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

22 March 2022

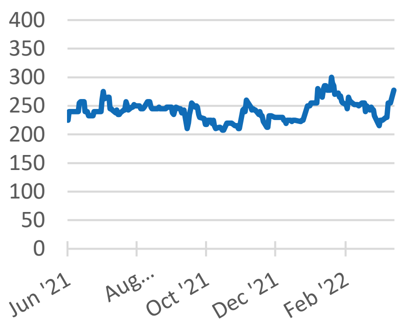
Spec Sits Research

Yü Group Plc

Excellent Performance in a Difficult Year

Stock Data	
Ticker (AIM)	YU. LN
Share Price	277.5p
Market Cap	£45.3M
Yr High/Yr Low	380/187.50p
Price Target	UR
Rating	Buy

Price Chart



SOURCE: Bloomberg

Yü Group Plc (YU. LN) listed on the AIM Exchange in London is a multi-utility provider to SMEs, as well as larger corporates across the UK. As a direct supplier of electricity, gas, water and other solutions such as EV charge points, smart meter installations and green energy solutions, Yü Group (YUG) provides a simple approach to 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 solidifying YUG as a trusted supplier in the £50b+ UK B2B utility market.

Event: YUG announced its full year 2021 financial results, re-basing the Group's financial profile with revenue of £155.4m, positive adj. EBITDA of £1.7m and net profit of £4.45m (unadj.), all well ahead of revised expectations.

Key Performance Indicators:

- **Average Monthly New Bookings** during 2021 reached £13.8m, +66.3% over 2020 monthly average bookings of £8.3m and over triple that of 2019 of £4.2m. Monthly bookings accelerated in H221 to £18m, from £9.6m in H121.
- **Net Customer Contribution (NCC)** for 2021 was 6.7%, up from 6.1% in.
- **General Overheads/Bad Debt:** 2021 general overheads were 5.6% of revenue, down from 6.2% in 2021 (2019: 6.3% and 2018: 7.4%). Economies of scale are driving cost of service and administrative expenses lower. Bad debt remained flat in 2021 at 3.1%, driven slightly higher in H221 by the integration of Ampower customers under the SOLR program.
- **Contracted Revenue** at 31 December 2021, for delivery in F2022E stood at £157m, up £66.5m from where it stood at 31 August 2021. This KPI continues to increase for the year as new bookings are added each month. Total future visibility of forward contracted revenue was £290m at 31 December 2021.
- **Total Meter Points:** At the end of 2021 YUG had 31,862 meter points, +83% y/y. Meter points at the end of 2020 were 17,425 and 2019 were 8,724.

2021 Financial Results:

- **Revenue**: 2021 revenue was £155.4m, up 53.1% over 2020 revenue of £101.5m (+21% vs. our original forecasts of £128.4m). This significant increase was driven by strong organic growth and the addition of Ampower's UK customer book.
- **Gross Margin**: 2021 gross margin was a record 9.8%, up from 7.6% in 2020 and 4.9% in 2019. This represents the focus on managing customer contract life cycle value, secured by the strength of the YUG's hedging strategy.
- **Profit/Loss and Adj. EBITDA:** Adjusted EBITDA for 2021 was £1.7m, ~3.8x. our original forecast of £0.45m and compared to losses in 2020 of £1.7m. Net unadj. profit for the period was £4.5m or £0.27/shr (basic), vs. our original forecast of £0.04m or £0.00/shr and compared to net losses in 2020 of £1.2m or £(0.07)/shr.
- **Cash:** Net cash at the end of 2021 was £6.8m. This includes a £3.7m investment in capex, as well as increased working capital given the dramatic increase in revenue and higher commodity prices.

Outlook: YUG has demonstrated that its strategy works very well, and management has successfully re-based the Group's financial profile with a turn to profitability during what has been a very uncertain and turbulent 24+ months. All metrics are pointing toward an even more successful and profitable 2022E, with increased scale in revenue and tight cost control, driving increased net customer contribution (NCC), lower general overheads and further reduced bad debt.

Overall, YUG is very well positioned in the market supported by the strength of its hedging strategy, Digital by Default programme, and solid customer service levels. Its share price should re-base upwards in line with its re-based financial profile. Part 2 to this note includes revised forecasts based on this financial overview.

Special Sits Research

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

Equity Sales

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

Grant Barker
+44 20 3470 0471
Grant.barker@spangel.co.uk

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

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

Outlook

YUG management has delivered exceptional results for the full year 2021, despite what was a very challenging year for the sector. The better-than-expected performance in 2021 drives the Group further ahead in its strategic long-term growth plans. Recall that over 30 energy companies have ceased trading since the summer of 2021, with more continuing to fall in 2022, as wholesale energy prices continue to be volatile and the war between Russia and the Ukraine rages on. However, YUG has been an acquiror of customers through this period, both organically and as a as supplier of last resort (SOLR) for Ampower (appointed by Ofgem), strategically protected by its mature and stable hedging program that mitigates the impact of fluctuating commodity prices and shielded from no price cap in B2B services. We expect this stability to continue to support growth for YUG through 2022E+.

YUG 'Digital by Default' programme was a key focus in 2021 with capex investment of ~£1.1m to drive customer penetration, while at the same time maintaining customer service levels and lowering costs. The data and analytics derived from this programme is expected to enhance future financial results by better understanding customer behaviours and being able to anticipate their needs. This is expected to continue to drive improvements in customer service levels, result in the creation of new and innovative products, and automate manual back-office processes, while lowering the cost to serve customers.

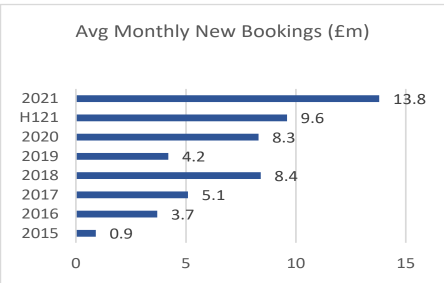
We expect YUG to continue on a very strong growth trajectory. YUG has a solid hedging strategy in place that mitigates the impact of volatility in commodity prices. The risk position within this hedging strategy is pro-actively managed by management and the Board continuously to ensure seamless coverage between contracts secured with customers and the hedging strategy/position. As a B2B supplier, YUG is not exposed to the same regulatory constraints as the B2C suppliers in the domestic retail market, many of which have been failing because of exposure to unhedged positions in wholesale energy prices and/or difficulty in managing customers under the domestic price cap restriction. Overall, YUG has continued to grow and move to a position of strength in these very turbulent markets. As a result of the failures of many of its competitors, there is exposure to industry mutualisation costs when these energy suppliers have not paid their regulatory fees prior to failure. YUG has recorded its exposure (non-recurring) at £0.644 in 2021 comprised of £0.454m for the compliance year ended 31 March 2021 (vs. £0.078m ended March 2020), and an additional £0.19m for the period April 2021 to December 2021. These are accrued and paid over a period of 2.5 years.

YUG's revised strategy is working and is on track to drive sustainable and long-term profitable growth for its shareholders. We do expect consolidation in the sector through next year; YUG is well positioned to take advantage of acquisition opportunities that meet its strategic criteria, augmenting its organic growth trajectory. Notably, the Group has already successfully integrated customer books from 6 other suppliers, including Bristol Energy, Flogas, AmpowerUK, Squeaky Energy, and more recently Whoop and Xcel.

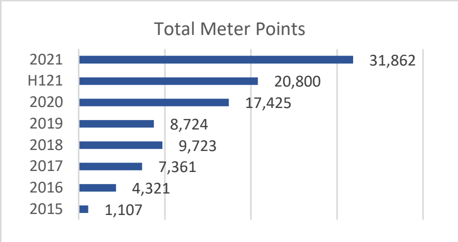
This stock is clearly undervalued and should be trading at significantly higher levels on a re-based financial profile of strong growth and long-term profitability. With continued execution of its core business strategy, we believe YUG has the ability to consistently beat expectations.

Key Performance Indicators – Ongoing Measures of Success

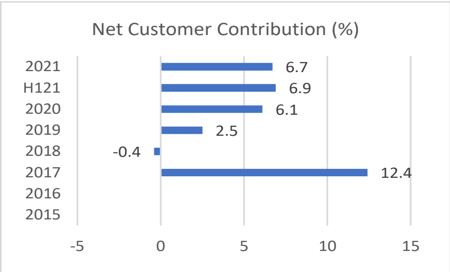
While there are a number of operating metrics and procedural controls that are regularly tracked and monitored in order to drive profitability of the business, the key performance indicators that have been identified include the following:



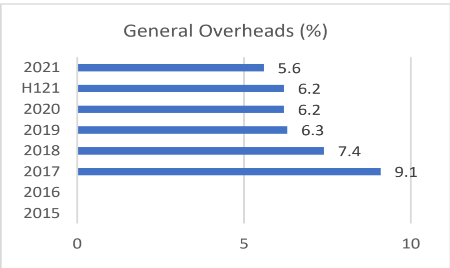
- **Average Monthly New Bookings** – This is the annualised value of contracts secured during a period. The monthly average bookings during 2021 reached £13.8m, +66.3% over 2020 monthly average bookings of £8.3m and over triple that of 2019 of £4.2m. The Group's continued focused on developing its digital platform to support efficiency in quoting, onboarding and supplying to business customers seeking greater control from a more self-service platform, is driving growth in new digital sales channels. This has also driven the average customer contract terms up to 30 months, from 24 months.



- **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 2021 total meter points reached 31,862, up 82.9% from year-end 2020, and more than triple the number at the end of 2019. Organic growth was a key driver in the year, supplemented by the addition of the Ampower customer book in November 2021. With roughly 3.5m meter points for gas and electricity across the UK business market, there clearly remains significant opportunity for additional market share capture. We expect there to be additional opportunities to acquire customer books in the near-term.

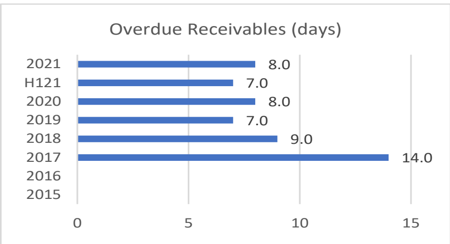


- **Net Customer Contribution (NCC):** This is a newer KPI which measures the profit contribution from customer contracts in terms of gross margin, less bad debt and expected credit losses charged in overhead expenses. NCC for 2021 was 6.7%, up 0.6% over 2020 at 6.1%. Since establishing NCC as a KPI and the restructuring of processes and procedures in 2018/19 there has been marked improvement in this metric, starting at about 4.9% pre-COVID. Enhancing the life cycle value of customers, improvements to the credit control cycle and investment in the Digital by Default programme are contributing to continuous improvements. H221 was somewhat lower than H121 as a result of the addition of the Ampower customer book under the SOLR appointment by Ofgem (6.6% vs. 6.9%), though still 0.5% higher than in 2020. This also led to slightly higher than expected bad debt charges for the year of 3.1% of revenue, though still in line with overall risk parameters.

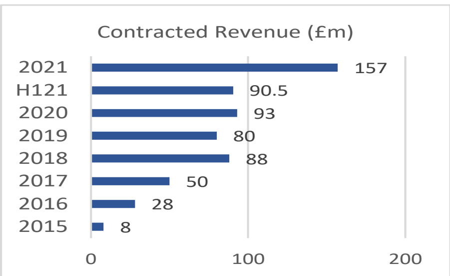


- **General Overheads (%)**: The percentage of revenue that is charged to adjusted EBITDA on a normalised, recurring basis is included in this metric. This excludes exceptional/one-time items, as well as non-cash items and any bad debt write-downs (which are included in NCC). General overheads for 2021 were 5.6%, down 0.6% from 2020. In order to drive growth, YUG is investing in sales and marketing, which is currently sized to handle its targeted growth plans. During 2021 the Cost to Acquire customers was ~1.6%, slightly lower than the Cost to Serve and general administrative costs, each at ~2% of revenue.

  One of YUG's targets is to reduce the ratio of general overheads in support of driving increased economies of scale, as demonstrated by the 54% increase in revenue against a 36% increase in costs. This being achieved by enhancing the Group's digital platform – creating growth in digital sales channels while sustaining high levels of customer service; driving cost efficiencies; and using data analytics to identify opportunities for customer value creation. In future, the Cost to Serve is expected to increase at a slower rate than revenue as the benefits of the digital transformation are realised.



- **Receivables:** Overdue receivables from customers and working capital tied up in customer receivable-cycles, 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 2021 there was a one-day improvement to 7 days over 2020, supported by strong cash conversion levels for the period.



- **Contracted Revenue:** This represents revenue that is expected to be generated from signed customer contracts over the next financial year. As at 31 December 2021 the 2022E contracted revenue book stood at £157m, ~68.8% higher than it stood at the same time last year. This is still expected to increase for the year as new bookings are added monthly. During regular market environments this metric can vary by up to +/- 10m. This level of contracted revenue at the end of 2021 is directly related to any organic growth that has been achieved through 2021 (both contracted and other revenue), as well as from acquisition growth.

  The total forward contracted revenue book stood in excess of £290m at 31 December 2021, with an average customer contract term over a 30 month period. Notably, YUG is carrying a higher-than-normal level of customers out of contract, resulting from the turmoil in the energy markets – the failure of energy suppliers causing contract breaks, and high commodity prices delaying customer entry into new longer-term contracts. Out of contract customers pay higher rates for the short-term flexibility, or for as long as commodity prices remain high, but typically re-contract when pricing and volatility settles back to more normalised levels. Growth in contracted revenue accounted for a £10.8m increase to accrued income in 2021 to £22m, from £11.2m in 2020. This anomaly this year also provides confidence in the opportunity for additional organic growth in 2022+.

2021 Financial Results

YUG is well positioned to execute is corporate strategy, despite increased volatility in commodity markets. The Group remains a key player in the B2B energy supply market, with an experienced team in place to successfully execute core strategies, driving growth for shareholders. YUG reported financials for the full year ended 31 December 2021:

- **Revenue:** 2021 revenue was £65.8m, up 53.1% over 2020 revenue of £101.5m. This increase was primarily driven by strong organic growth during the year, and then augmented at year-end by the successful integration of AmpowerUK's customer book under the SOLR programme. The £93m of contracted revenue for 2021 at year end 2020, was augmented by ~£15m of revenue from the integration of the AmpowerUK customer book in the last two months of the year, another £38m in new contracts secured during 2021, and an additional £9m that was delivered from a low-margin contract that has now been exited.

- **Gross margin:** 2021 gross margin increased to 9.8%, a significant improvement over 2020 of 7.6%. The increase reflects the Group's core strategy to achieve a target average gross margin low double digits combined with strong growth in NCC to over 7% as part of managing the customer contract life cycle value. The bottom end of the range is high-single digits for very high volume and bundled contracts while the top end of the average range is mid-double digits for more tailored and specialized contracts. The Board continues to focus the Group's strategy on smaller and medium sized businesses which strategically provide a greater value opportunity, while diversifying exposure to bad debt. This drove the decision to exit a low margin gas contract during H2 2021 that provided excess energy volatility risk. Again, the forward hedging strategy de-risks the Group's exposure to commodity volatility and serves to preserve gross margin at the point of sale. Suppliers without such a strategy typically end up with loss making contracts if commodity prices move against them, making their operations unsustainable.

- **General Overheads:** 2021 general overheads were 5.6% of revenue, down from 6.2% in 2020. Economies of scale are driving cost of service and administrative expenses lower, particularly given the investment in process automation and data collection and analysis resulting in streamlined processes. There are plans to further automate processes across the digital platform reducing the chances for error and creating additional efficiencies in sales and marketing and further understanding customer behaviour.

- **Profit/Loss and EBITDA:** Adjusted EBITDA increased £3.4m from 2020 in 2021 to £1.7m, well ahead of management expectations and previous forecasts. This translates to ~1.1% of revenue for the year vs. -1.7% of revenue in 2020. Net profits after tax were £4.5m or £0.027/shr, compared to net losses in 2020 of £1.2m or £(0.07)/shr. This includes a tax credit of £1.1m (2020: £0.4m) and an unrealised gain on derivative contracts of £3.3m. This gain represents the value of the hedge that is in excess of the commodity supply required by the Group's customer contracts – the 'over' hedge. Given the increase in commodity prices through the year, this 'over' hedge value has increased significantly, and so is likely to decrease as commodity prices normalise. Net profits excluding the 'over hedge' was £1.1m or £0.07/shr vs. our original 2021 forecasts of £0.0.04m or £0.00/shr.

- **Cash and Equivalents:** Net cash at the end of 2021 was £6.8m, including a previously classified operating lease of £0.3m. This compares to net cash holdings at the end of 2020 of £11.4m. This includes a net decrease in cash and equivalents during the year of £4.7m - £0.8m operating cash outflow related to the deferred VAT payments as part of the UK Covid Relief Scheme; £0,2m repayment of leases and interest and £3.7m capital expenditure (investment in technology platform - £1.1m and the Leicester innovation and sales office - £2.4m). Note the remainder of the deferred VAT payments from 2020 are being paid during Q1 2022. Working capital management remains solid and customer receivables are stable, governed by strict internal operating controls that are continuously monitored.

- **Trade Payables/Receivables:** Trade payables and Receivables have also increased dramatically in 2021 as revenue scaled materially, commodity prices ran higher, payments to third party intermediaries for introduced sales contracts increased, and the derivative financial asset value recognised also increased. Trade and other receivables increased by £19.7m in 2021 vs. £0.3m in 2020; and Trade and other payables increased by £17.5m vs. £4.0m in 2020.

TABLE 1: 2021 Actual Results vs. Estimate Revisions During the Year

Income Statement YE Dec (£000s)	2019A	2020A	2021A	Pre H121 Forecasts vs. 2021A	% improvement/ decline from forecast	Pre Trading Update vs. 2021A	% improvement/ decline from 2021A
Revenue	111,613.00	101,527.00	155,423.00	128,397.09	21.0%	128,397.09	21.0%
Cost of sales	(106,128.00)	(93,858.00)	(140,180.00)	(116,584.56)	20.2%	(116,584.56)	20.2%
Gross Profit	**5,485.00**	**7,669.00**	**15,243.00**	**11,812.53**	29.0%	**11,812.53**	29.0%
	4.91%	7.55%	9.81%	9.20%	6.6%	9.20%	6.6%
Total operating costs	**(11,383.00)**	**(9,243.00)**	**(11,755.00)**	**(11,840.14)**	-0.7%	**(10,159.55)**	15.7%
NCC	2.48%	6.09%	6.72%	6.45%		7.65%	
Profit/(Loss) from operations	**(5,898.00)**	**(1,574.00)**	**3,488.00**	**(27.61)**	12533.0%	**1,652.98**	111.0%
Non-recurring operational costs	378.00	-	644.00	-		-	
Non-recurring mutualisation costs	236.00	-	-	-		-	
Impact of first-time adoption of IFRS 9	-	-	-	-		35.00	
Unrealised loss on derivative contracts	518.00	(1,011.00)	(3,344.00)	-		(1,248.00)	
Equity-settled share based payment charge	125.00	320.00	249.00	100.00		156.00	
Depreciation of property plant and equipment	397.00	419.00	335.00	245.00		120.00	
Amortisation of intangibles	2.00	132.00	352.00	132.00		247.00	
Adjusted EBITDA	**(4,242.00)**	**(1,714.00)**	**1,724.00**	**449.39**	283.6%	**962.98**	79.0%
Finance Income	33.00	74.00	-	74.00		74.00	
Finance costs	(112.00)	(39.00)	(96.00)	-		(25.00)	
Profit/(Loss) before tax	**(5,977.00)**	**(1,539.00)**	**3,392.00**	**46.39**	7212.0%	**1,701.98**	99.3%
Taxation	1,009.00	374.00	1,059.00	(8.81)		(340.40)	
Profit/(Loss) after tax	**(4,968.00)**	**(1,165.00)**	**4,451.00**	**37.58**	11745.4%	**1,361.58**	226.9%
Earnings/(Loss) per share (GBp)							
Basic	(0.31)	(0.07)	0.27	0.00		0.08	
Adjusted Basic	(0.24)	(0.11)	0.27	0.00		0.03	
Diluted	(0.29)	(0.07)	0.26	0.00		0.08	
Weighted Average Shares	16,267.56	16,281.06	16,281.06	16,281.06		16,281.06	
Effect of shares issued in the year	11.13	-	18.59	-		-	
Ordinary shares for basic earnings calculation	**16,278.69**	**16,281.06**	**16,299.65**	**16,281.06**		**16,281.06**	
Dilutive effect of outstanding options	786.55	929.83	1,099.15	929.83		929.83	
Ordinary shares for diluted earnings calculation	**17,065.24**	**17,210.89**	**17,398.80**	**17,210.89**		**17,210.89**	
Dividend/share	-	-	-	-		-	

SOURCE: Company reports and SP Angel estimates

TABLE 2: FINANCIAL SUMMARY

Current Forecasts Financials (£000)	2016	2017	2018	2019	2020	2021	2022E	2023E
Revenue	16,264.0	45,631.0	80,635.0	111,613.0	101,527.0	155,423.0	159,852.1	188,361.4
Gross Margin (%)	21.2%	14.9%	4.0%	4.9%	7.6%	9.8%	9.4%	9.5%
Operating Income	(1,518.0)	784.0	(9,595.0)	(5,898.0)	(1,574.0)	3,488.0	1,850.6	3,154.4
Operating Margin (%)	-9.3%	1.7%	-11.9%	-5.3%	-1.6%	2.2%	1.2%	1.7%
Adjusted EBITDA	(1,518.0)	1,537.0	(6,283.0)	(4,242.0)	(1,714.0)	1,724.0	2,557.6	3,861.4
Net Income	(1,359.0)	711.0	(6,267.0)	(4,968.0)	(1,165.0)	4,451.0	1,924.6	3,228.4
Earnings per Share (£) basic	(0.1029)	0.0506	(0.4223)	(0.3)	(0.0716)	0.2731	0.1182	0.1983
Adjusted Net Income	136.0	1,413.0	(5,555.0)	(3,950.0)	(1,725.0)	4,451.0	1,924.6	3,228.4
Adj. EPS (£) basic	0.0103	0.1005	(0.3743)	(0.2426)	(0.1060)	0.2558	0.1182	0.1983
Basic Shares (000s)	13,212.2	14,054.1	14,841.4	16,278.7	16,281.1	17,398.8	16,281.1	16,281.1
Net Cash in/(Out)-flow	5,150.0	(1,822.0)	9,725.0	(12,235.0)	9,363.0	(4,691.0)	3,388.4	9,215.4
Debt	-	-	-	-	-	-	-	-

Growth Rates (%)		2017	2018	2019	2020	2021	2022E	2023E
Revenue		180.6%	76.7%	38.4%	-9.0%	53.1%	2.8%	17.8%
EBITDA		201.3%	-508.8%	32.5%	59.6%	200.6%	48.4%	51.0%
Net Income		152.3%	-981.4%	20.7%	76.5%	482.1%	-56.8%	67.7%
Adjusted Net Income		939.0%	-493.1%	28.9%	56.3%	358.0%	-56.8%	67.7%

Financial Health	2016	2017	2018	2019	2020	2021	2022E	2023E
Working Capital (£000)	4,748.00	7,021.00	6,664.00	187.00	(1,423.00)	(2,253.00)	1,493.14	5,800.23
Current Ratio	(1.89)	(1.65)	(1.31)	(1.01)	(1.0)	(1.0)	(1.0)	(1.1)
Long-term Debt (£m)	-	-	-	-	-	-	-	-
Total Equity (£m)	5.41	8.81	10.44	5.30	4.5	9.3	8.1	11.4
LT Debt/Assets	-	-	-	-	-	-	-	-
LT Debt/Equity	-	-	-	-	-	-	-	-

Financial Position (£000)	2016	2017	2018	2019	2020	2021	2022E	2023E
Cash	5,197.0	4,887.0	14,612.0	2,377.0	11,740.0	7,049.0	12,373.1	21,588.5
Inventory	-	-	-	-	-	-	-	-
Debtors	4,891.0	13,011.0	13,569.0	25,886.0	18,267.0	40,441.0	20,926.1	24,284.8
Creditors	(5,340.0)	(10,877.0)	(21,517.0)	(28,076.0)	(31,430.0)	(49,743.0)	(31,806.1)	(40,073.0)
Total Assets	10,821.0	20,061.0	31,955.0	33,822.0	37,052.0	59,569.0	43,095.3	54,690.7
Total Liabilities	(5,412.0)	(11,248.0)	(21,517.0)	(28,524.0)	(32,539.0)	(50,284.0)	(35,040.1)	(43,307.0)
Total Equity	5,409.0	8,813.0	10,438.0	5,298.0	4,513.0	9,285.0	8,055.2	11,383.6

Profitability	2016	2017	2018	2019	2020	2021	2022E	2023E
ROE	-25.1%	8.1%	-60.0%	-93.8%	-25.8%	47.9%	23.9%	28.4%
ROA	-12.6%	3.5%	-19.6%	-14.7%	-3.1%	7.5%	4.5%	5.9%

SOURCE: Company reports

DISCLAIMER: Non-independent research

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