Spec Sits Research

Non-Independent Research
MiFID II Exempt: Marketing Material
SP Angel acts as Nomad and Broker

30 March 2020

Yü Group Plc

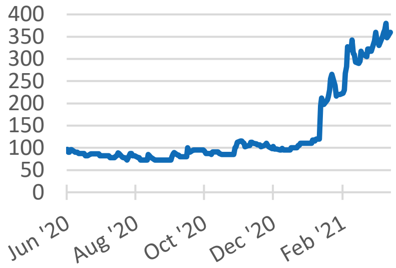
2020A Results: A Transformational Year

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.

Stock Data

Ticker (AIM)	YU. LN
Share Price	360p
Market Cap	£58.6M
EV	£41.2M
Yr High/Yr Low	380/52.50p
PT/Rating	UR

Price Chart



SOURCE: Bloomberg

Event: YUG announced its 2020 financial results, which provide a solid foundation for growth in 2021 and the years to come.

Key Performance Indicators (KPIs):

- **Average Monthly New Bookings:** The monthly average bookings during 2020 reached £8.3m. While new bookings in H120 reached £6.2m, H220 averaged £10.3m reaching a new high. The growth trend in new bookings has remained strong, evidence that management has sustained a disciplined approach in targeting good quality, good margin contracts.
- **Net Customer Contribution (NCC):** NCC for 2020 was 6.1%, up ~3.6% y/y, on a pre-COVID basis but also including a bad debt charge of 3.1%. NCC for H220 was higher at 6.3%, representing a commitment to maintaining quality of contracts. Enhancing the life cycle value of customers, as well as making improvements to the credit control cycle contribute to these continuous improvements.
- **General overheads:** General overheads for 2020 were down slightly to 6.2% with costs split equally between cost to acquire, costs to serve and general and admin. 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 31 December 2020 the 2021E contracted revenue book stood at £93m (up from £71.7m at the end of August 2020). This is still expected to increase for the year as new bookings are added monthly.
- **Total Meter Points:** At the end of 2020 Yu Group had 17,425 total meter points, just about 2x the number at the end of 2019 (8,724). This includes about 4,500 new meter points initially acquired in the Bristol Energy and Midlands-based supplier acquisitions completed during H220, as well as organic growth achieved.

2020 Financial Results:

- **Revenue**: 2020 revenue was £101.5m, better than our original forecasts by 9.7% and still better than our revised forecast after the trading update in Jan21. H220 achieved strong growth with revenue of £55.6m, +21% over H120 of £45.9m.
- **Gross Margin:** 2020 gross margin increased from 4.9% in 2019 to 7.6% in 2020, including the 1.5% negative impact from COVID. H220 gross margin was a record 9.1%, well ahead of H120 gross margin of 5.7%.
- **Profit/Loss and Adj. EBITDA:** Adjusted EBITDA for the year 2020 improved nearly 60% y/y to £(1.7)m, driven by a very strong performance in H220 with positive adj. EBITDA of £0.1m. Net losses for the full year were £1.2m or £(0.07)/shr, compared to net losses in 2019 of £5.0m or £(0.31)/shr. In fact, H220 turned a small net profit for the period of £0.55m or £0.03/shr.
- **Cash:** Net cash at the end of 2020 was £11.7m, with no debt. This compares to cash holdings at the end of 2019 of £2.4m. Total cash inflow was £9.4m for 2020 compared to net cash outflow in 2019 of £12.2m.

Outlook: The 2020 full year results demonstrate the successful reorganisation of the Group operations by management. The KPI improvements and overall financial performance of the past year highlight the strength of the foundation that has been built and sets the stage for the next steps in the execution of the corporate strategy. With 2020 results having surpassed both our revised forecasts after the January trading update, and our original forecasts, we have placed our forecasts Under Review.

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Outlook

We believe the 2020 results demonstrate the strength of the foundation in operations established by the management team over the past 18 months. Processes and controls have been tightened, supported by strict corporate governance oversight which have generated superior performance in gross margins and optimised returns from the customer life cycle with strong renewal rates. The quality first approach to customer contracts takes discipline and a keen focus on operational controls. This has been augmented by efficiency improvements in systems driving towards a fully automated and digitised process, while maintaining high levels of customer service. With the start of the new financial year, management is now turning towards scaling the business, leveraging the company's position of strength to accelerate both organic and acquisition growth activities.

Growth Strategy – Management is focused on delivering strong organic growth levels from new and existing customers. The renewal rates from existing customers have been ~60%, but this target has been increased to 70% for 2021. This will be supported by a commitment to superior customer service, the launch of new digital tools to assist with sales and marketing and cross-selling of products across the customer base. The new sales, marketing and innovation centre in Leicester is expected to be occupied by Yu Group in the coming weeks as markets are opening up again post-COVID lockdown, bringing the sales and marketing team together again. Finally, we expect YUG will continue to acquire value-enhancing customer books, as they have done in the past, driving further support for revenue and margin growth.

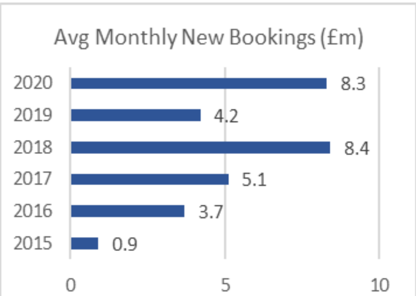
Financial Results – Targets have been set for the company's core KPIs, including NCC of >7%, further reduction in overheads from the current 6.2% of revenue in 2020, and optimisation of the Group's capital structure to reduce the cost of capital and support strategic investments.

Digitisation – The customer experience is a key component of the customer lifecycle at YUG, supporting customer acquisition, renewal rates and net customer contribution. New system improvements are expected in 2021, which will become evident in financial results during 2022. On the flip side, attracting and retaining good talent within the company is equally important. The launch of the Leicester innovation centre should permit YUG to make further disruption in the energy supply marketplace.

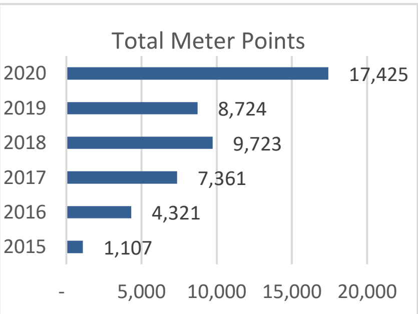
Management at YUG has indicated that the first quarter of 2021 has begun well and positions the Group to be on track to beat current market expectations. Notably with these results for 2020 having surpassed both our revised forecasts after the trading update, and our original forecasts for the year, we expect to reissue our forecasts for 2021E and 2022E. In the interim, we have placed our forecasts Under Review.

Key Performance Indicators – Ongoing Measures of Success

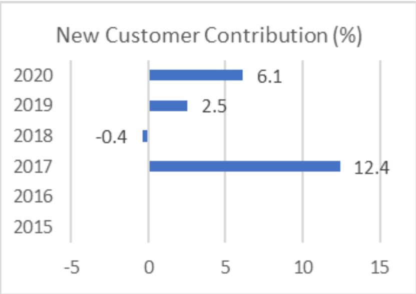
While there are a number of operating metrics and procedural controls that are regularly tracked and monitored in order to drive profitability of the business, the key performance indicators that have been identified include the following:

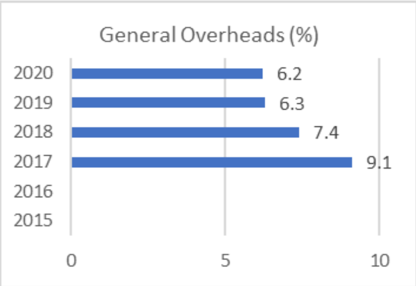


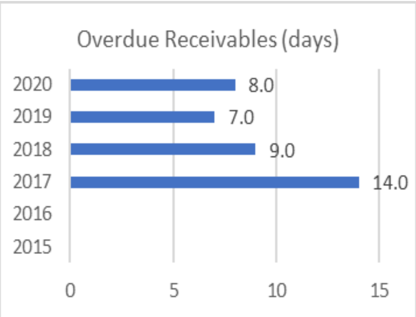
- **Average Monthly New Bookings** – This is the annualised value of contracts secured during a period. The monthly average bookings during 2020 reached £8.3m. While new bookings in H120 reached £6.2m, H220 averaged £10.3m reaching a new high. The historical high for monthly average bookings was achieved in 2018 at £8.4m, when the focus was on increasing contracts and not quality of earnings. Despite any negative impacts from COVID on business in the early part of the year, the growth trend in new bookings has remained strong. Perhaps more importantly, management has sustained a disciplined approach in targeting good quality, good margin contracts.

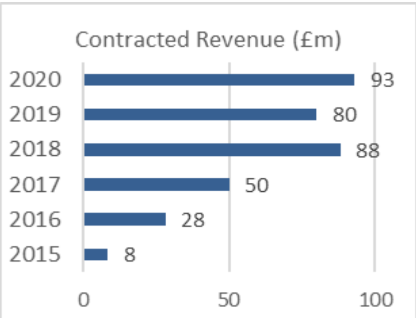


- **Total Meter Points:** Rather than tracking customer numbers, YUG tracks total meter points, as one customer can have multiple meters (multiple locations/multiple utility services) and each meter can have different volume demands/loads. As such, not all meter connections are the same. At the end of 2020 Yu Group had 17,425 total meter points, just about double the number at the end of 2019 (8,724). This includes about 4,500 new meter points initially acquired in the Bristol Energy and Midlands-based supplier acquisitions completed during H220, as well as organic growth achieved throughout the year. 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 2021, as well as to achieve higher organic growth in meter point additions.

- **Net Customer Contribution (NCC):** This measures the profit contribution from customer contracts in terms of gross margin, less bad debt and expected credit losses charged in overhead expenses. For 2020 this has been adjusted for COVID-19 impacts to reflect a more normalised metric. NCC for 2020 was 6.1%, up ~3.6% y/y, on a pre-COVID basis but also including a bad debt charge of 3.1%. NCC for H220 was higher at 6.3%, representing a commitment to maintaining quality of contracts. Since establishing NCC as a KPI there has been marked improvement in this metric, reaching about 4.9% pre-COVID. Enhancing the life cycle value of customers, as well as making improvements to the credit control cycle contribute to these continuous improvements.
- **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 2020 were down slightly to 6.2% with costs split equally between cost to acquire, costs to serve and general and admin. H120 general overheads were 6.3%, in line with F2019. In order to drive growth, YUG is investing in sales and marketing, which is currently sized to handle the current growth plans. This works to achieve one of the Group's strategic targets which 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 as growth in customer contracts is achieved.
- **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 2020 this KPI remained within management's target at 8 days.
- **Contracted Revenue:** This represents revenue that is expected to be generated from signed customer contracts over the subsequent 12-month period. As at 31 December 2020 the 2021E contracted revenue book stood at £93m (up from £71.7m at the end of August 2020). 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. During regular market environments this metric can vary by up to +/-10. Though notably, the pre-booked £80m at the start of the year ended up at £101.5m at the end of the year, despite COVID-19 impacts, a ~27% increase.

2020 Full Year Financial Results

The 2020 full year results demonstrate the successful reorganisation of the company by management. The KPI improvements and overall financial performance of the past year highlight the strength of the foundation that has been built and sets the stage for the next steps in the corporate strategy. While earnings losses were paired back nearly 60% in the year, the performance in H220 produced positive EBITDA and net profits.

YUG reported financials for the full year ended 31 December 2020:

- **Revenue:** 2020 revenue was £101.5m, better than our original forecasts by 9.7% and still better than our revised forecast after the trading update. H220 achieved strong growth with revenue of £55.6m, 21% higher than H120 revenue of £45.9m. Recall, H120 was negatively impacted by ~£8m related to reduced energy demand from customers through the first COVID lockdown. While the market recovered through H220 showing increased demand levels, YUG also completed two acquisitions in the period stepping up revenue even further.

  On average the overall average contract term for YUG's customer book has increased to ~24 months, from 22 months. Recurring revenue levels, driven by organic and acquisition growth in 2020, have increased to £10.3m by the end of 2020, about 2.5x that at the end of 2019 (£4.2m). Revenue visibility is also up, +16% y/y, to £93m already contracted for 2021.
- **Gross margin:** 2020 gross margin increased from 4.9% in 2019 to 7.6% in 2020, including the 1.5% negative impact from COVID. H220 gross margin was a record 9.1%, well ahead of H120 gross margin of 5.7%. With increasing new bookings under strict take-on guidelines and the elimination of low-margin legacy contracts, 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 and the top end of the range is low-to-mid double digits for more tailored and specialized contracts.

- **General Overheads:** 2020 general overheads improved slightly to 6.2%, from 6.3% in 2019. Economies of scale are expected to drive cost of service and administrative expenses proportionately lower in future, as the current platform is sized for a much larger customer base. 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 the year 2020 improved nearly 60% y/y to £(1.7)m, driven by a very strong performance in H220 with positive adj. EBITDA of £0.1m. Recall that adj. EBITDA for H120 was £(1.85)m, including one-time £1.6m impact from COVID. Net losses for the full year were £1.2m or £(0.07)/shr, compared to net losses in 2019 of £5.0m or £(0.31)/shr. In fact, H220 turned a small net profit for the period of £0.55m or £0.03/shr, after H120 net losses of £1.7m or £(0.11)/shr were negatively impacted by COVID.

- **Cash and Equivalents:** Net cash at year-end was £11.7m, with no debt. This compares to cash holdings at year-end 2019 of £2.4m. The cash inflow over the period was the result of the new SmartestEnergy trading facility, combined with very strong cash conversion on receivables (99.5%), and the permitted deferral of some HMRC payments under the COVID relief scheme (~£3.6m) which will be paid over 2021 and 2022. Recall also that YUG records an accrual each month for its collections of renewable obligation credits (ROCs) from customers, which is paid annually in August for the prior year ended 31 March but held in cash in the interim period. As such, the cash held by the Group always includes a minimum of 4 to 5 months of ROC accruals. Cash of £1.7m was used for acquisitions to growth the base business, which was quickly paid-back from operations of the targets acquired.

- **Net Cash Flow:** Total cash inflow was £9.4m for 2020 compared to net cash outflow in 2019 of £12.2m. Netted against EBITDA losses of £1.7m, £10.2m was returned to YUG, no longer requiring cash collateral for trading under the new SmartestEnergy agreement which grows with the size of the Group and working capital generated £3.7m. Cash outflows include capex of £0.9m. acquisition funding of £1.7m and financing activities of £0.1m.

TABLE 1: 2020 Results vs Forecasts

Income Statement YE Dec (£000s)	H120	H220	Revised Forecasts H220E	% improvement/ decline from forecast	2019A	2020A	Revised Forecasts 2020E	% improvement/ decline from forecast
Revenue	45,873.00	55,654.00	54,279.65	2.5%	111,613.00	101,527.00	100,152.65	1.4%
Cost of sales	(43,246.00)	(50,612.00)	(50,271.54)	-0.7%	(106,128.00)	(93,858.00)	(93,517.54)	-0.4%
Gross Profit	**2,627.00**	**5,042.00**	**4,008.11**	25.8%	**5,485.00**	**7,669.00**	**6,635.11**	15.6%
					4.91%	7.55%	6.63%	
Total operating costs	**(4,689.00)**	**(4,554.00)**	**(4,998.82)**	9.8%	**(11,383.00)**	**(9,243.00)**	**(9,687.82)**	4.8%
NCC					2.48%	6.09%	4.13%	
Profit/(Loss) from operations	**(2,062.00)**	**488.00**	**(990.70)**	303.0%	**(5,898.00)**	**(1,574.00)**	**(3,052.70)**	93.9%
Non-recurring operational costs	-	-	-		378.00	-	-	
Non-recurring mutualisation costs	-	-	-		236.00	-	-	
Impact of first-time adoption of IFRS 9	-	-	-		-	-	-	
Unrealised loss on derivative contracts	(137.00)	(874.00)	-		518.00	(1,011.00)	-	
Equity-settled share based payment charge	166.00	154.00	155.00		125.00	320.00	321.00	
Depreciation of property plant and equipment	186.00	233.00	150.00		397.00	419.00	336.00	
Amortisation of intangibles	1.00	131.00	1.00		2.00	132.00	2.00	
Adjusted EBITDA	**(1,846.00)**	**132.00**	**(684.70)**	618.7%	**(4,242.00)**	**(1,714.00)**	**(2,393.70)**	39.7%
Finance Income	7.00	67.00	7.00		33.00	74.00	14.00	
Finance costs	(31.00)	(8.00)	(31.00)		(112.00)	(39.00)	(62.00)	
Profit/(Loss) before tax	**(2,086.00)**	**547.00**	**(1,014.70)**	285.5%	**(5,977.00)**	**(1,539.00)**	**(3,100.70)**	101.5%
Taxation	375.00	(1.00)	375.00		1,009.00	374.00	750.00	
Profit/(Loss) after tax	**(1,711.00)**	**546.00**	**(639.70)**	217.2%	**(4,968.00)**	**(1,165.00)**	**(2,350.70)**	101.8%
Earnings/(Loss) per share (GBp)								
Basic	(0.11)	0.03	(0.04)	217.3%	(0.31)	(0.07)	(0.14)	101.9%
Adjusted Basic	(0.11)	(0.00)	(0.04)		(0.24)	(0.11)	(0.14)	
Diluted	(0.10)	0.03	(0.04)		(0.29)	(0.07)	(0.14)	
Weighted Average Shares	16,267.56	16,281.06	16,267.56		16,267.56	16,281.06	16,267.56	
Effect of shares issued in the year	11.13	-	-		11.13	-	-	
Ordinary shares for basic earnings calculation	**16,278.69**	**16,281.06**	**16,267.56**		**16,278.69**	**16,281.06**	**16,267.56**	
Dilutive effect of outstanding options	786.55	929.83	786.55		786.55	929.83	786.55	
Ordinary shares for diluted earnings calculation	**17,065.24**	**17,210.89**	**17,054.10**		**17,065.24**	**17,210.89**	**17,054.10**	
Dividend/share	-	-	-		-	-	-	

SOURCE: Company reports and SP Angel forecasts

TABLE 2: FINANCIAL SUMMARY

Financials (£000)	H1 2019	H2 2019	H1 2020	H2 2020	2016	2017	2018	2019	2020
Revenue	56,561.0	55,052.0	45,873.0	55,654.0	16,264.0	45,631.0	80,635.0	111,613.0	101,527.0
Gross Margin (%)	3.2%	6.7%	5.7%	9.1%	21.2%	14.9%	4.0%	4.9%	7.6%
Operating Income	(3,248.0)	(2,650.0)	(2,062.0)	488.0	(1,518.0)	784.0	(9,595.0)	(5,898.0)	(1,574.0)
Operating Margin (%)	-5.7%	-4.8%	-4.5%	0.9%	-9.3%	1.7%	-11.9%	-5.3%	-1.6%
Adjusted EBITDA	(2,674.0)	(1,568.0)	(1,846.0)	132.0	(1,518.0)	1,537.0	(6,283.0)	(4,242.0)	(1,714.0)
Net Income	(2,716.0)	(2,252.0)	(1,711.0)	546.0	(1,359.0)	711.0	(6,267.0)	(4,968.0)	(1,165.0)
Earnings per Share (£) basic	(0.1669)	(0.1383)	(0.1051)	0.0335	(0.1029)	0.0506	(0.4223)	(0.3)	(0.0716)
Adjusted Net Income	(2,411.0)	(1,539.0)	(1,711.0)	(14.0)	136.0	1,413.0	(5,555.0)	(3,950.0)	(1,725.0)
Adj. EPS (£) basic	(0.1481)	(0.0945)	(0.1051)	(0.0009)	0.0103	0.1005	(0.3743)	(0.2426)	(0.1060)
Basic Shares (000s)	16,276.3	16,278.7	16,278.7	16,281.1	13,212.2	14,054.1	14,841.4	16,278.7	16,281.1
Net Cash in/(Out)-flow	2,809.0	(15,152.0)	15,509.0	(6,146.0)	5,150.0	(1,822.0)	9,725.0	(12,235.0)	9,363.0
Debt	-	-	-	-	-	-	-	-	-

Growth Rates (%)	H1 2019	H2 2019	H1 2020	H2 2020		2017	2018	2019	2020
Revenue			-18.9%	1.1%		180.6%	76.7%	38.4%	-9.0%
EBITDA			31.0%	108.4%		201.3%	-508.8%	32.5%	59.6%
Net Income			37.0%	124.2%		152.3%	-981.4%	20.7%	76.5%
Adjusted Net Income			-29.0%	-99.1%		939.0%	-493.1%	28.9%	56.3%

Financial Health	H1 2019	H2 2019	H1 2020	H2 2020	2016	2017	2018	2019	2020
Working Capital (£000)	2,967.00	187.00	(2,498.00)	(1,423.00)	4,748.00	7,021.00	6,664.00	187.00	(1,423.00)
Current Ratio	(1.10)	(1.01)	(0.92)	(0.95)	(1.89)	(1.65)	(1.31)	(1.01)	(1.0)
Long-term Debt (£m)	-	-	-	-	-	-	-	-	-
Total Equity (£m)	7.35	5.30	3.75	4.51	5.41	8.81	10.44	5.30	4.5
LT Debt/Assets	-	-	-	-	-	-	-	-	-
LT Debt/Equity	-	-	-	-	-	-	-	-	-

Financial Position (£000)	H1 2019	H2 2019	H1 2020	H2 2020	2016	2017	2018	2019	2020
Cash	17,421.0	2,377.0	17,886.0	11,740.0	5,197.0	4,887.0	14,612.0	2,377.0	11,740.0
Inventory	-	-	-	-	-	-	-	-	-
Debtors	16,139.0	25,886.0	10,985.0	18,267.0	4,891.0	13,011.0	13,569.0	25,886.0	18,267.0
Creditors	(30,593.0)	(28,076.0)	(31,369.0)	(31,430.0)	(5,340.0)	(10,877.0)	(21,517.0)	(28,076.0)	(31,430.0)
Total Assets	38,405.0	33,822.0	35,496.0	37,052.0	10,821.0	20,061.0	31,955.0	33,822.0	37,052.0
Total Liabilities	(31,059.0)	(28,524.0)	(31,743.0)	(32,539.0)	(5,412.0)	(11,248.0)	(21,517.0)	(28,524.0)	(32,539.0)
Total Equity	7,346.0	5,298.0	3,753.0	4,513.0	5,409.0	8,813.0	10,438.0	5,298.0	4,513.0

SOURCE: Company reports

DISCLAIMER: Non-independent research

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