that roughly 60% of the prior year's revenue represents contracts expiring and 40% won't expire until the following year. We then expect 65% of the 60% expiring to renew for an additional ~24months.
  - Each year there are new contracts signed which last again an average of ~24 months. These new contracts are from new customers but also from cross-selling to existing customers. After the renewal period the same estimation of renewal rates are applied annually.
  - Out of contract customers result when a customer does not select a new contract at the time of expiry of their existing contract, and the customer does not change their energy supplier. Out of contract rates are typically higher than contract rates, generating higher margins for YUG. Some customers may remain on these out of contract arrangements for several months.
  - Layered on top is other revenue that includes administration fees, late payment fees, termination fees etc.

  Table 2 depicts this growth structure which suggests that if YUG continues to focus on its growth targets to generate new contracted revenue each year by providing superior customer service and efficient pricing, some very healthy growth targets are achievable.

  Existing revenue:

  - **Year 1**: We assume that 60% of the existing revenue in Year 0 (100) is up for renewal (60) and 65% of that is renewed on contract (39); 40% of the Year 0 revenue remains on contract (40) for an additional 12 months;
  - **Year 2**: Out of the revenue that remained on contract in Year 1 (40), 65% will renew on contract (26) for 24 months; The amount that renewed in Year 1 (39) remains on contract for another 12 months;

- **Year 3**: Out of the revenue that remained on contract in Year 2 (39), 65% will renew on contract (25.35) for 24 months; The amount that renewed in Year 2 (26) remains on contract for another 12 months;
- **Year 4**: Out of the revenue that remained on contract in Year 3 (26), 65% will renew on contract (16.9) for 24 months; The amount that renewed in Year 3 (25.35) remains on contract for another 12 months.

New Contract Revenue:

- We assume that each year there is 100 of new contract bookings started, with contract terms of 24 months on average (total contract value of 200).
- At the end of the 24 months, we assume a 65% renewal rate and that the renewals are for contract terms of 24 months on average.

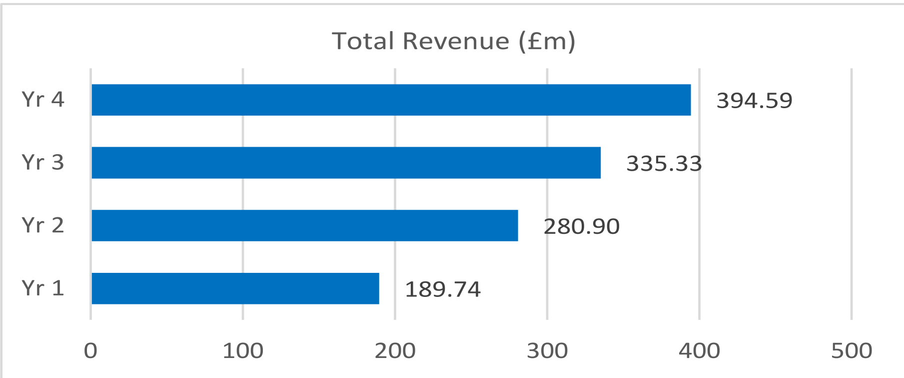
Other Revenue:

- Out-of-contract revenue: we assume out of contract revenue runs at about 5% of total revenue;
- Other revenue: we assume other revenue runs at about 1% of total revenue

Note: This illustration does not account for exact timing between booking and contract start, which has been previously noted as about 90 days.

TABLE 2: CONTRACTED REVENUE GROWTH STRUCTURE ILLUSTRATION

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4
Existing revenue	100.00	40.00	39.00	26.00	25.35
Amt up for renewal (60% prior yr)		*60.00*	40.00	39.00	26.00
Renewal (65%)		39.00	26.00	25.35	16.90
New Contract Revenue (avg 24mths)		100.00	100.00		
Renewal (65% after 24mths)				65.00	65.00
New Contract Revenue (avg 24mths)			100.00	100.00	
Renewal (65% after 24mths)					65.00
New Contract Revenue (avg 24mths)				100.00	100.00
Renewal (65% after 24mths)					
New Contract Revenue (avg 24mths)					100.00
Renewal (65% after 24mths)					
Total Contract Revenue		179.00	265.00	316.35	372.25
Out-of-Contract Revenue		8.95	13.25	15.82	18.61
Other Revenue		1.79	2.65	3.16	3.72
Total Revenue (£m)		**189.74**	**280.90**	**335.33**	**394.59**



Source: SP Angel assumptions

- **Gross margin:** Full year F2019 gross margin was 4.9%, a 0.9% improvement over F2018. Notably H219 gross margin reached 6.7% (H218: 2.1%) vs. H119 gross margin of 3.2% (H118: 6.7%). As part of the internal review conducted and new processes established, guidelines for customer acquisitions were implemented. Strict pricing metrics based on the sales channel source combined with an assessment of ongoing costs for service and maintenance are now maintained and adhered to in support of stronger gross margins and adjusted EBITDA. As the legacy, pre-restructuring customer contracts continue to expire, or are renewed under the restructured platform and revised commercial and financial criteria, there will be a natural lift in total gross margin over time. The target average is mid-to-high single digits, with the range down to mid-single digits for very high volume and bundled contracts, up to low-to-mid double digits for more tailored and specialized contracts.

General overhead costs improved by 1.1% to 6.3%

- **General Overheads:** In F2019 general overheads decreased by 1.1% from F2018 to 6.3%. The three expense components, of roughly equal size, include sales and marketing, the cost to service existing customers, and general and administrative expenses. Economies of scale are expected to drive cost of service and administrative expenses lower, particularly given the reinvigorated platforms in place with advanced technology and streamlined processes that have been implemented. There are plans to further automate processes using modest incremental investments in existing platforms, reducing the chances for error and creating additional efficiencies in sales and marketing.
- **Profit/Loss and EBITDA:** Adjusted EBITDA for F2019 was £(4.2)m, an improvement of ~33% over F2018 EBITDA losses of £6.3m. The improvements continued through the year with H219 EBITDA losses of £1.6m coming in ~41% lower than H119 EBITDA losses and ~70% lower than H218 EBITDA losses. The Group loss for F2019 was £5.0m, a 21% improvement over F2018 losses of £6.3m. Excluding the one-time items F2019 losses were £3,950m.

Cash balances at March 31, 2020 stood at £10.9m with £6.1m in cash collateral.

- **Cash and Equivalents:** Net cash at year end F2019 was £1.8m, excluding £10.4m of cash which is held as collateral with trading counterparties to manage the hedging book. Much of this cash is to be released under the new structured trading arrangement with SmartestEnergy, which provides a variable credit facility of up to £13m. In place of cash as security, YUG has agreed to certain covenants under the credit facility such as fixed and floating rate charges over the assets (essentially customer contracts). As at March 31, 2020 the Group had cash of £10.9m and £6.1m in cash collateral.
- **Net Cash Flow:** Total cash outflow was £12.2m for F2019; £10.4m is related to the trading counterparty deposits because of a decline in forward commodity markets; £0.9m is related to other operating activities; £0.6m is related to the investment in a new purpose-built sales, marketing and innovation office in Leicester; and £0.4m in interest and finance charges and the last dividend paid in F2018. Recall the trading counterparty deposits are recoverable under the new SmartestEnergy trading agreement.

TABLE 3: FINANCIAL SUMMARY

Financials (£000)	2016	2017	2018	2019
Revenue	16,264.0	45,631.0	80,635.0	111,613.0
Gross Margin (%)	21.2%	14.9%	4.0%	4.9%
Operating Income	(1,518.0)	784.0	(9,595.0)	(5,898.0)
Operating Margin (%)	-9.3%	1.7%	-11.9%	-5.3%
Adjusted EBITDA	(1,518.0)	1,537.0	(6,283.0)	(4,242.0)
Net Income	(1,359.0)	711.0	(6,267.0)	(4,968.0)
Earnings per Share (£) basic	(0.1029)	0.0506	(0.4223)	(0.3)
Adjusted Net Income	136.0	1,413.0	(5,555.0)	(3,950.0)
Adj. EPS (£) basic	0.0103	0.1005	(0.3743)	(0.2426)
Basic Shares (000s)	13,212.2	14,054.1	14,841.4	16,278.7
Net Cash in/(Out)-flow	5,150.0	(1,822.0)	9,725.0	(12,235.0)
Debt	-	-	-	-

Growth Rates (%)	2017	2018	2019
Revenue	180.6%	76.7%	38.4%
EBITDA	201.3%	-508.8%	32.5%
Net Income	152.3%	-981.4%	20.7%
Adjusted Net Income	939.0%	-493.1%	28.9%

Financial Health	2016	2017	2018	2019
Working Capital (£000)	4,748.00	7,021.00	6,664.00	187.00
Current Ratio	(1.89)	(1.65)	(1.31)	(1.01)
Long-term Debt (£m)	-	-	-	-
Total Equity (£m)	5.41	8.81	10.44	5.30
LT Debt/Assets	-	-	-	-
LT Debt/Equity	-	-	-	-

Financial Position (£000)	2016	2017	2018	2019
Cash	5,197.0	4,887.0	14,612.0	2,377.0
Inventory	-	-	-	-
Debtors	4,891.0	13,011.0	13,569.0	25,886.0
Creditors	(5,340.0)	(10,877.0)	(21,517.0)	(28,076.0)
Total Assets	10,821.0	20,061.0	31,955.0	33,822.0
Total Liabilities	(5,412.0)	(11,248.0)	(21,517.0)	(28,524.0)
Total Equity	5,409.0	8,813.0	10,438.0	5,298.0

Profitability	2016	2017	2018	2019
ROE	-25.1%	8.1%	-60.0%	-93.8%
ROA	-12.6%	3.5%	-19.6%	-14.7%
Debtor Days (net receivables)	40.9	43.7	9.6	6.5
Creditor Days (Trade & Other payables)	33.4	21.6	19.1	15.7

SOURCE: Company reports

Outlook

We expect customer contract growth to regenerate after COVID-19 subsides.

The forward contract book for F2020 stood at £79.5m at 31 Dec 2019 which was prior to the COVID-19 outbreak and subsequent lockdown. During the period of internal review and restructuring during F2018 and the early part of F2019 the Company reduced average monthly bookings. The review highlighted a change in rationale for customer acquisition. Rather than capturing market share through increased numbers of customer contracts on an all-comers basis, it became well understood that longer-term growth and stability is far better supported by the acquisition of higher net value and stable customer contracts. So, while contracted bookings for F2020 were down ~10% from the prior year, the platform model is such that it is now adequately positioned to handled increased growth while adhering to established standards. As such, we expect organic growth in customer contracts to regenerate after the COVID-19 outbreak and impact subsides. The trend so far is positive with monthly contracted revenue of £6.2m during H120.

Approximately £35m of the contracted book for F2020 represents the legacy, lower margin customer contracts, with only £5m of the contracted book for F2021 coming from legacy contracts. It is anticipated that some of these contracts will renew, but they will be renewed under the current parameters set by management. The roll-off of these legacy contracts should result in improved margins.

The full impact of COVID-19 on F2020 is still somewhat undetermined. There will certainly be a reduction in revenue for the year and gross margin for H120, as a result of some costs associated with balancing the hedging book (too much supply, too little demand, falling energy pricing environment), and some increased bad debt exposure. Assuming we progress to more normalised markets through the end of the year, with limited closures and lockdowns YUG will be well positioned for higher levels of growth through F2021.

We are awaiting the reporting of H120 financial results, to have a better gauge on operational activities and the impacts of COVID-19 so far this year. Following the reporting of these results, we intend to issue forecasts for F2020 and F2021.

SWOT ANALYSIS

Strengths:

- Strong and experienced management team focused on delivering growth and an improved operating performance, while providing in-depth corporate governance and management oversight.
- Strong and durable operating platform with multiple sales channels that drive growth and very closely manage costs.
- Only provider of multiple energy utility products and services including gas, electricity and water, to small and mid-sized businesses across the UK. This drives efficiencies in service and management costs, and leverages the existing customer base.
- The ability to include green energy products with direct source identification increases the potential customer reach. The Board ensures efforts are focused on developing strategies that include the technology transition to a lower carbon economy.
- Improving levels of customer service and satisfaction, supported by a state-of-the-art, automated and digitised platform.

Weaknesses:

- YUG's meter points reached ~9,000 through the end of F2019 and is now at ~14,000, out of a total 3.5m in the entire B2B utility services sector across the UK. By comparison to the Big 6 providers, this is a relatively small platform which typically implies larger potential exposure to individual risk factors. However, given the recent in-depth internal review and subsequent restructuring, we believe YUG has created an agile and very viable platform strategically well-positioned for long-term growth. Furthermore, the strength of its digital platform and new oversight procedures and governance controls provides greater awareness to management and the Board.
- YUG is in the early stages of its strategic reset. While the balance sheet is strengthening with the new SmartestEnergy trading agreement in place, the financial statement is still in the stages of turnaround. On a pre-COVID-19 basis it was expected that F2020 would be a year of solid growth with net income nearing break-even by year-end. With the outbreak of COVID-19 F2021 is expected to show stronger levels of growth on the top line that drives bottom line profitability.

Opportunities:

- Barriers to entry are high requiring a strong and trusted brand reputation, supported by extensive experience and expertise in management and partners. In addition, the hedging collateral required in order to participate in the wholesale energy markets is prohibitive for many new entrants.
- Some energy suppliers are focused on the B2C market and not the B2B market, resulting in less competition in a very large market opportunity.
- The newer and more technologically based services platforms permit companies to be more cost effective in a competitive industry – lower cost of customer acquisition, lower sales and marketing costs and lower customer service costs. It

also allows more efficient updates/changes in pricing strategies, better matching dynamic changes to forward commodity curves.

- There are economies of scale advantages as the number of booked/signed customer contracts grows.
- Customers are seeking simplification of their services with diversity of product and service offerings from their suppliers. Preferences for single source and efficient services with online access are becoming more prevalent.
- The roll-out of smart metering systems across businesses in the UK for the supply of utility services and products to permit usage recording to the half-hour is useful to the utility providers, providing exact usage levels.

Threats:

- There is seasonality to the demand for energy utility products; much colder or warmer temperatures result in unexpected demand or supply of energy products.
- There can be significant pricing competition in the industry encouraging switching between energy suppliers. While switching costs are not zero, they can be mitigated by contract pricing arrangements presented to increase customer acquisitions. However, if the supplier has priced the contracts correctly, this should not have a direct impact on net customer contribution levels.
- The margins in the B2B utility supply industry are relatively low, and easily diminished by changes in sales, marketing and other overhead costs if not carefully monitored and managed.

COMPETITORS

There have been no new license applications in the market in 2019/2020.

Competition in the B2B energy supply market has been quite stable, with no new entrant applications in the pipeline and about six companies that departed the industry in F2019. The large incumbents, formerly the 'Big6' before some industry consolidation, continue to dominate the marketplace at around 73% market share at the end of Q1 2020, slightly higher than the 70% market share at the end of June 2019. The large incumbents lost about 1.3m customers or ~5% market share of gas and electricity in the prior 12 months. This is similar to the lost market share in each of the prior two years. Next, is a middle tier of 8 suppliers comprising about 27% market share by the end of Q1 2020, up from just over 20% at the end of June 2019. There was a net gain of about 1.9m customers, achieved primarily by exerting competitive pressure on the large incumbents, but also from acquiring customer books from smaller suppliers. Finally, there is a very large and fragmented group of providers with smaller books of customers that made up about 9% market share at June 2019, a 1% loss in electricity and flat in gas compared to the prior 12 months. Overall, the market is dominated by the very large providers with relatively high cost bases, inefficient and expensive systems and platforms, and relatively poor customer service. Notably there have been no new B2B supply license applications in the market; we expect this is related to the relatively high barriers to entry of the business.

From the comps table below, it appears the larger market participants trade at an average P/E ratio next year of about 13x, and an average EV/EBITDA next year of 8x.

TABLE 4: MARKET COMPARABLES

Name	YU GROUP PLC	CENTRICA PLC	SSE PLC	E.ON SE	EDF	IBERDROLA SA	ENGIE	FIRSTENERGY CORP	Average
Ticker	YU/ LN Equity	CNA LN Equity	SSE LN Equity	EOAN GR Equity	EDF FP Equity	IBE SM Equity	ENGI FP Equity	FE US Equity	
Currency	GBp	GBp	GBp	EUR	EUR	EUR	EUR	USD	
Mkt Cap (£m)	13.02	2,273.66	12,337.78	24,696.33	27,150.48	65,596.13	27,652.66	14,951.40	
EV (£m)	11.24	6,321.66	23,515.28	57,988.33	79,395.48	115,244.13	57,361.66	36,962.40	
Closing Price (£)	0.80	0.39	11.85	9.35	8.75	10.33	11.36	27.58	
Sales(£m)	111.61	22,674.00	6,800.60	41,003.00	71,317.00	36,437.91	60,058.00	11,035.00	
Gross Margin	4.9%	14.1%	29.6%	NA	NA	44.6%	NA	69.0%	
EBITDA (£m)	(5.50)	1,463.00	1,756.70	3,346.00	16,754.00	10,404.52	7,673.00	3,763.00	
EPS (last yr) (£)	(0.31)	(0.18)	(0.06)	0.68	1.50	0.54	0.34	1.70	
EPS (this yr) (£)	NA	0.03	NA	0.15	NA	0.14	0.21	0.76	
EPS (next yr) (£)	NA	0.05	0.83	0.71	0.55	0.60	1.07	2.63	
DPS (£)	-	0.05	0.80	0.46	0.33	0.37	-	1.53	
Div. Yield	NA	3.9%	6.8%	4.9%	1.7%	3.9%	NA	5.6%	
EV/Curr EBITDA	**NA**	**3.7**	**12.7**	**8.5**	**5.1**	**10.8**	**6.3**	**9.6**	8.1
EV/Next Yr EBITDA	**NA**	**4.2**	**11.7**	**8.0**	**4.7**	**10.1**	**5.6**	**8.9**	7.6
52 Week High (£)	1.425	0.953	17.030	11.562	13.610	11.515	0.168	0.525	
Week High Date	28/01/2020	13/12/2019	19/02/2020	19/02/2020	19/02/2020	21/07/2020	19/02/2020	18/02/2020	
52 Week Low (£)	0.525	0.291	10.575	7.601	5.978	7.760	0.086	0.229	
Week Low Date	15/04/2020	22/04/2020	06/04/2020	23/03/2020	19/03/2020	16/03/2020	03/04/2020	22/07/2020	
P/E (this year)	**NA**	**11.8**	**NA**	**62.3**	**NA**	**73.8**	**53.3**	**36.3**	47.5
P/E (next year)	**NA**	**7.5**	**14.3**	**13.2**	**15.8**	**17.3**	**10.6**	**10.5**	12.7

Name	YU GROUP PLC	TELECOM PLUS PLC	GOOD ENERGY GROUP PLC	ORBITAL ENERGY GROUP INC	SPARK ENERGY INC-CLASS A	Average
Ticker	YU/ LN Equity	TEP LN Equity	GOOD LN Equity	OEG US Equity	SPKE US Equity	
Currency	GBp	GBp	GBp	USD	USD	
Mkt Cap (£m)	13.02	1,030.84	27.46	15.67	282.18	
EV (£m)	11.24	1,089.79	69.22	28.13	413.68	
Closing Price (£)	0.80	13.02	1.65	0.52	7.96	
Sales(£m)	111.61	875.77	124.26	23.49	813.73	
Gross Margin	4.9%	19.1%	25.5%	24.7%	24.4%	
EBITDA (£m)	(5.50)	68.15	9.53	(12.72)	64.98	
EPS (last yr) (£)	(0.31)	0.46	0.02	(0.04)	0.03	
EPS (this yr) (£)	NA	0.59	0.09	(0.12)	NA	
EPS (next yr) (£)	NA	0.64	0.13	(0.11)	NA	
DPS (£)	-	0.57	0.04	-	0.73	
Div. Yield	NA	4.4%	0.7%	NA	9.1%	
EV/Curr EBITDA	**NA**	**16.80**	**6.4**	**NA**	**NA**	11.6
EV/Next Yr EBITDA	**NA**	**15.31**	**6.4**	**NA**	**NA**	10.9
52 Week High (£)	1.425	15.820	2.470	1.319	11.470	
Week High Date	28/01/2020	20/02/2020	10/01/2020	21/01/2020	27/11/2019	
52 Week Low (£)	0.525	9.070	1.225	0.451	5.250	
Week Low Date	15/04/2020	16/03/2020	17/03/2020	04/09/2020	18/03/2020	
P/E (this year)	**NA**	**22.1**	**18.3**	**(4.19)**	**NA**	12.1
P/E (next year)	**NA**	**20.3**	**12.6**	**(4.56)**	**NA**	9.4

Source: Bloomberg

OPUS ENERGY – A REFERENCE CASE

Suppliers need to be customer focused, technologically advanced, and flexible in the products offered.

If we look around the current market, the dynamics of the competitive landscape appear to be changing. We previously noted that while the large incumbents continue to dominate, they are consistently losing market share to their smaller competitors. With three successive years of 5% annual market share losses, the smaller peers must be doing something right. Upon further review, it becomes clear that the more nimble, more technologically advanced, and more customer centric suppliers are successfully winning new customers – though they still need to be operationally sound with strong financial controls and established operational parameters.

Opus Energy is a good reference case demonstrating the success of a smaller competitor that was able to win market share away from the mammoth peers. Opus Energy was founded in 2002 and has since developed its customer base and utility product offering before being bought by Drax Energy in 2017. The Company was a supplier of renewable gas and electricity purchased from wind, solar, hydro and anaerobic digestion generators. Early investors included Telecom Plus and

International Power both of which provided access to additional markets and enabled Opus to increase its customer base.

The Company began revenue generating in 2003 and underwent several funding rounds with Telecom Plus ultimately taking a 20% stake and International Power taking a 30% stake. This additional funding enabled the Company to focus on renewable energy supply and expand its revenue base by focusing on the key concerns of its customers. In order to develop a strong foundation for growth, the Company designed and implemented its own customer onboarding, contract pricing, marketing and tracking/maintenance systems and also focused on new products designed to improve customer retention. The Company focused on bill accuracy offering smart metering from 2008, offering flexible solutions and providing access to the wholesale market via an online purchasing system. Becoming a customer centric company and having strong internal systems and controls to effectively manage costs are recognized as key competitive advantages within the industry.

Opus Energy grew its customer base from 3,000 business sites to over 368,000.

The success of the Opus business model is evidenced by the significant growth that occurred in its customer base, starting at a meagre 3,000 business sites and growing to service over 368,000 premises in the UK. In 2015 the Company overtook one of the big 6 energy suppliers in terms of customer base and subsequently became the 6th largest energy supplier in the UK market. This success drew a lot of attention, and 100% of the share capital of Opus was subsequently acquired by Drax Developments Ltd. in 2017. The transaction was worth £340m and was funded entirely through a debt facility. Drax, a power generator, B2B energy supplier and wood pellet supplier purchased Opus to diversify its business and offer protection against the volatile pricing in the wholesales market. Including interest on Opus Energy's net assets, the total consideration was £367m, funded by cash and debt. This translates into a multiple on Opus energy 2016 revenue of 0.64x or on EBITDA of 10.9x.

Opus Energy was acquired for £367m. in 2017, a multiple of 10.9x 2016 EBITDA.

We can see similarities in the YUG operating business model with a focus on customer service, customer relationships and acquisition costs of customers. In addition, YUG is investing in the automation and digitisation of its internal systems, enhancing procedural controls and reducing costs. Even the relationship with SmartestEnergy for wholesale energy supply access appears to be close in structure to what Opus Energy had with International Power. Finally, the review and restructuring recently completed has propelled the management team to a much stronger understanding of the opportunities and risks of the business, and we expect will augment the Company's ability to achieve its growth targets and ultimate success.

RISKS

Global Market Environment

- COVID-19 and other global events
- Commodity and energy prices
- Liquidity risk in commodity trading
- Geopolitical
- Market and trading risks
- FX rates

Company Specific

- Physical risks to employees
- Loss of key employees
- Financial – potential for bad debt; cash flow management and FX
- Legal and regulatory – Ofgem, AIM and the FCA
- Compliance
- Covenant breaches on the SmartestEnergy trading agreement
- Technology – cyber-attacks to the Company and to operational sites
- Data integrity
- Counterparty/credit risk

ESG EFFORTS

ESG - Environmental, Social, and Corporate Governance refers to three core non-financial factors used to measure the sustainability and societal impact of an investment in a company or business. It is often used by companies to understand the impacts and manage the risks that its operations have on customers, investors, employees and other stakeholders.

Environment: YUG is committed to continuously increasing the proportion of fuel sourced from renewable of low carbon sources of generation, particularly for its green gas and power solutions. The Company has enabled its customers to source 100% of their electricity supply from certified renewable production. This is backed by the Ofgem REGO scheme that allows businesses to report zero carbon emissions. In addition to ensuring the provisions of products and services that align with the transition towards a lower carbon economy, YUG is conscious of its own internal operational impact on the environment. At its site in Leicester, the Company has installed smart and efficient lighting, as well as EV charge points for its employees.

Social: YUG's internal culture strives to create a dynamic and inspiring work environment in support of its employees who provide the superior service to customers and ultimately drive long-term growth. Employees are engrained in the performance of the Company via monthly forums where senior management meets openly with employees and responds to questions. There is also an annual awards ceremony to recognize those making a difference at the Company for their colleagues, customers and stakeholders. The save as you earn scheme launched during F2019 serves to establish a strong bond between employees and the development of the Company. Overall, the focus of the employee strategy is on providing opportunity and growth, readying employees for the future and recognising strong performance.

Each year YUG selects a community charity to support, where employee contributions are match-funded by the Group.

Corporate Governance: After an extensive internal review, the Board was restructured and strengthened with tenured and experienced individuals who can provide substantial oversight and guidance to the Group. The structure and composition of the Board has been designed to support an agile decision-making team and develop and maintain a rigorous set of corporate governance practices and systems. Underlying this commitment, is an agreement to follow the Quoted Companies Alliance (QCA) Code that supports an effective and efficient corporate governance model based on ten core principals.

MANAGEMENT AND BOARD

Robin Paynter Bryan- Independent Non-Executive Chairman

Robin has over three decades of corporate finance experience working for a number of institutions including Daiwa Securities, Credit Lyonnais Bank and Securities, Camborne Associates, SMBC Niko Capital markets, LCF Edmond de Rothschild and Industrial Bank of japan, Mizuho Corporate Bank.

More recently Robin has held Non-Executive roles at Prime Investment Group and Ofwat. His time in these roles and along with his time as CIO at Orange Tree Fund and Corporate Advisors , CEO and Partner at The Trinity Column Partners and Directorial roles at London Merchant Bank Limited, FairQuid, Boskenna Capital and Unity Link financial Services provide him with a wealth of experience across the Utility space where he has advised companies such as Severn Trent Water Plc, Endesa SA, Italgas SpA and Centrex European Energy & Gas. He has a strong background in regulation, compliance and corporate governance.

Robin has a BA (Hons) in Modern Languages from New College Oxford.

Bobby Kalar- Chief Executive Officer

Bobby has a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Derby. He started his career as an electronics engineer at Marconi Plc. before moving to London to work for COLT Telecommunications. While working there he headed a team of engineers involved in the bid and installation of the congestion charge scheme as part of the Mayor of London's Transport for London Initiative.

Following this Bobby invested in the home care sector as was Managing Director of Redrose Care Limited. In 2013 he sold the care home group to focus on the market opportunity presented by the deregulation of the energy sector and is the sole Founder of Yu Group.

Paul Rawson- Chief Finance Officer

Paul has a degree is Accounting and Finance from the University of Derby and is a qualified Chartered Accountant. He joined Yu Group in 2018 bring in considerable experience operating in the energy space.

Paul spent 5yrs in accounting and tax advisory roles before leaving KPMG to transition into the energy industry with what is now Engie. He was previously CEO of Energy Solutions at Engie UK and Ireland where he was responsible for the provision of low carbon generation, energy Software as a Service and smart building technologies; and the launch of a domestic energy retail offer. He was also part of the board of ENGIE UK.

Anthony Perkins- Senior Independent Non-Executive Director

Tony has been a Senior audit Partner at BDO since 1990 after joining the firm in 1980. He has acted for many fully listed and AIM companies in the professional services, natural resources, technology, manufacturing and retail sectors. He has extensive experience in financial, governance and risk management. He has advised on corporate strategy, transactions and expansion of businesses in the UK and internationally. Tony has held senior management positions at BDO as a member of the firm's Leadership Team including head of its London Operations and National Head of Audit.

John Glasgow- Independent Non-Executive Director

John is on the board of Yu Group and St Modwens Environmental Trust. He has 35 years' experience in engineering, operations, trading and IT across the energy industry. Senior Roles include General Manager for Powergen Energy Solutions Ltd., Director-New Connections at E.ON SE, Managing Director at Sterling Power Utilities Ltd. and Head-Management Centre at Central Networks East Plc.

John was a member of the DECC Energy Emergencies Executive Committee (E3C).

FINANCIAL STATEMENTS

Income Statement YE Dec (£000s)	2016A	2017A	2018A	2019A
Revenue	16,264.00	45,631.00	80,635.00	111,613.00
Cost of sales	(12,821.00)	(38,813.00)	(77,387.00)	(106,128.00)
Gross Profit	**3,443.00**	**6,818.00**	**3,248.00**	**5,485.00**
Operating costs before exceptionals and IFRS 2	(3,238.00)	(5,194.00)	(11,963.00)	(10,362.00)
Operating costs- non-recurring items	(379.00)	-	(441.00)	(378.00)
Operating costs- unrealised losses on derivative contracts	-	259.00	(125.00)	(518.00)
Operating costs - exceptional IPO costs	-	-	-	-
Operating Costs - IFRS 2 share option charge	(1,344.00)	(1,099.00)	(314.00)	(125.00)
Total operating costs	**(4,961.00)**	**(6,034.00)**	**(12,843.00)**	**(11,383.00)**
Profit/(Loss) from operations	**(1,518.00)**	**784.00**	**(9,595.00)**	**(5,898.00)**
Non-recurring operational costs	-	-	441.00	378.00
Non-recurring mutualisation costs	-	-	-	236.00
Impact of first-time adoption of IFRS 9	-	-	1,768.00	-
Unrealised loss on derivative contracts	-	(259.00)	125.00	518.00
Equity-settled share based payment charge	-	800.00	685.00	125.00
Depreciation of property plant and equipment	-	211.00	291.00	397.00
Amortisation of intangibles	-	1.00	2.00	2.00
Adjusted EBITDA	**(1,518.00)**	**1,537.00**	**(6,283.00)**	**(4,242.00)**
Finance Income	19.00	14.00	21.00	33.00
Finance costs	(29.00)	(68.00)	(63.00)	(112.00)
Profit/(Loss) before tax	**(1,528.00)**	**730.00**	**(9,637.00)**	**(5,977.00)**
Taxation	169.00	(19.00)	3,370.00	1,009.00
Profit/(Loss) after tax	**(1,359.00)**	**711.00**	**(6,267.00)**	**(4,968.00)**
Other comprehensive income	-	-	-	-
Total comprehensive income/(Expense) for the year	(1,359.00)	711.00	(6,267.00)	(4,968.00)
Non-recurring items after tax	-	-	357.00	497.00
Unrealised loss on derivative contracts after tax	379.00	(210.00)	101.00	420.00
Share based payments after tax	1,116.00	912.00	254.00	101.00
Adjusted basic loss for the year	**136.00**	**1,413.00**	**(5,555.00)**	**(3,950.00)**
Earnings/(Loss) per share (GBp)				
Basic	(0.10)	0.05	(0.42)	(0.31)
Adjusted Basic	0.01	0.10	(0.37)	(0.24)
Diluted	(0.09)	0.05	(0.40)	(0.29)
Weighted Average Shares	10,000.00	14,054.06	14,054.06	16,267.56
Effect of shares issued in the year	3,212.23	-	787.37	11.13
Ordinary shares for basic earnings calculation	**13,212.23**	**14,054.06**	**14,841.43**	**16,278.69**
Dilutive effect of outstanding options	1,094.50	1,133.07	768.03	786.55
Ordinary shares for diluted earnings calculation	**14,306.73**	**15,187.13**	**15,609.45**	**17,065.24**
Dividend/share	0.02	0.03	0.03	-

Note: Restated values for 2018

Balance Sheet YE Dec (£000s)	2016A	2017A	2018A	2019A
CURRENT ASSETS	10,088.00	17,898.00	28,181.00	28,263.00
NON CURRENT ASSETS	733.00	2,163.00	3,774.00	5,559.00
TOTAL ASSETS	**10,821.00**	**20,061.00**	**31,955.00**	**33,822.00**
CURRENT LIABILITES	(5,340.00)	(10,877.00)	(21,517.00)	(28,076.00)
NON CURRENT LIABILITIES	(72.00)	(371.00)	-	(448.00)
TOTAL LIABILITIES	**(5,412.00)**	**(11,248.00)**	**(21,517.00)**	**(28,524.00)**
Net Assets	5,409.00	8,813.00	10,438.00	5,298.00
EQUITY	5,409.00	8,813.00	10,438.00	5,298.00
LIABILITIES +EQUITY	**(10,821.00)**	**(20,061.00)**	**(31,955.00)**	**(33,822.00)**

Cash Flow Statement Year End December (£)	2016A	2017A	2018A	2019A
Net cash from operating activity	(870.00)	(979.00)	(1,320.00)	(11,280.00)
Net cash from investing activities	(143.00)	(527.00)	(189.00)	(644.00)
Net cash from financing activities	6,163.00	(316.00)	11,234.00	(311.00)
Net increase in cash and cash equivalents	**5,150.00**	**(1,822.00)**	**9,725.00**	**(12,235.00)**
Cash and cash equivalents at start of the period	47.00	5,197.00	4,887.00	14,612.00
Cash and cash equivalents at end of the period	**5,197.00**	**3,375.00**	**14,612.00**	**2,377.00**

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SPANGEL

4th Floor
Prince Frederick House
35-39 Maddox Street
London, W1S 2PP
United Kingdom

Tel: +44 20 3463 2260
Fax: +44 20 7629 1341
Web: **www.spangel.co.uk**