Non-Independent Research
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September 30, 2020

Spec Sits Research

Yü Group Plc

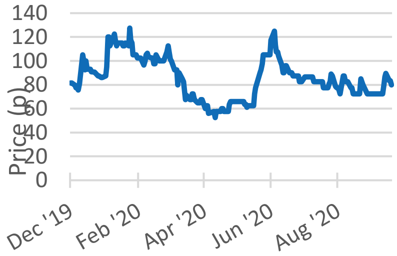
H120 Underpins LT Growth Potential

Yü Group Plc (YU. LN) listed on the AIM Exchange in London is a multi-utility provider t small and medium sized business, as well as larger corporate customers across the UI As a direct supplier of electricity, gas, water and other solutions such as electric vehicl (EV) charge points, smart meter installations and green energy solutions, Yü Grou (YUG) provides a simple approach to a business's energy management offerin competitive fixed-price, bundled utility plans. The certainty of utility costs supported b a strong commitment to customer service and product innovation is rapidly solidifyin YUG as a trusted supplier in the £35b UK B2B utility market, with more than 3.5ı business meter points.

Stock Data

Ticker (AIM)	YU. LN
Share Price	78.55p
Market Cap	£13M
EV	£11.2M
Yr High/Yr Low	142.50/52.50p

Price Chart



SOURCE: Bloomberg

Event: YUG announced its H120 financial results, which are beginning to demonstrate the positive impacts of the restructuring and strategic redirection made in 2018/19.

Key Performance Indicators:

- **Average Monthly New Bookings** during H120 reached £6.2m, +17% over H219 monthly average bookings of £5.3m and nearly double that of H119 of £3.2m. H220E monthly average bookings are expected to significantly increase.
- **Net Customer Contribution (NCC)** for H120 was 2.2%, up 0.8% over H119 at 1.4%, despite a £1.6m negative impact from COVID. H220E NCC is expected to improve further leading to a lower EBITDA loss for the period.
- **General overheads** for H120 were 6.3%, in line with F2019 (F2018: 7.4% and F2017: 9.1%). In order to drive growth, YUG is investing in sales and marketing, which is currently sized to handle the current growth plans.
- **Contracted Revenue** as at August 31, 2020 for 2021E stood at £71.7m, including the recently acquired Bristol Energy contracts. This is still expected to increase for the year as new bookings are added monthly.

H120 Financial Results:

- **Revenue**: H120 revenue was £45.9m, down 18.9% over H119 revenue of £56.6m. This decline was generally expected given the decision to slow bookings in 2019 while the Company sales strategy was revamped.
- **General Overheads:** H120 general overheads were 6.2% of revenue, in line with H119 at 6.1%. 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.
- **Profit/Loss and Adj. EBITDA:** Adjusted EBITDA for H120 was £(1.85)m, a 31% improvement over H119 with losses of £2.67m. Included in H120 Adjusted EBITDA is a one-time £1.6m impact from COVID. Net losses for the period were £1.7m or £(0.11)/shr, compared to net losses in H119 of £2.7m or £(0.17)/shr.
- **Cash:** Net cash at the end of H120 was £17.9m, with no debt. At the end of August 2020, the group held cash of £5.6m, following the payment for YUG's Renewable Obligation, as well as £0.8m for the acquisition of the Bristol Energy book.

COVID Impacts: Management took decisive action early in the COVID lockdown to reset hedging policies to mitigate trading losses, and used government schemes to help reduce discretionary overhead spending. There were sharp declines in electricity and gas demand by about 35% early in the lockdown, reducing revenues. Margins were also negatively impacted as the excess energy supply had to be sold back into the market, in a lower price environment. It is believed that the measures currently in place should mitigate any future potential adverse effects. Customer demand has also since recovered to 90% of pre-COVID levels, demonstrating resilience of the sector.

Outlook: YUG's revised strategy appears to be working and is on track to drive sustainable and long-term profitable growth. The smooth and efficient integration of the Bristol Energy customer contract book in August is another testament to the strength of the stronger platform established in 2018/19. We expect there are likely to be additional acquisition opportunities in the coming months, similar to the Bristol Energy book. We believe it is worthwhile for investors to take a fresh look at this Company as part of a long-term growth story for their portfolios.

Special Sits Research

Tania Maciver
tania.maciver@spangel.co.uk
+44 20 3470 0531

Equity Sales

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

Abigail Wayne
+44 20 3470 0534
abigail.wayne@spangel.co.uk

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

Outlook

The balance of the year is expected to show improvement over the first half, assuming that the brakes are not put on the economy again because of a COVID lockdown. Monthly bookings are expected to be well ahead of H120, with revenues trending in the same direction. However, 2020 revenue for the full year is unlikely to exceed full year 2019 revenue. Improvements are driven by a recovery in customer demand, increased organic growth, and the acquisition and integration of the Bristol Energy B2B customer book. Operating cash flow for the full year 2020 is expected to be positive and greater than Adjusted EBITDA with cash holdings well above that of December 2019 of £2.4m.

The Board anticipates a return to more scalable growth in 2021 and beyond with a return to break-even towards the end of that year. The Bristol Energy book is expected to contribute ~£10m in total through the end of 2021E, with mid-single digit contribution to margin and EBITDA. As the customer book continues to increase the economies of scale will become more evident, driving Adjusted EBITDA and net customer contribution to higher levels. The expiry of legacy contracts signed in 2018 also results in a customer book with a better quality of earnings.

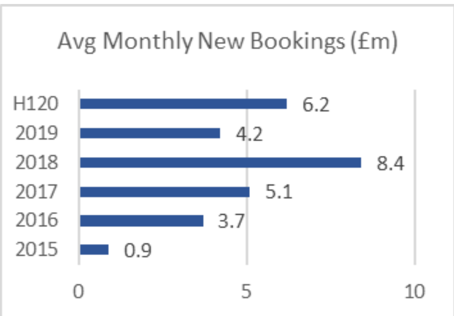
YUG's revised strategy appears to be working and is on track to drive sustainable and long-term profitable growth. The smooth and efficient integration of the Bristol Energy customer contract book in August is another testament to the strength of the stronger platform established in 2018/19. We expect there are likely to be additional acquisition opportunities in the coming months, similar to the Bristol Energy book. YUG is well positioned to take advantage of those, augmenting its organic growth trajectory. We believe it is worthwhile for investors to take a fresh look at this Company as part of a long-term growth story for their portfolios.

COVID Impacts: Management took decisive action early in the COVID lockdown to reset hedging policies to mitigate trading losses, and used government schemes to help reduce discretionary overhead spending. The wellbeing of employees and their families took priority as the business continuity plan was deployed to enable the business to continue to serve its client base and to win new clients. There were sharp declines in electricity and gas demand by about 35% early in the lockdown, reducing revenues. Margins were also negatively impacted as the excess energy supply had to be sold back into the market, in a lower price environment, generating mark to market losses. Some of these costs, and other grid operator costs which increased during H120 can be passed on to the end-customer. Though that is left to the discretion of the Company as these contracts expire or come up for renewal. There is also the potential for bad debt or customer credit losses during periods such as this. However, cash collections through August 31, 2020 reached nearly 100% of the value of invoices raised.

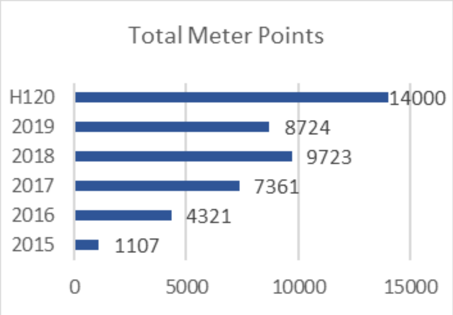
The estimated adverse impact on H120 Adjusted EBITDA was £1.6m. Though, the Company was able to defer ~£4.0m of HMRC payments under the government programs in place. Going forward, management and the Board feel that there are sufficient measures in place to reduce any further impacts of COVID on the business operations. The restructuring and strategic overhaul completed in 2018/19 have been critical to the strength of the Company through this uncertain period. While the spread of the virus continues and government measures to reduce the spread are increasing, there may be reduced energy demand in H220 and 2021. However, the hedging policy is being actively monitored and is unlikely to result in significant mark to market losses.

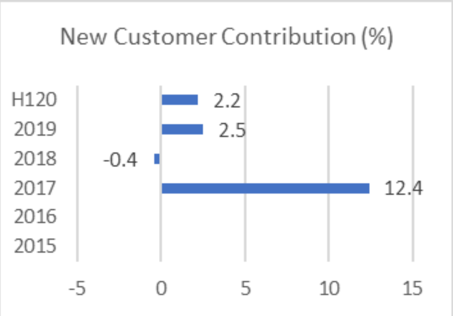
Key Performance Indicators – Ongoing Measures of Success

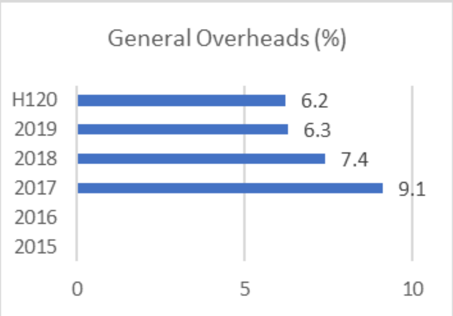
While there are a number of operating metrics and procedural controls that are regularly tracked and monitored in order to drive profitability of the business, the key performance indicators that have been identified include the following:

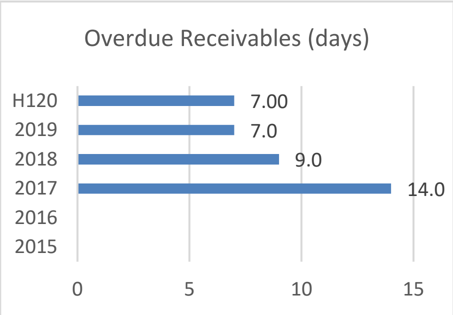


- **Average Monthly New Bookings** – This is the annualised value of contracts secured during a period. The monthly average bookings during H120 reached £6.2m, +17% over H219 monthly average bookings of £5.3m and nearly double that of H119 of £3.2m. Monthly average bookings are tracking well towards the highs of F2018 at £8.4m, when the focus was on increasing contracts and not quality of earnings. Notably, 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. This has impacted F2020 average bookings, in addition to COVID-19. H220E monthly average bookings are expected to continue to increase on trend.









- **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 the recent acquisition of the customer 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. We expect there to be additional opportunities to acquire customer books in the near-term, similar to the Bristol Energy acquisition recently completed.
- **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. NCC for H120 was 2.2%, up 0.8% over H119 at 1.4%, despite a £1.6m negative impact from COVID. Since establishing NCC as a KPI and the restructuring of processes and procedures in 2018/19 there has been marked improvement in this metric, reaching about 4.9% pre-COVID. Enhancing the life cycle value of customers, improvements to the credit control cycle and the expiry of low margin legacy contracts are contributing to continuous improvements. H220E NCC is expected to improve further leading to a lower EBITDA loss for the period.
- **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). General overheads for H120 were 6.3%, in line with F2019 (F2018: 7.4% and F2017: 9.1%). In order to drive growth, YUG is investing in sales and marketing, which is currently sized to handle the current growth plans. Sales and marketing represent about a third of the overheads spent, with the balance split between the cost to serve customers and general admin costs which are typically fixed costs. One of the targets for the company is to reduce the ratio of general overheads in support of driving increased economies of scale. This can be achieved by automating certain processes that do not require person to person interaction.
- **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. H120 receivables was ~7 days, supported by very strong cash conversion levels for the period.
- **Contracted Revenue:** This represents revenue that is expected to be generated from signed customer contracts over the subsequent 12-month period. As at August 31, 2020 the 2021E contracted revenue book stood at £71.7m, including the recently acquired Bristol Energy contracts. This is still expected to increase for the year as new bookings are added monthly. 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. The contracted revenue at the end of F2020 will be impacted by COVID-19 recovery, any organic growth that has been achieved through F2020 (both contracted and other revenue), as well as from acquisition growth.

H1 2020 Financial Results

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. There is already visible evidence of the foundational strength of the repositioned platform with H120 and F2019 results.

YUG reported financials for the half-year ended 30 June 2020:

- **Revenue:** H120 revenue was £45.9m, down 18.9% over H119 revenue of £56.6m. This decline was generally expected given the decision to slow bookings in 2019 while the Company sales strategy was revamped. Furthermore, H120 had a negative impact of ~£8m related to reduced energy demand from customers through the COVID lockdown, with the largest impacts hitting the months of April and May. The start of H220 is showing increased demand levels as businesses are once again permitted to open, with July and August demand reaching ~90% of pre-COVID levels.

  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 was last reported to be at ~22 months.

- **Gross margin:** H120 gross margin was 5.7%, much improved over H119 at 3.2% and over the full year 2019 gross margin of 4.9%. With increasing new bookings and as legacy, pre-restructuring customer contracts continue to expire, or are renewed under the revised strict 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; the bottom end of the range is mid-single digits for very high volume and bundled contracts the top end of the range is low-to-mid double digits for more tailored and specialized contracts.

- **General Overheads:** H120 general overheads were 6.2% of revenue, in line with H119 at 6.1%. 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 H120 was £(1.85)m, a 31% improvement over H119 with losses of £2.67m. Included in H120 Adjusted EBITDA is a one-time £1.6m impact from COVID. Net losses for the period was £1.7m or £(0.11)/shr, compared to net losses in H119 of £2.7m or £(0.17)/shr.

- **Cash and Equivalents:** Net cash at the end of H120 was £17.9m, with no debt. This compares to cash holdings at the end of 2019 of £2.4m. The cash inflow of £16.4m was the result of the new SmartestEnergy trading facility, very strong cash conversion on receivables, and the permitted deferral of some HMRC payments under the COVID relief scheme (~£4.0m). As at the end of August 2020, the group held cash of £5.6m, following the payment to Ofgem for YUG's Renewable Obligation, as well as the cash outflow for the acquisition of the Bristol Energy contract book of £0.8m.

- **Net Cash Flow:** Total cash inflow was £15.5m for H119; £9.4m was returned to YUG, no longer requiring cash collateral for trading under the new SmartestEnergy agreement which grows with the size of the Group; strong customer receivables added £8.9m; a £1.0m outflow is related to the investment in a new purpose-built sales, marketing and innovation office in Leicester; and £(1.8)m was related to adjusted EBITDA.

TABLE 1: FINANCIAL SUMMARY

Financials (£000)	H1 2019	H2 2019	H1 2020	2016	2017	2018	2019
Revenue	56,561.0	55,052.0	45,873.0	16,264.0	45,631.0	80,635.0	111,613.0
Gross Margin (%)	3.2%	6.7%	5.7%	21.2%	14.9%	4.0%	4.9%
Operating Income	(3,248.0)	(2,650.0)	(2,062.0)	(1,518.0)	784.0	(9,595.0)	(5,898.0)
Operating Margin (%)	-5.7%	-4.8%	-4.5%	-9.3%	1.7%	-11.9%	-5.3%
Adjusted EBITDA	(2,674.0)	(1,568.0)	(1,709.0)	(1,518.0)	1,537.0	(6,283.0)	(4,242.0)
Net Income	(2,716.0)	(2,252.0)	(1,711.0)	(1,359.0)	711.0	(6,267.0)	(4,968.0)
Earnings per Share (£) basic	(0.1669)	(0.1383)	(0.1051)	(0.1029)	0.0506	(0.4223)	(0.3)
Adjusted Net Income	(2,411.0)	(1,539.0)	(1,711.0)	136.0	1,413.0	(5,555.0)	(3,950.0)
Adj. EPS (£) basic	(0.1481)	(0.0945)	(0.1051)	0.0103	0.1005	(0.3743)	(0.2426)
Basic Shares (000s)	16,276.3	16,278.7	16,278.7	13,212.2	14,054.1	14,841.4	16,278.7
Net Cash in/(Out)-flow	2,809.0	(15,044.0)	15,509.0	5,150.0	(1,822.0)	9,725.0	(12,235.0)
Debt	-	-	-	-	-	-	-

Growth Rates (%)	H1 2019	H2 2019	H1 2020		2017	2018	2019
Revenue			-18.9%		180.6%	76.7%	38.4%
EBITDA			36.1%		201.3%	-508.8%	32.5%
Net Income			37.0%		152.3%	-981.4%	20.7%
Adjusted Net Income			-29.0%		939.0%	-493.1%	28.9%

Financial Health	H1 2019	H2 2019	H1 2020	2016	2017	2018	2019
Working Capital (£000)	2,967.00	187.00	(2,498.00)	4,748.00	7,021.00	6,664.00	187.00
Current Ratio	(1.10)	(1.01)	(0.92)	(1.89)	(1.65)	(1.31)	(1.01)
Long-term Debt (£m)	-	-	-	-	-	-	-
Total Equity (£m)	7.35	5.30	3.75	5.41	8.81	10.44	5.30
LT Debt/Assets	-	-	-	-	-	-	-
LT Debt/Equity	-	-	-	-	-	-	-

Financial Position (£000)	H1 2019	H2 2019	H1 2020	2016	2017	2018	2019
Cash	17,421.0	2,377.0	17,886.0	5,197.0	4,887.0	14,612.0	2,377.0
Inventory	-	-	-	-	-	-	-
Debtors	16,139.0	25,886.0	10,985.0	4,891.0	13,011.0	13,569.0	25,886.0
Creditors	(30,593.0)	(28,076.0)	(31,369.0)	(5,340.0)	(10,877.0)	(21,517.0)	(28,076.0)
Total Assets	38,405.0	33,822.0	35,496.0	10,821.0	20,061.0	31,955.0	33,822.0
Total Liabilities	(31,059.0)	(28,524.0)	(31,743.0)	(5,412.0)	(11,248.0)	(21,517.0)	(28,524.0)
Total Equity	7,346.0	5,298.0	3,753.0	5,409.0	8,813.0	10,438.0	5,298.0

SOURCE: Company reports

DISCLAIMER: Non-independent research

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