

# Support Services

## Trading Comments - YÜ Group

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### YÜ GROUP+ (YÜ., House Stock, 73p)

#### Acquisition – ‘Ship-shape, Bristol fashion’!

The independent supplier of gas, electricity and water to the UK corporate sector has announced its first acquisition this morning. YÜ has arranged to purchase the commercial (B2B) client supply book from Bristol Energy (a wholly owned subsidiary of Bristol City Council) for cash consideration of £1.24m on completion plus a further £100k deferred for three months. Within the book acquired are £1.0m of receivables, mostly due to be paid by end August 2020, with liabilities assumed of £580k payable in August 2021. This is expected to be immediately enhancing to YÜ Group’s financials.

#### Enhancing, re-hedging the book...

Based on management accounts from Bristol Energy, the B2B book shows revenues of £15.2m generated an operating loss of £0.48m for the financial year to 20 March 2020.

YÜ’s statement detailing the acquisition of the Bristol book confirms that the transaction is set to enhance gross margins and generate economies of scale through utilising:

- the Group’s scalable technology platform and trading capabilities on the increased volumes
- the Group hedging facilities with SmartestEnergy Limited to negate cash collateral the requirements to improve working capital
- the Group’s sophisticated CRM system to enable the provision of a wider product with a lower cost to serve

YÜ is purchasing the book of B2B customers with their contractual obligations. The wholesale market energy supply contracts behind the book remain with Bristol Energy. YÜ is thus re-hedging the book in the wholesale market with its partner SmartestEnergy, this at materially lower costs (reflecting price changes in the wholesale market over the past several months) with an immediately profitable margin implication.

#### Book characteristics

The acquired book brings c4,000 meter points to YÜ, adding to the existing meter portfolio of c9,800 – so a material step-up in scale for the Group. The B2B Book consists of “*a broad range of gas and electricity supply contracts, running for up to three years, servicing a range of public sector and business customers*”. As part of the acquisition a number of industry specialists are transferring to YÜ Group. The book supplies a broad range of sectors, contracting with secure counterparties including Bristol City Council. YÜ sees an opportunity to enhance operating margins in the book from improved energy trading systems and practices.

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Work has already commenced upon the integration of the book and the underlying clients into YÜ's operating systems and procedures.

### **A major signal of operating and financial confidence by YÜ**

The acquisition, in our view, is a material signal from YÜ's management team in their level of confidence that the business is operating in full health. We expect a rapid integration followed by steady improvement in financial metrics inclusive of the contribution from the purchased book. Perhaps as important is the signal that this transaction gives as to the financial health of the Group's balance sheet and the cash position (£17.9m as at end June 2020). We believe that YÜ is firmly positioned to drive growth from this point, focusing on organic Group development, but with the ability and resources to make additional acquisitions as opportunities arise.

### **Driving scale, the strategic plan**

YÜ continues to drive forward its strategic growth plan, leveraging economies of scale as part of this process, driving up gross and EBIT margins resulting strengthening cash flows, growing the balance sheet. The acquisition of the Bristol book is set to enable the integration of a quality customer base into the existing portfolio. The client base now joining YÜ are set to benefit from improved service offerings including additional value-added products not previously available to them.

### **Organic growth**

As indicated by the H1 trading update given in July, we believe that YÜ is growing its contract book strongly organically again. We note that the average monthly bookings figure for the H1 period was at the £6.2m level (against £3.2m in H1 2019), suggesting to us (given quiet months due to Covid) that the exit booking rate in June was at a materially higher level. We believe that this acceleration has the potential to continue to build strongly. YÜ is delivering a very robust recovery from the impact of Covid-19, as seen during Q2 this year, in our view.

### **Valuation thoughts...**

We continue to agree with YÜ's management that a strong and substantial market opportunity exists for the Group founded on rising service levels with product innovation – set to deliver sustainable and profitable growth, utilising YÜ's balance sheet resources. We believe that growth is set to continue to benefit from the evident organic trends visible within the Group, but also potentially from the future acquisition of additional books of supply contracts. We observe YÜ Group visibly creating shareholder value through its ongoing strategic development.

YÜ is due to publish its interim results on 30th September.

**HOUSE STOCK**

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