Progressive EQUITY RESEARCH

VAN ELLE HOLDINGS
CONSTRUCTION & MATERIALS

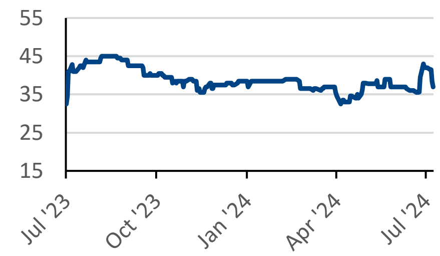
26 July 2024

VANL.L

37p

Market Cap: £39.5m

SHARE PRICE (p)



12m high/low	45p/33p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£6.0m *(at 30/04/24)*
Enterprise value	£33.5m
Index/market	AIM
Next news	AGM, 26 Sep
Shares in issue (m)	106.7
Chairman	Frank Nelson
CEO	Mark Cutler
CFO	Graeme Campbell

COMPANY DESCRIPTION

Van Elle is the UK's largest ground engineering contractor, focused on markets including housing and infrastructure.

www.van-elle.co.uk

VAN ELLE IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

Alastair Stewart

+44 (0) 20 7781 5308

astewart@progressive-research.com

First in line for housing and infrastructure boost

We initiate coverage of Van Elle, the UK's largest ground engineering and foundations specialist. Van Elle is at the 'front end' of the construction process and, in our view, will be among the first companies to benefit from national priorities of housebuilding and investment in creaking water and energy transmission sectors, all of which Van Elle has targeted for growth. These sectors should be supported by the Labour government, which has pledged 1.5 million new homes and aims to speed up planning.

- **FY24 results 'in-line'.** Reported underlying PBT for the year to 30 April 2024 slipped 1.9% to £5.1m, in line with expectations despite 'challenging market conditions'. Revenue fell 6.2% to £139.5m, while underlying operating margins held steady at 3.9% and there was an unchanged dividend for the year of 1.2p. The order book rose 14% to £35.1m.
- **Current trading as expected, leading to faster growth.** Current trading, we believe, is in line current market expectations for FY25E with accelerated growth expected over the following two years. We initiate coverage with an estimated CAGR of 8.6% in revenue over our three-year forecast period and 20% in underlying EPS to reach 6.2p by FY27E.
- **On the front foot for growth in key markets.** Van Elle, which listed on AIM in 2016, is at the front end of the construction process and has targeted what we argue are the UK's three 'must have' national priorities: housebuilding, water and energy transmission. Labour aims to build an average of 300,000 homes a year in this parliament, while it has pledged to streamline planning to boost both housebuilding and infrastructure.
- **Differentiated by technical breadth and balance sheet strength.** Van Elle ended FY24 with net funds (pre-IFRS16) of £5.5m (after hire purchase of £0.5m), and no pension liabilities. There appears to be increasing evidence that major clients are requiring their supply chains to demonstrate strong balance sheets, amid rising company failures. Other advantages over rivals include Van Elle's nationwide coverage and strong relationships with major contractors, offering inroads into new sectors.
- **Valuation.** On a PER basis, the shares are trading at 8.7x FY25E, falling to 6.0x our FY27E estimate (which we believe to be conservative). The FY25E dividend yield is 3.5%, rising to 4.9% in FY27E.

FYE APR (£M)	2023	2024	2025E	2026E	2027E
Revenue	148.7	139.5	156.2	166.7	178.6
Fully Adj PBT, pre-goodwill	5.4	5.3	6.1	7.4	8.8
Fully Adj EPS (p)	4.5	3.6	4.3	5.2	6.2
Dividend per share (p)	1.2	1.2	1.3	1.4	1.8
PER (x)	8.2x	10.3x	8.7x	7.2x	6.0x
EV/EBITDA (x)	2.8x	2.5x	2.4x	2.1x	1.9x
Dividend yield	3.2%	3.2%	3.5%	3.8%	4.9%

Source: Company Information and Progressive Equity Research estimates.

Contents

Overview: foundations for long-term growth

Ground engineering and foundations are the earliest stages in construction – and especially required in the UK's national priority sectors of housebuilding, water and power infrastructure.

Van Elle appears to be strongly positioned to provide, literally, the foundations for early-stage recovery in housing and infrastructure construction, due to its position at the 'front end' of the construction process. Labour's announcement of sweeping new planning reforms within four days of its general election victory is firmly aimed at boosting activity in both sectors. The group's technical capabilities, customer relationships and balance sheet strength place it at the forefront of some of the sectors with the fastest growth.

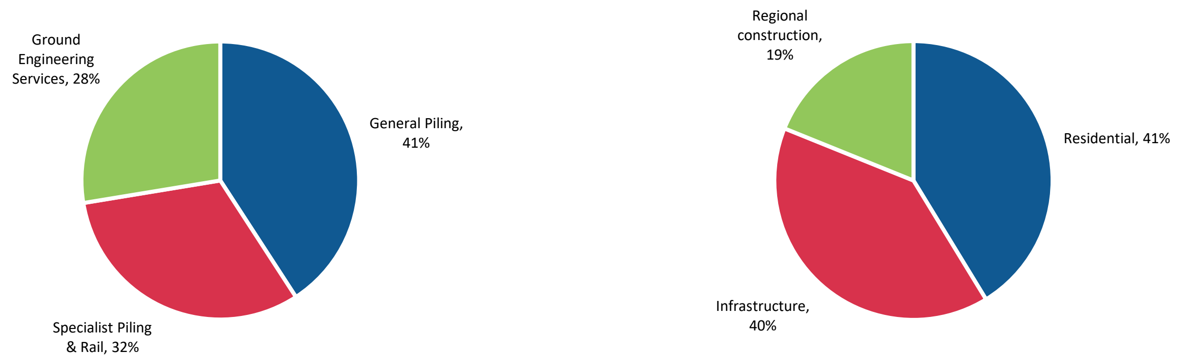
- **Front-end exposure.** Van Elle provides piling and other ground engineering services, as well as specialist product systems for housebuilding and infrastructure construction. These are among the earliest activities to benefit from an upturn in activity. We believe revenue should grow in the short, medium and long term from, initially, recovery in existing largely cyclical markets (particularly housebuilding) and then the emergence of large new markets, especially in the water and power sectors.
  - **Housebuilders gear up production.** An early increase in Van Elle's markets is most likely to come from rising housing starts (page 7). The underlying housing market appears to have been recovering since around October, pointing to a likely rise in starts during CY 2024. Labour's ambitious housebuilding targets should fuel further long-term growth. Housebuilding provided 41% of group revenue in FY24. Van Elle offers the innovative Smartfoot modular foundations system, which speeds up delivery on site, while its specialism in brownfield sites looks aligned to Labour aims.
  - **Longer-term structural drivers.** Van Elle has targeted water and power transmission as long-term growth sectors. These, with housing (page7), are absolute 'must have' rather than 'nice to have' national priorities. In Van Elle's other traditional market of transportation, growing priorities are 'decarbonising' and improving the resilience of the existing network in the face of climate change. The group offers other innovative products, such as ScrewFast prefabricated foundations.
- **FY24 results 'in-line'.** Underlying PBT for the year to 30 April 2024 slipped by 1.9% to £5.1m, in line with expectations, a 'strong performance despite challenging market conditions,' according to the group. Revenue declined 6.2% to £139.5m, while underlying operating margins held steady at 3.9% and there was an unchanged total dividend for the year of 1.2p. Looking forward, the order book grew 14% to £35.1m.
- **Mid-term growth strategy on track.** Recovering markets, the group's fast-growing rail business in Canada and strong positions in the UK water and energy sectors offer a 'significant opportunity for growth in the medium term'. The group 'remains confident' in delivering its medium-term financial targets of 5%-10% annual revenue growth, 6%-7% operating margin and 15%-20% ROCE. Our estimates start on page 19.
- **Strong balance sheet and customer alignment.** Van Elle ended FY24 with net funds (pre-leases) of £6.0m. There is increasing evidence that major clients are requiring their supply chains to demonstrate strong balance sheets. Van Elle has strong relationships with major infrastructure contractors, offering inroads into new sectors.
- **Valuation.** The share price is currently 14% below its current year high of 43p. On a PER basis, it is trading at 8.7x FY25E, falling to 6.0x our FY27E estimate (which we believe to be conservative). The FY25E dividend yield is 3.5%, rising to 4.9% in FY27E. Strong forecast cash generation indicates EV/EBITDA should fall to 1.3x, based on our estimates (page 24).

Van Elle in brief

Largest specialist geotechnical contractor in the UK, with diverse end markets and Canadian business launched to address a promising growth market

Van Elle Holdings is the UK's largest specialist geotechnical engineering contractor. Formed in 1984 and listed on AIM in 2016 (page 34), services include general and specialist piling, rail geotechnical engineering, modular foundations and ground investigation and improvement. Markets include residential, infrastructure and diversified regional construction. The group acquired ScrewFast Foundations in 2021 and, in November 2023, Rock & Alluvium from Galliford Try. In FY23, it established a rail business in Canada.

Figure 1: Van Elle – FY24 revenue by division, LHS, and end market, RHS (%)



Source: Company information

Latest results and newsflow

'Strong results despite very challenging markets', with margins holding steady

Results for the year to 30 April 2024 were in line with expectations, with only a modest 1.9% reduction in underlying PBT, despite challenging markets. While revenue declined 6.2%, operating margins held steady at 3.9%, and net cash remained healthy.

Operational

- As expected, revenue was 6% below the prior year, with the comparative period benefitting from stronger end markets in housebuilding and infrastructure. H1 revenue was 15.6% lower Y/Y and H2 up by 5%, supported by a 'particularly strong' Q4.
- Rock & Alluvium, acquired in November 2023, traded profitably post-acquisition. Excluding Rock & Alluvium, which is focused on residential, revenue fell 12% Y/Y.
- The impact of a softer housing market was partially mitigated by the group's diverse customer base, such as partnership and affordable housing, logistics and datacentres.
  - **Residential (revenue -1% Y/Y).** Q1 work rose ahead of new Building Regulations but then reversed. Precast capacity has been expanded ahead of an expected recovery.
  - **Infrastructure (-12%).** Strong prior-year comparatives and a hiatus in rail and road work between five-year investment phases temporarily depressed revenue in H2.
  - **Regional construction (-9%).** Markets were generally more challenging and price sensitive, as a result of build inflation, but activities in London and the South East have been strengthened by the acquisition of Rock & Alluvium in H2.
  - **The Canadian rail subsidiary.** Delayed start dates resulted in lower activity than expected, but volumes have improved since January 2024, with a $40m pipeline.

Figure 2: Van Elle – FY24 results, key figures

Year ended 30 April (£m)	2024	2023	Change (%)
Revenue	**139.5**	148.7	-6.2%
Underlying operating profit margin	**3.9%**	3.9%	
Underlying PBT[1]	**5.1**	5.3	-3.8%
Statutory PBT	**5.6**	5.4	3.7%
Underlying basic earnings per share (p)	**3.5**	4.4	-20.5%
Basic earnings per share (p)	**3.9**	4.4	-11.4%
Net funds excl. IFRS 16 lease liabilities	**6.0**	8.9	-32.6%
Net funds / (debt)[2]	**(1.6)**	0.4	
Total dividend for the year (p)	**1.2**	1.2	0.0%

Source: Company. Van Elle conventions: [1] including goodwill amortisation; [2] £5.5m (£7.5m) inc HP

Finances and capital allocation

- Balance sheet strength was maintained, with net funds of £6.0m (FY23: £8.9m), following capital investment of £5.5m and the addition of £2.9m of plant and equipment at fair value as part of the Rock & Alluvium acquisition. Additionally, the group has an undrawn bank facility of up to £11.0m, 'providing capacity to fund bolt-on M&A and organic growth investment'.
- The dividend was maintained at 1.2p (interim 0.4p; final 0.8p, recommended).
- Capital allocation priorities are defined as: 1) maintaining balance sheet strength, funding working capital during growth phase and supporting supply chain; 2) investing for growth, including strategic bolt-on acquisitions; 3) prudent dividend distribution in line with earnings, and 4) returning excess cash only when appropriate.

Outlook

- 'Market conditions are expected to remain challenging throughout the remainder of CY 2024. However, interest rates have stabilised and are expected to start to reduce later in 2024, and there are early signs of improved confidence since the general election.
- 'In addition, the budget-constrained cyclical investment transition impacting many of the group's infrastructure sectors has passed, with increased investment expected in the next five-year periods for water, rail and highways along with significant new investment in the UK's energy transmission network'.
- 'Good' progress was made during FY24 in developing closer customer relationships in the energy and water sectors, two of the group's key targeted growth sectors.
- As a result, 'further steady progress in performance is expected in FY25E ahead of accelerated growth in FY26E and FY27E. We remain confident of delivering our medium-term financial targets of 5-10% annual revenue growth, 6-7% operating profit margin and 15-20% ROCE'. Although no formal guidance is given for FY25E, we believe trading is in line with market estimates.

Our estimates

Initiating on a conservative stance, but still suggesting c.20% compound EPS growth

We initiate with what we believe to be a conservative stance in our forecasts. Our estimates point to CAGR of 8.6% in revenue over our three-year forecast period and 20.2% in underlying EPS to reach 6.2p by FY27E (page 19).

Rock & Alluvium and Galliford Try alliance

Acquisition will boost Van Elle's presence in London and the South East; five-year alliance with Galliford Try will provide a springboard into further water sector work

The acquisition of Rock & Alluvium, for £3.8m, was announced in October 2023 and completed the following month. Based in Leatherhead, Rock & Alluvium was established in 1963, joined Galliford Try Holdings (GFRD) in 1989, and has built a strong position primarily serving the residential and commercial sectors in London and the South East. The business operates a fleet of 11 piling rigs, which complements Van Elle's existing capital investment programme.

The cash consideration comprises an initial payment of £1.8m, and a deferred payment of £2.0m, payable 12 months from completion. For the year ended 30 June 2023, the business generated revenues of £15.5m, a draft operating loss of £0.2m and had net assets of c.£3.7m. The acquisition was expected to be accretive to underlying earnings in the first full year of ownership. According to Van Elle, 'Rock & Alluvium represents a strategic and complementary acquisition for the group and will be integrated within Van Elle's General Piling Division. It provides the Group with an established presence in the South East, a region with good mid-term growth prospects which is currently under-served by Van Elle'.

The group also entered into a five-year trading agreement with Galliford Try – one of Britain's leading contractors in the rapidly growing water sector – under which Van Elle will provide piling and geotechnical services. The Board anticipates that the trading agreement will generate revenues in excess of £10m pa.

Long-term collaboration in housebuilding

Strategic collaboration with leading residential groundworks contractor M&J Evans starts with a potential 600-home project

Earlier in July 2024, Van Elle signed a strategic collaboration deal with leading groundworks contractor M&J Evans to deliver a combined service to house builders nationally. The first new scheme under the arrangement will be Keepmoat's £102m regeneration project at the former Boots site in Nottingham where the developer aims to build over 600 homes. Van Elle announced it had signed a deal for up to £3m to deliver foundations across several phases, making it the largest single scheme awarded to its housing division in the last 12 months. The project will act as a blueprint for the new strategic collaboration between the two firms, 'which will offer a more efficient, joined-up delivery model' to developers.

Capacity expansion

Factory expansion should boost precast pile capacity by a third; this and Smartfoot foundations system

In the same 12 July housing sector update as the M&J Evans announcement, Van Elle confirmed it has expanded its precast pile factory at Kirkby in Ashfield by over 30%. It is capable of 24-hour manufacturing, using low carbon blended concrete, and sits alongside the Smartfoot precast beam factory, both positioned for growing demand in housing.

Forthcoming newsflow

- AGM. 26 September
- H1 trading update. November (TBC)
- H1 results. January (TBC)

Markets: focused on 'must have' priorities

With constrained economy and government finances, priorities will be on the most pressing national needs, including new housing, water and power transmission

In our view, the majority of Van Elle's growth will come from what we judge to be national 'must have' priorities rather than 'nice to have' ambitions. Two huge priorities were highlighted in the general election campaign: water and housebuilding. A third priority, no less urgent, is continuity of power supply and longer-term new generation capacity. For water, not a day goes by without political or media condemnation of supply disruptions, household bills or, most scathingly, sewage spills. Power supply is a less politically contentious priority, but arguably more urgent: there is a very real risk of 'the lights going out' in various regions due to inadequate grid capacity. In much of the South East, this has prevented the roll-out of what is arguably Labour's number one priority, new housing.

Housebuilding: addressing Labour's 1.5 million target

Housebuilding is a key priority of new Labour government, with national target reintroduced and a pledge to speed up planning

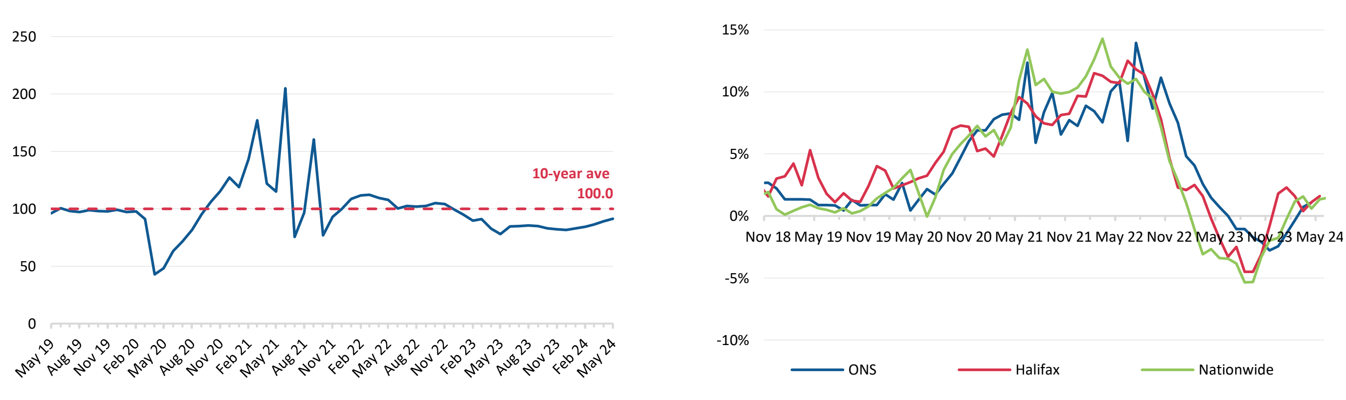
Residential, which accounted for 41% of Van Elle's FY24 revenue, was already undergoing the start of a cyclical recovery prior to the general election, we believe. Labour's commitment to build 1.5 million new homes in the current parliament could, even if half successful, put rocket boosters under supply, especially in affordable housing and 'brownfield' or 'grey belt' sites, which particularly suit the group's broad-based technical abilities.

Market was already recovering post-mini budget

Reduction in new fixed-rate mortgage costs and economic stabilisation had already resulted in improvement in the wider housing market

Evidence started emerging in late autumn 2023 of a recovery in the wider housing market, which had been hit first by Liz Truss's September 2022 mini budget, then rising base rates. Various industry indicators started to become more positive (or less negative) based on the stage of the house buying process being measured. First, The RICS Residential Market Survey, a key forward indicator of changes in the market, started showing a less negative 'net balance' (% of respondents reporting a rise minus % reporting a decline) for new buyer enquiries from August, turning positive in January. This coincided with fixed-rate mortgage rates starting to decline, in line with swap rates. Bank of England mortgage approvals then started rising from October, then ONS transactions, which are registered at completion, and include cash sales, provided delayed evidence, starting to increase on a seasonally-adjusted basis, from January 2024 (Figure 3, LHS). The Halifax and Nationwide price indexes, measured at mortgage approval stage, started turning positive on a Y/Y basis in December, with the more comprehensive, but delayed, ONS figures catching up in March.

Figure 3: Monthly housing transactions, SA, LHS (000); Prices, Y/Y change, RHS (%)



Source: ONS (LHS); ONS, Halifax, Nationwide

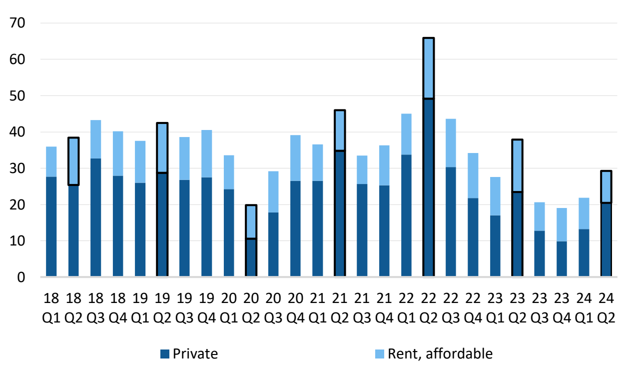
New site openings and housebuilding starts are the key drivers for Van Elle's housebuilding activities

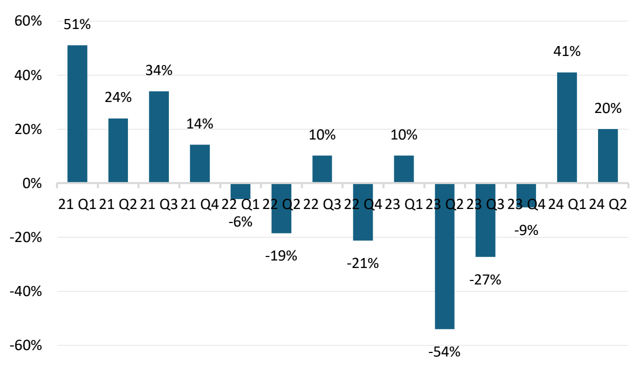
Housebuilders react to faster sales with land grab

The key drivers of Van Elle's housing-related activities are new sites being opened up and new homes being started (Q2 of CY 2023 was distorted by a race to lay foundations ahead of the imminent toughening of Building Regulations). Sites being opened often require ground improvement (especially in brownfield land) and other Van Elle civil engineering services. Starts offer opportunities for Van Elle's Smartfoot system and other foundation activities (see page 28). Indications from the housebuilding and land sectors suggest that both site openings and new starts could pick up significantly during CY 2024:

- **Buyer demand outstrips builders' expectations.** During autumn and spring, various housebuilders' sales rates (generally registrations per site per week) started improving, from lows of 0.4-0.5, passing 0.6 and currently trending towards the long-term industry norm of around 0.7.
- **Rush for 'oven ready' land.** Our anecdotal conversations with industry participants suggest major housebuilders were somewhat 'caught on the hop' by the increasing demand, having internally expected rates not much above 0.5 per site per week. This led to a rush in the market, starting just before Christmas, to buy 'short term' land, with planning permission (known in the industry as 'oven ready'). We first heard this from 'land promoters' and then in private conversations with housebuilders. The first public evidence of this was when we spotted that Taylor Wimpey's 23 April AGM update had dropped the word 'highly' from the 'highly selective' phrase the company had used repeatedly since the September 2022 mini budget in reference to its approach to land buying. Rivals followed suit in their statements, including Barratt, which approved the purchase of 56 sites (13,243 plots) in its H2 to June, from 13 (1,990 plots) in H1.
- **Poised to increase new site openings.** Latest data from NHBC showed a 34% increase in registrations (similar to starts) to 29,281 between Q1 and Q2 (+55% in private; +1.6% in affordable) but down 23% Y/Y vs Q2 2023 when housebuilders rushed to put in foundations ahead of tougher Building Regulations (Figure 4, LHS). This recovery trend appears likely to continue: Knight Frank's latest Residential Development Land Index for Q2 2024 (RHS) indicates there is likely to be a significant uplift in starts. The quarterly survey of c.50 developers conducted in Q2 found that 28% expected to increase their level of starts Q/Q and only 8% expected a decrease, a net balance of +20% (Figure 4, RHS). This is less than the +41% in Q1, looking to Q2, but marks a cumulative increase after eight quarters of mainly negative survey balances.

Figure 4: Housing registrations, LHS (000); housing starts expectations, next 3 months, net balance, RHS (%)





Source: NHBC (LHS); Knight Frank, (RHS)

Labour woos developers ahead of election with targets and planning pledges

Increased housebuilding activity and more complex sites play to Van Elle's strengths

Major housebuilders almost universally welcomed Labour's victory, not just due to the manifesto's reinstatement of national housing targets and a commitment to speed up the planning regime, but also a much more co-operative stance with developers by the then-opposition – after a strained relationship with Levelling-up Secretary Michael Gove.

- **Targeted expansion, needing new participants.** Labour pledges to build 1.5 million homes across the UK in the five-year life of the parliament. This compares to the Conservatives' 2019 pledge of '300,000 homes a year by the mid-2020s', referring to England, with corresponding local targets. The target was never remotely approached (BBC) and in December 2023 Mr Gove effectively dropped the local targets, saying they were 'advisory'. (In a last gasp inclusion in the 2024 Conservative Manifesto, the party announced it would aim to build 1.6 million homes if re-elected.) There was already widespread scepticism among observers as to whether the 1.5 million aspiration could be achieved; our view is this would be unlikely using private housebuilders as the main delivery route, since we believe there is a natural limit to the size of national housebuilders under their 'traditional' model (Vistry's new 'asset-light' model allows greater scale). However, 'additionality' could be provided by build-to-rent and, most likely, directly-funded public housebuilding (many housing associations, the main source of social housing delivery, have faced severe pressure on new building). In our view, the key attraction of Labour for Van Elle – arguably over housebuilders – is the company is 'tenure blind': all homes need foundations.
- **More demanding ground conditions.** Labour's main aim is for most of this new building to be on formerly used 'brownfield' sites or what it has coined as 'grey belt' locations – covering about 13% of England surrounding major conurbations, but in locations such as disused car parks, filling stations and wasteland. Grey belt sites would require 50% affordable housing. Both brownfield and grey belt should require significant ground remediation, as a result of possible contamination under the sites' previous uses – a speciality for Van Elle.
- **Longer term, new towns.** The most ambitious element of Labour housing policy is for up to 10 new towns. Ahead of the election, Deputy PM and Housing Secretary Angela Rayner said a New Town Commission would be set up within six months, with a list of proposed sites to be decided on within a year, with an aim for 40% affordable housing. In our view, these would take most (or all) of the parliament to negotiate the legislative stages on even an accelerated planning system, but could maintain momentum of building activity into the next parliament.

Van Elle advantages

- **Smartfoot offers faster, sustainable foundations.** The proprietary precast modular foundation system offers benefits for housebuilders in a wide range of applications, including low rise residential, schools, care homes, hospitals and temporary buildings (page 31). It is a fast, accurate and sustainable alternative to traditional trench filled foundations, and is especially suited for overcoming challenging ground conditions more likely in Labour's aim of building more on brownfield and 'grey belt' land.
- **Urban regeneration skills.** Construction on ex-industrial and other brownfield land often involves challenging ground conditions in complex sites, which Van Elle's wide range of services and equipment are especially suited to.
- **New collaborations offer closer links to top developers.** M&J Evans has strong relationships in the housebuilding sector, working for all five of the top-five listed housebuilders as well as construction groups providing mixed-tenure housing.

Water: a political priority

Probably construction's most pressing political priority

Water is one of the most high profile of the 'must have' infrastructure investment priorities. Britain's water sector has been mired in political controversy due to restricted capacity, widespread leaks in the supply network and, most contentiously, sewage spills into rivers and the coastline. Criticism has been levelled at water companies for their indebtedness, dividend payouts and directors' pay when billions of pounds of investment are required.

AMP8 investment will by 72% higher over five years than the AMP7 investment programme

Huge sums are planned to be spent. On 11 July, Ofwat, the regulator of water in England and Wales, set out in its expenditure levels for the forthcoming Asset Management Programme, AMP8, as part of its 2024 Price Review. Under the plan, £88bn will be allocated for 16 water companies during 2025-30. This is a 72% increase over the £51bn for AMP7 in the five-year programme to 2025, albeit £16bn lower than in companies' business plans. This reflects Ofwat 'removing or reducing costs where expenditure is insufficiently justified, inefficient or for activity for which companies have already been funded'.

The cost of this investment will initially be funded by shareholders or through borrowing, with these costs then recovered through customers' bills over the five-year period, when they will rise cumulatively by £94 pa by the end. Around £35bn of the £88bn will be channelled into reducing pollution and delivering greater water supply resilience, more than treble the investment during AMP7.

- **Protecting the environment.** £10bn for cutting sewage spills from storm overflows by 44%, including upgrading 2,500 storm overflows; £6bn investment in improving river water quality, including improvements at over 1,500 wastewater treatment works – with around 880 removing more phosphorus; new performance targets for companies and automatic penalties for companies failing to meet target.
- **Securing supplies.** £6bn for securing water supplies, including progressing nine new reservoirs and seven large-scale water transfer schemes; requiring companies to replace around 8,000 km of water mains pipes – a 400% increase compared with the current five-year period; and reducing leakage by a further 13%.
- **Day-to-day delivery for customers.** Tougher targets on internal and external sewer flooding, reducing sewer flooding in homes by 13%; higher standards set for assessing companies' customer service through comparing water companies with other sectors

Van Elle advantages

Relatively new growth sector, which the Galliford Try alliance and ScrewFast system should support

Water is a major new market opportunity for Van Elle, which has only occasionally participated in previous AMPs with no specific focus on this sector or customer base. However, the strategic partnership with Galliford Try should underpin an estimated 50% of expected activity level, as well as other potential customer relationships in rail and highways.

The ScrewFast system (page 32) should support certain water companies directly with modern methods of construction (MMC), for instance Anglian, for which it is hoped it can be rolled out as standard. This sector also depends on the group's integrated civil engineering capability, which is not yet of any scale but has been identified as a target acquisition area.

Power: urgent action needed to 'keep the lights on'

Energy security and the move to net zero require expansion of transmission network; urgent need to tackle bottlenecks

Although not as politically 'toxic' as water, the power sector is a UK priority for several reasons:

- **Energy security.** Russia's 2022 invasion of Ukraine and the sharp volatility in energy costs brought security of supply to the fore. This prompted plans for an expansion in both nuclear (large scale and smaller 'modular' generators) and renewables. The former could take several years even to progress through planning.
- **Net zero.** A parallel aim of the previous government's energy policy was to reach net zero carbon by 2050. Labour's plans are more ambitious, notwithstanding pulling back its spending commitments. The new government 'will work with the private sector to double onshore wind, triple solar power, and quadruple offshore wind by 2030. We will invest in carbon capture and storage, hydrogen and marine energy, and ensure we have the long-term energy storage our country needs'. This appears to offer greater opportunities in the medium term.
- **Distribution bottlenecks.** This is the subsector where demand is most pressing. The widespread expansion of renewable power generation has added a plethora of sites to be connected; meanwhile, new and often competing consumers have emerged, including housing developments and commercial users, possibly the hungriest of which have been datacentres. In its latest quarterly survey of housebuilders, agents Knight Frank found that 40% of developers cited that a lack of power capacity in the National Grid had impacted the progress of their housing schemes, up from 30% in Q1.

Last year, Ofgem outlined the Accelerated Strategic Transmission Investment (ASTI) programme, which provides for huge investment in transmission network expansion and upgrades.

Van Elle advantages

Strong relationships with partners in ASTI and other investment programmes

Van Elle has agreed framework positions on two out of its four targeted frameworks, with Morgan Sindall (MGNS) and Wood Group (WG), and it aims to participate with another four to six, all being developed. Others include private construction group NG Bailey, where the group intends to deliver foundations, using ScrewFast for all its patented Poc-Mast temporary tower system.

Assets are primarily transmission towers, where Van Elle's advantage is that it can deliver all possible foundation types, such as concrete piles using various rigs types, ScrewFast MMC foundations (piles and grillages) in steel, and traditional in-situ civils foundations, plus it will deliver reinforced concrete pile caps whereas no one else offers the same integrated approach.

The group is also bidding several major substation schemes, of which it has delivered over 100 historically via ScrewFast. It is partnered with three of the bidders for the £9bn civils programme in NG's High-Voltage Direct Current (HVDC) framework launched last month. The group has indicated its need to strengthen its presence in Scotland, and this is a focus of potential M&A. The lifting of the onshore wind embargo might also open new opportunities

Transport: emphasis moving from expansion to resilience

While there is considerable investment in rail, resilience is scheduled to take up a greater proportion of overall budgets

The Infrastructure segment includes specialist ground engineering services to the rail and highways sectors, as well as coastal and flooding, energy and utility markets. Rail in particular is experiencing a change in emphasis from overall expansion of the network to resilience in the face of climate change, although Van Elle is still active in some large-scale enhancement projects, principally the TransPennine project.

Rail: greater focus on climate-related activities

Dip in revenue between investment programmes, likely to be reversed soon, with TransPenine upgrade a key focus

Rail investment is largely driven by Network Rail's five-year Control Periods, the latest of which, CP6, ended on 31 March 2024. Rail revenues in the first half of FY24 were strong; a hiatus before the transition to the following programme, as expected, resulted in lower activity levels in the second half of FY24. With CP7 in the early planning and design stages, revenues are expected to remain subdued until early 2025.

Planned works in CP7 are expected to include greater focus on climate-related activities including slope stabilisation, drainage improvements, and maintenance works, in which the group has a strong capability and track record. This aim acquired greater urgency following the 2020 Stonehaven derailment, in which three people were killed and six injured as the result of a land slide in a rail cutting following a night of severe thunderstorms.

The group's on-track innovation and engineering expertise makes the group the market leader in its UK sector, demonstrated in its activities as a framework partner on the TransPennine Route Upgrade programme, with revenue expected to grow materially over the next three years. Other potential prospects include:

- The group's award as a civil engineering framework partner in Network Rail's programme in the South East.
- New electrification projects to 'decarbonise' the rail network. Van Elle Rail's credentials in recent years include Great Western Electrification Project, Midland Mainline Electrification and Core Valley Lines in South Wales.

Figure 5: Rail work in progress

Source: Company

Rail Canada: moving ahead after slow start

Despite project delays, Van Elle expects Canada could outstrip UK rail activities

As part of a strategy re-set, the group has exported its UK rail expertise to Canada, where Van Elle Canada Inc was incorporated in March 2023. According to the group, these skills are lacking in North America and are much needed to enable more efficient delivery of essential infrastructure upgrades, especially on congested networks without much space alongside. This is particularly the case around Toronto, where the company is based. Toronto has been voted the worst city in North America for commuting due to inadequate infrastructure and there is huge political support for the upgrades to proceed at pace. In the medium term, if successful, the group anticipates a huge opportunity to expand beyond Ontario.

The company was initially impacted by delays to project start dates, resulting in lower activity levels in FY24 than expected. The commencement of major works on the Toronto Metro expansion project has been delayed until late 2025. However, the company has broadened its customer base ahead of the Metrolinx programme for which it has now been appointed as a preferred bidder and expects to start enabling works by the end of H1 FY25E. Revenues are in line with group expectations for FY25E to date. The company provides piling and ground stabilisation.

Despite the relatively slow start, the group believes its revenue in the country could grow rapidly and eventually exceed UK rail revenue, as well as offering higher margins, due to significant market opportunities and lower levels of competition for Van Elle's technical capabilities in Rail.

Roads: sector hit by delays, but Van Elle pipeline building up

Good pipeline of work following cancellations and delays in the roads sector

Government spending in the highways sector was lower than anticipated in FY24, with several major projects being cancelled or delayed. The group's activities on the Smart Motorways Programme Alliance (SMPA) framework were at reduced levels, as expected, due to the cancellation of new schemes. However, the group delivered several emergency refuge areas during the second half and, following a reset of several target projects it has a good pipeline of schemes over the next three years going into National Highways RIS3 investment period and has been appointed as early partner on three large schemes for Bam and Galliford Try since the start of FY25E.

Other 'must haves' include datacentres and prisons

Other end markets include a wide range of cyclical, often at different phases, complementing each other

Van Elle addresses a wide range of end markets within the group's Regional construction activities. These include commercial, industrial, logistics and public buildings, which are more cyclical in nature. These follow different phases in any given period, thus 'balancing out'. The prospect of falling bank rates and stabilising building cost inflation may well tempt commercial, industrial and logistics investors back into the market, in our view. However, there are two sectors that the group has focused on where demand is likely to exceed supply for the foreseeable future.

Datacentres: long-term growth driven by AI, smart phones and cloud computing

Huge technical demands and tight deadlines require strong track record and balance sheet strength along the supply chain

Growth in datacentre construction is likely to continue across the UK and Europe, driven by ongoing requirements of smart phone use, media continent, cloud computing and, most significantly for the future, artificial intelligence. European data-centre capacity will need to triple by 2027, reaching approximately 22,700 MW, to support the increased bandwidth, according to major report published recently by Savills (European Data Centres, Navigating the new data-centric frontiers). The majority of capacity has so far been concentrated around London and other major European cities, but limited land availability, power constraints and stringent sustainability requirements are bringing forward new locations.

Datacentres at first sight look little to standard industrial 'sheds'. But they have exacting structural demands, as they need to house substantial air-conditioning and back-up power. In addition, AI generally requires specialised hardware for which the weight can be substantial and may require extra floor-to-ceiling heights. As a result, datacentres tend to require at least twice the weight of steel compared with conventional industrial buildings – and a commensurate increase in piling requirements.

The enhanced technical specifications, high value of contracts and tight deadlines require significant engineering expertise, track record and financial strength along the supply chain to satisfy highly demanding clients. In FY24, Van Elle completed a number of datacentre projects, and the sector 'offers significant opportunity for the group's range of piling and ground improvement services'.

Prisons: Labour aims to deliver on Conservatives' delayed building programme

Overcrowding adding to urgency to increase prison building

Britain's prisons were facing a crisis of overcrowding ahead of the election. The Conservatives had pledged to create a further 20,000 places, but after 10 years only 6,000 had been delivered, according to Labour. The new government has committed to deliver on the 20,000 target, accelerating the planning process by classifying prisons as being of 'national importance' on public safety grounds, putting the approval decision in ministers', rather than local authorities', hands. Van Elle has close relationships with Galliford Try and Wates and, for instance, can offer the ScrewFast system for fencing.

Planning reforms to unblock schemes and speed new projects

Angela Rayner's early intervention on local datacentre rejections is a striking statement of intent in Labour's aims of speeding up the planning system

Labour has pledged sweeping changes to planning processes to speed up provision of housing and infrastructure alongside its ambitious overall targets for housebuilding volumes. One of the highest profile measures in the King's Speech to Parliament on 17 July was the Planning and Infrastructure Bill, which is intended to streamline the process for approving critical infrastructure and overhaul rules on the compulsory purchase of land.

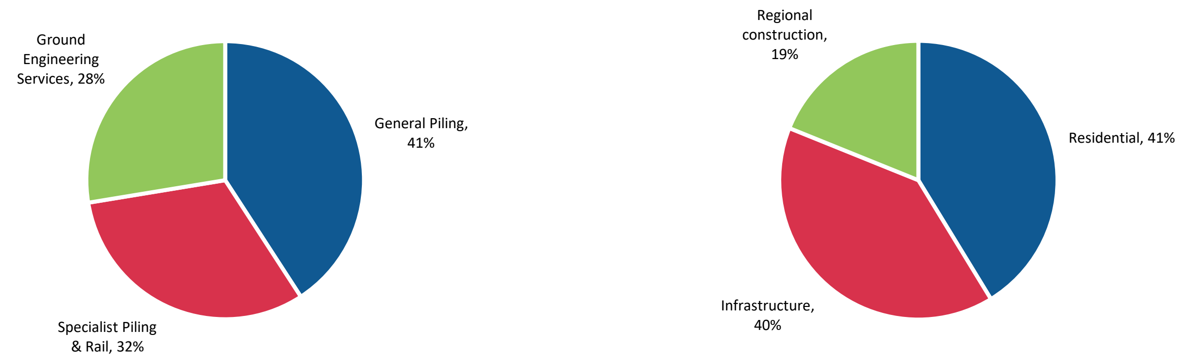
In possibly the most striking statement of intent, within two days of taking office, Deputy Leader and Housing Secretary Angela Rayner ordered planners to reconsider applications for two giant datacentre schemes in Buckinghamshire and Hertfordshire. These had been turned down by local planners, with a subsequent appeal in one case rejected by former Levelling Up Secretary Michael Gove.

If the planning bill is passed successfully, we believe there could be a surge in housing developments currently gummed up in the planning system. There should be a longer lead-in time, presumably facing legal challenges, for Labour's more ambitious proposals such as new towns, which could be expedited through the new rules, including compulsory purchase orders.

Van Elle explored

The group has three main divisions, offering differing service to its three main end-markets.

Figure 6: Van Elle – FY24 revenue by division, LHS, and end market, RHS (%)

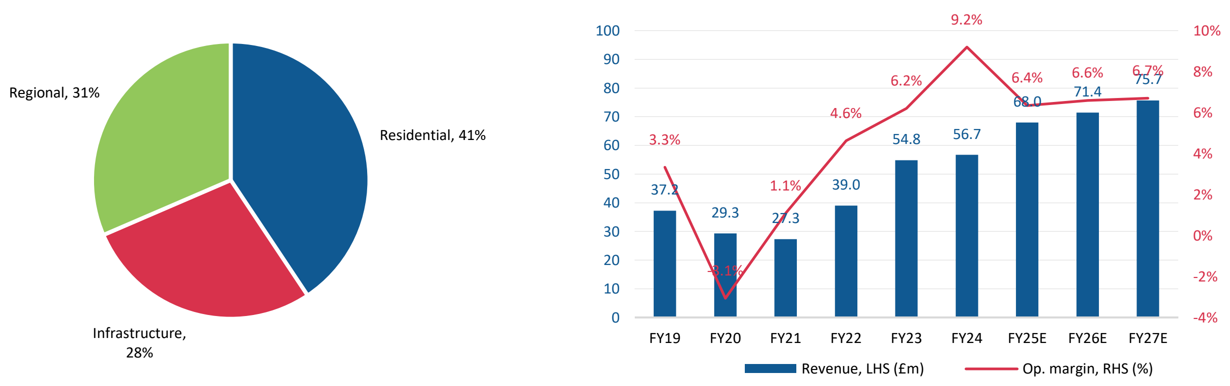


Source: Company information

- **General Piling.** Offers a range of ground engineering and foundation solutions on more easily accessed sites. Key techniques include large diameter rotary, CFA piling, precast driven piling, rigid inclusions and vibro stone columns. The division includes Rock & Alluvium, acquired in November 2023.
- **Specialist Piling & Rail.** Provides piling and geotechnical solutions in operationally challenging environments. These include restricted access and low headroom piling; extensive rail-mounted capability; helical piling and steel modular foundations (ScrewFast); sheet piling, soil nails and anchors, mini-piling and ground stabilisation projects.
- **Ground Engineering Services.** Ground investigation expertise and modular foundation solutions, principally Smartfoot.

General Piling: Rock & Alluvium deal boosts residential output

Figure 7: General Piling revenue by end market, FY24, LHS (%); revenue and operating margin, RHS (%)



Source: Company information

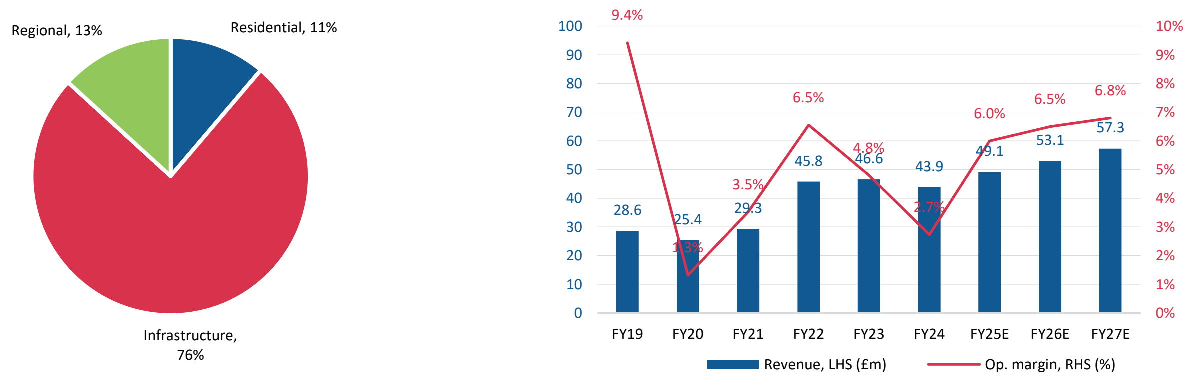
Rock & Alluvium acquisition boosts volumes and margins

General Piling offers design and construction solutions for the group's larger rotary, CFA and driven piling projects that do not require restricted access specialist techniques, typically involving deeper and larger diameter piles and complex major project requirements.

In FY24, revenue increased by 3%; excluding the Rock & Alluvium impact, which primarily boosted residential output, there was an 11% LFL decline. Margins rose from 6.2% to 9.2%, reflecting supportive market conditions and strong execution on contracts.

Specialist Piling & Rail: poised for infrastructure drive

Figure 8: Specialist Piling & Rail, revenue by end market, FY24, LHS (%); revenue and operating margin, RHS (%)



Source: Company information

Specialist Piling enters FY25E with strong growth opportunities in water and energy; Rail faces a short-term hiatus before onset of CP7

The two sub-divisions are closely aligned. Specialist Piling provides a range of piling and other geotechnical solutions in operationally constrained environments such as inside existing buildings, under bridges and in tunnels and basements, as well as off-track rail environments. Additionally, the division offers a range of ground stabilisation techniques for large civil engineering and new-build residential schemes. The division also provides helical pile and steel and modular foundations under the ScrewFast brand. The Rail division specialises in on-track geotechnical operations across the UK's rail network.

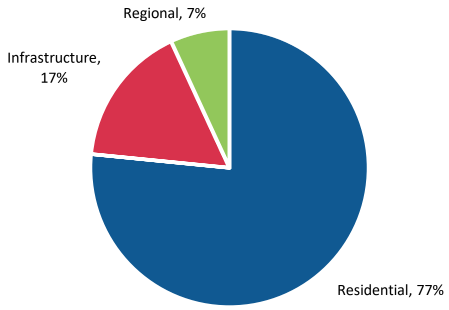
In FY24, Specialist Piling experienced softer market conditions throughout H1, primarily as a result of delays to major infrastructure work on highways. Work-winning improved in H2, particularly in in Q4. In addition to the increased workload from core markets reported in H2, Specialist Piling maintained a strong focus developing customer partnerships in the energy and water sectors. These sectors are expected to contribute materially to segment and sector performance in the medium term.

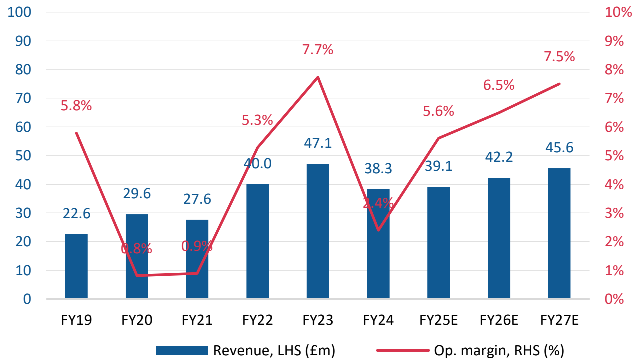
Rail delivered strong revenues in H1, as Network Rail's CP6 entered its final year. As expected, activity levels decreased significantly in H2, and are expected to remain lower than recent levels until CP7 work starts. However, the division is well-placed for medium-term growth, particularly following the appointment as a framework partner on the TransPennine Route Upgrade (TRU) programme, where work commenced in H2. The Rail division has also been appointed to Network Rail's civils and geotechnical programme in the South, which is expected to generate material revenues in FY25 and beyond.

Revenue decreased by 6% to £43.9m in FY24. Underlying operating profit for the division decreased to £1.2m (FY23: £2.2m) as a result of the hiatus in infrastructure activity leading to lower rig utilisation.

Ground Engineering Services: aligned to UK housing policy

Figure 9: Ground Engineering Services, revenue by end market, FY24, LHS (%); revenue and operating margin, RHS (%)





Source: Company information

Main division for housing exposure, featuring popular Smartfoot prefabricated system

Ground Engineering Services comprises the Strata Geotechnics and Housing divisions. Strata has expertise in drilling, sampling, analysing and reporting ground information to support follow-on design and construction activities. The Housing division undertakes driven and CFA piling and precast modular foundations (Smartfoot and Smartdeck).

Revenue decreased by 18% in FY24 to £38.3m, while profit fell from £3.6m to £0.9m. Demand for Smartfoot was very strong during the early part of the financial year, with new building regulations, introduced towards the end of Q1 FY24, resulting in the acceleration of some residential projects. As anticipated, there was a significant decrease in the rate of new-build housing starts from the beginning of the second quarter, which continued throughout the remainder of the year, mitigated to an extent by affordable and partnership housing volumes, which remained more stable.

Strata Geotechnics delivered further revenue growth in the year, with good progress in the infrastructure sector, particularly on the National Highways national ground investigation framework and the Coal Authority framework, both of which have either been extended or renewed. Strata had secured a place on HS2's £800m phase 2 ground investigation framework, therefore the cancellation of phase 2b of HS2 was 'particularly disappointing'.

FY24 revenue fell by 19% to £38.3m+, mainly as a result of the slowdown in housing starts, and the lower rig utilisation and resultant competitive environment led to margins falling from 7.7% to 2.4%.

Competitors: a diverging market, benefitting sector leaders

Diverse range of rivals, including international specialists, divisions of construction conglomerates and small fragmented, often financially challenged, competitors

Van Elle's competition is diverse and, among smaller companies, highly fragmented.

- **Large ground engineering specialists.** These include the UK operations of international groups Keller and Bauer. UK-originated Keller (KLR) has for many years been focused on North America (60% of FY23 group revenue of £3bn) and has operations across Europe (23%, including UK) and Asia-Pacific, Middle East and Africa (17%). UK results are not separately disclosed from the rest of Europe, but the division overall performed poorly in FY23, with margins falling to 0.3% from 4.5% in FY22, 'driven by tough markets and challenging projects', while in the UK work on HS2 declined. German group Bauer, which operates globally, has a significant UK presence and delisted in June 2023.

- **Integrated contracting groups.** Several subsidiaries of international construction groups have well-established ground engineering groups, including (with their trading names in brackets): the UK's Balfour Beatty (BBY) (Balfour Beatty Ground Engineering); Sweden's Skanska (SKA-B.ST) (Cementation); private UK group, Laing O'Rourke (Expanded) and France's Vinci (DG.PA) (Soletanche Bachy). Solentanche Bachy owns UK specialist Roger Bullivant, which increased revenue by 25% to £97.4m in the year to 31 December 2022, on operating margins up from 4.2% to 7.7%, according to Companies House, with a 'particularly strong performance in residential'.
- **Smaller independents.** There is long 'tail' of smaller ground working contractors. We understand that many of these are facing financial distress due to rising costs on fixed price contracts and limited balance sheet strength. Arguably, many of them lack the broad range of technical abilities required in larger groups, and have found themselves competing on simple 'commodity' piling.

Financial challenges among competitors favour strongest companies but could present attractive M&A opportunities

Along with a range of companies in the wider construction industry, there appears to be increasing evidence that main contractors require evidence of balance sheet strength and wide range of technical capabilities in selecting their supply chains. For Van Elle, this could be a 'win-win' situation, with it forming close relationships with larger main contractors, such as the recently announced alliance with Galliford Try (which, for instance, enhanced its position in the water sector). For the smaller companies, in our view, this makes it ever harder to access good quality repeat work, forcing them to compete for increasingly cut-throat general piling work, for one-off customers.

The results statement refers to the group's capacity to fund both organic investment as well as bolt-on acquisitions. The challenges in the sector, we presume, may provide opportunities to attract good companies, which bring a combination of new skills, geographic exposure or client relationships at reasonable valuations.

Sustainability: mid-term 30% emission reduction target

Signed up to Science Based Targets initiative to set achievable emissions reduction to achieve Net Zero by 2050

Van Elle has signed up to the Science Based Targets initiative (SBTi) to set achievable emissions reduction targets against a representative base year to achieve Net Zero by 2050. A medium-term sustainability roadmap provides a pathway to a 30% reduction in its greenhouse gas emissions from a 2020 baseline (Figure 10). A sustainability working group, which has executive level leadership, is using this roadmap to track progress against targets and objectives. The group measures and reports Scope 1 and Scope 2 emissions.

Figure 10: Sustainability roadmap to 2030

Source: Company presentation

Financials

Initiating on a conservative stance, but still suggesting c.20% compound EPS growth

We initiate with what we believe to be a conservative stance in our forecasts. Our estimates point to CAGR of 8.6% in revenue over our three-year forecast period and 20.2% in underlying EPS to reach 6.2p by FY27E. In the absence of acquisitions, we believe free cash generation should be strong, allowing for dividend CAGR of around 15%.

Revenue

Market demand, market share and rig utilisation the main drivers of revenue

Revenue is, obviously, dictated by volume and pricing. Volumes are dependent on demand in the overall market and market share, with the degree of competition also influencing pricing. Volumes for Van Elle are limited by the total number of rigs in use and the utilisation rate (Figure 11). A notable factor of Van Elle's work is the large number of contracts, averaging around £100k (distorted last year by two large projects).

Our estimate of 12% revenue growth in FY25E includes a full year contribution from Rock & Alluvium (five months for FY24). The main divisional revenue assumptions are:

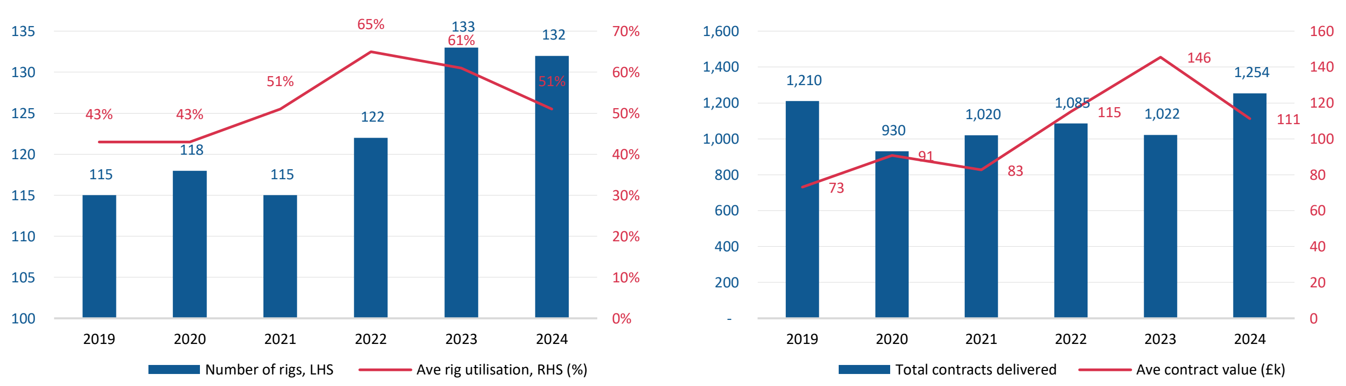
- **General Piling.** 20% growth almost entirely due at this stage to the full year contribution from Rock & Alluvium for FY25E. Thereafter, we have conservatively assumed mid-single digit percentage growth.
- **Specialist Piling & Rail.** Our FY25E estimate assumes a partial pick-up after the hiatus in infrastructure investment cycles. Thereafter, 8% pa, again possibly conservatively, since this is the division focused on energy and water.
- **Ground Engineering Services.** Low growth for FY25E, on the basis that housing may take longer to pick up, then healthier growth in the following two years.

Margins

Rig utilisation the main driver of margins

Rig utilisation is one of the main drivers of profits. Historically, the group appears to have had a threshold of around £120m pa revenue, above which it turns increasingly profitable. We have assumed a fairly narrow range of operating margins for the three divisions, but differing gross margins and depreciation rates. General Piling delivered the highest operating margin in FY24, due to strong volumes and relatively low capital employed.

Figure 11: Rigs and utilisation (LHS); contracts delivered (RHS)



Source: Company information

Figure 12: Van Elle – Divisional performance, FY19-27E

YE April (£m)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
External revenue									
General Piling	37.2	29.3	27.3	39.0	54.8	56.7	68.0	71.4	75.7
Change (%)	*-15.6%*	*-21.2%*	*-6.7%*	*42.6%*	*40.7%*	*3.4%*	*20.0%*	*5.0%*	*6.0%*
Specialist Piling & Rail	28.6	25.4	29.3	45.8	46.6	43.9	49.1	53.1	57.3
Change (%)	*-24.9%*	*-11.4%*	*15.7%*	*56.0%*	*1.8%*	*-5.8%*	*12.0%*	*8.0%*	*8.0%*
Ground Eng. Services	22.6	29.6	27.6	40.0	47.1	38.3	39.1	42.2	45.6
Change (%)	*4.6%*	*30.6%*	*-6.7%*	*45.1%*	*17.5%*	*-18.6%*	*2.0%*	*8.0%*	*8.0%*
Head office	-	0.1	0.1	0.1	0.2	0.6	-	-	-
Group revenue	**88.5**	**84.4**	**84.4**	**124.9**	**148.7**	**139.5**	**156.2**	**166.7**	**178.6**
Change (%)	*-14.8%*	*-4.6%*	*0.0%*	*48.1%*	*19.1%*	*-6.2%*	*12.0%*	*6.7%*	*7.1%*
Operating profit									
General Piling	1.2	(0.9)	0.3	1.8	3.4	5.2	4.3	4.7	5.1
Margin (%)	*3.3%*	*-3.1%*	*1.1%*	*4.6%*	*6.2%*	*9.2%*	*6.4%*	*6.6%*	*6.7%*
Specialist Piling & Rail	2.7	0.3	1.0	3.0	2.2	1.2	2.9	3.4	3.9
Margin (%)	*9.4%*	*1.3%*	*3.5%*	*6.5%*	*4.8%*	*2.7%*	*6.0%*	*6.5%*	*6.8%*
Ground Eng. Services	1.3	0.2	0.2	2.1	3.6	0.9	2.2	2.7	3.4
Margin (%)	*5.8%*	*0.8%*	*0.9%*	*5.3%*	*7.7%*	*2.4%*	*5.6%*	*6.5%*	*7.5%*
Head office	-	0.1	(2.1)	(2.5)	(3.5)	(1.9)	(3.0)	(3.2)	(3.2)
Group EBIT	**5.2**	**(0.3)**	**(0.6)**	**4.4**	**5.8**	**5.5**	**6.5**	**7.8**	**9.2**
Margin (%)	*5.9%*	*-0.3%*	*-0.7%*	*3.5%*	*3.9%*	*3.9%*	*4.1%*	*4.7%*	*5.2%*
Share based payments	(0.1)	(0.1)	(0.2)	-	-	-	-	-	-
Total operating profit	**5.1**	**(0.4)**	**(0.7)**	**4.4**	**5.8**	**5.5**	**6.5**	**7.8**	**9.2**

Source: Company information and Progressive Equity Research estimates

Figure 13: Van Elle – P&L, per share data, FY19-27E

YE April (£m)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue	**88.5**	**84.4**	**84.4**	**124.9**	**148.7**	**139.5**	**156.2**	**166.7**	**178.6**
COGS	(60.3)	(61.8)	(62.4)	(90.8)	(108.6)	(97.5)	(111.5)	(118.7)	(127.2)
Gross profit	**28.2**	**22.6**	**22.0**	**34.1**	**40.1**	**41.9**	**44.7**	**48.0**	**51.4**
Operating expenses	(22.9)	(22.8)	(22.6)	(29.7)	(34.3)	(36.5)	(38.3)	(40.2)	(42.2)
Operating profit	**5.2**	**(0.3)**	**(0.6)**	**4.4**	**5.8**	**5.5**	**6.5**	**7.8**	**9.2**
Exceptionals	(0.7)	(1.4)	(0.2)	-	0.1	0.5	-	-	-
Interest	(0.5)	(0.6)	(0.6)	(0.8)	(0.5)	(0.3)	(0.4)	(0.4)	(0.4)
PBT, reported	**4.0**	**(2.2)**	**(1.4)**	**3.6**	**5.4**	**5.6**	**6.1**	**7.4**	**8.8**
U-lying tax rate (%)	*19.5*	*(42.6)*	*(1.3)*	*46.9*	*11.1*	*27.1*	*25.0*	*25.0*	*25.0*
Reported tax	(0.8)	(0.2)	(0.0)	(1.7)	(0.7)	(1.4)	(1.5)	(1.8)	(2.2)
Net attrib. profit	**3.2**	**(2.5)**	**(1.4)**	**1.9**	**4.7**	**4.2**	**4.5**	**5.5**	**6.6**
PBT, pre-exc & g/w	**4.8**	**(0.8)**	**(1.0)**	**3.7**	**5.4**	**5.3**	**6.1**	**7.4**	**8.8**
EBITDA	**9.6**	**4.4**	**4.4**	**9.8**	**11.9**	**13.1**	**14.2**	**15.7**	**17.4**
End shares (million)	80.0	106.7	106.7	106.7	106.7	106.7	106.7	106.7	106.7
Ave shares (million)	80.0	81.5	106.7	106.7	106.7	106.7	106.7	106.7	106.7
Dil. shares (million)	80.0	81.5	106.7	106.7	107.1	107.9	106.7	106.7	106.7
EPS, basic (p)	4.0	(3.0)	(1.3)	1.7	4.4	3.9	4.3	5.2	6.2
EPS, adj (p)	4.8	(1.4)	(1.0)	2.9	4.5	3.6	4.3	5.2	6.2
EPS, dil, adj (p)	**4.8**	**(1.4)**	**(1.0)**	**2.9**	**4.5**	**3.6**	**4.3**	**5.2**	**6.2**
DPS - declared (p)	**2.0**	**-**	**-**	**1.0**	**1.2**	**1.2**	**1.3**	**1.4**	**1.8**
Dividend cover (x)	2.4	na	na	2.9	3.8	1.2	1.3	3.8	3.5
NAV (p)	52.6	42.4	41.2	43.7	46.9	49.4	52.9	56.8	61.6
TNAV (p)	49.7	41.0	37.7	40.1	43.4	45.3	48.7	52.6	57.4
FCFPS (p)	7.0	6.8	0.9	3.5	4.4	4.9	4.0	4.2	4.6

Source: Company information and Progressive Equity Research estimates

Figure 14: Van Elle – Adjusted cashflow, summary balance sheet, FY19-27E

YE April (£m)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating profit	5.2	(0.3)	(0.6)	4.4	5.8	5.5	6.5	7.8	9.2
Depreciation	4.3	4.5	4.8	5.3	6.0	7.5	7.7	8.0	8.2
Intangible amort.	0.0	0.1	0.1	0.1	0.1	0.1	-	-	-
Other, non-cash	(0.6)	0.3	(0.3)	0.2	0.4	0.1	-	-	-
Working cap changes	0.5	3.5	(3.4)	(1.5)	(2.3)	(4.5)	(1.0)	(1.5)	(2.0)
Operating cash flow	**9.5**	**8.1**	**0.8**	**8.4**	**10.0**	**8.7**	**13.2**	**14.2**	**15.4**
Capex	(2.0)	(1.9)	(1.2)	(4.6)	(5.6)	(3.6)	(7.0)	(7.5)	(8.0)
Interest	(0.5)	(0.0)	0.0	(0.1)	(0.1)	0.2	(0.4)	(0.4)	(0.4)
Tax	(1.4)	(0.7)	1.4	-	0.3	-	(1.5)	(1.8)	(2.2)
Free cashflow	**5.6**	**5.5**	**1.0**	**3.7**	**4.7**	**5.2**	**4.3**	**4.5**	**4.8**
Acquisitions	(0.0)	(0.4)	(0.1)	(0.2)	(0.1)	(2.5)	(2.0)	-	-
Dividends - paid	(2.6)	(0.8)	-	-	(1.5)	(1.3)	(0.9)	(1.4)	(1.5)
Share issues	-	6.3	-	-	-	0.0	-	-	-
Other financing	(5.8)	(6.4)	(4.5)	(5.1)	(1.2)	(4.3)	-	-	-
Change in net cash	**(2.9)**	**4.2**	**(3.7)**	**(1.5)**	**1.9**	**(2.9)**	**1.4**	**3.1**	**3.3**
Summary balance sheet									
Intangible fixed assets	2.3	1.5	3.8	3.8	3.7	4.4	6.4	6.4	6.4
Tangible fixed assets	38.5	39.4	39.1	39.5	41.9	44.0	43.3	42.8	42.6
Working capital	6.9	3.8	14.2	15.4	17.3	21.5	22.5	24.0	26.0
Provisions, others	(1.4)	(0.3)	(11.4)	(12.3)	(21.8)	(23.2)	(23.2)	(23.2)	(23.2)
Net cash/(debt)[1]	(4.2)	0.9	(1.7)	0.1	8.9	6.0	7.4	10.5	13.9
Net assets/SHF	**42.1**	**45.2**	**44.0**	**46.6**	**50.0**	**52.7**	**56.4**	**60.6**	**65.7**
Net cash/(debt), inc leases		*(10.5)*	*(11.1)*	*(6.7)*	*(8.2)*	*0.4*	*(1.6)*	*7.4*	*10.5*

Source: Company information and Progressive Equity Research estimates. 1 Pre-IFRS 16 leases

Figure 15: Van Elle – Key performance indicators, FY19-27E

YE April (£m)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Growth in rev (%)	(14.8)	(4.6)	(0.0)	48.1	19.1	(6.2)	12.0	6.7	7.1
Growth in op profit (%)	(52.7)	na	na	na	32.2	(5.3)	18.0	20.1	19.1
Growth in EPS (%)	(55.2)	na	na	na	56.9	(20.5)	19.0	21.5	20.1
Growth in DPS (%)	(45.9)	(100.0)	na	na	20.0	(0.0)	8.3	7.7	28.6
Gross margin (%)	31.9	26.8	26.1	27.3	27.0	30.1	28.6	28.8	28.8
Operating margin (%)	5.9	(0.3)	(0.7)	3.5	3.9	3.9	4.1	4.7	5.2
EBITDA margin (%)	10.8	5.2	5.2	7.8	8.0	9.4	9.1	9.4	9.8
ROCE, pre-tax (%)	13.6	(0.8)	(1.2)	9.5	12.0	10.5	12.7	16.3	18.9
ROE (%)	7.7	(5.6)	(3.2)	4.1	9.7	8.2	8.3	9.4	10.5
Interest cover (x)	10.0	(0.4)	(0.9)	5.6	11.9	16.7	16.1	19.4	23.1
Current ratio (x)	1.5	1.9	1.4	1.4	1.4	1.4	1.9	2.0	2.1
NOPAT	4.2	(0.4)	(0.6)	2.3	5.1	4.0	4.8	5.8	6.9
ROIC (%)	8.1	(0.7)	(1.0)	4.2	8.8	6.4	7.0	7.5	8.5
Trade debtors	20.6	12.6	32.0	34.1	35.5				
Trade creditors	16.5	11.6	20.8	22.5	23.2				
Debtor days	84.8	54.7	138.6	99.7	87.2				
Creditor days	99.9	68.4	121.9	90.3	78.1				
Ave employees	530	517	514	601	648				
Employment costs	28.0	27.9	26.7	36.5	41.2				
Ave salary (£k)	52.8	54.0	52.0	60.7	63.6				
Sales per emp (£k)	166.9	163.2	164.1	207.8	229.5				
Op profit per emp (£k)	9.9	(0.5)	(1.1)	7.3	9.0				

Source: Company information and Progressive Equity Research estimates

Valuation discussion

The share price is currently 14% below its current year high of 43p. On a PER basis, it is trading at 8.7x FY25E, falling to 6.0x our FY27E estimate (which we believe to be conservative). The FY25E dividend yield is 3.5%, rising to 4.9% in FY27E. Strong forecast cash generation indicates EV/EBITDA should fall to 1.3x, based on our estimates.

Figure 16: Van Elle – Valuation ratios, FY19-27E

YE March (£m)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Share price									
Year high (p)	97.5	61.0	50.5	51.0	55.0	45.5	43.0		
Year low (p)	42.0	29.5	30.5	36.0	35.5	32.5	33.0		
Year ave/**current** (p)	77.8	44.7	38.0	45.4	44.5	39.7	**37.0**	**37.0**	**37.0**
PER (x)									
High	20.3	(43.7)	(51.8)	17.8	12.2	12.7			
Low	8.8	(21.1)	(31.3)	12.5	7.9	9.1			
Average	16.2	(32.0)	(39.0)	15.8	9.9	11.1	**8.7**	**7.2**	**6.0**
Yield (%)									
High	2.1	-	-	2.0	2.2	2.6			
Low	4.8	-	-	2.8	3.4	3.7			
Average	2.6	-	-	2.2	2.7	3.0	**3.5**	**3.8**	**4.9**
PBV (x)									
High	1.86	1.44	1.22	1.17	1.17	0.92			
Low	0.80	0.70	0.74	0.82	0.76	0.66			
Average	1.48	1.05	0.92	1.04	0.95	0.80	**0.70**	**0.65**	**0.60**
FCF yield (%)									
High	7.1	11.1	1.8	6.8	8.0	10.8			
Low	16.6	22.9	2.9	9.6	12.4	15.1			
Average/current	8.9	15.1	2.4	7.6	9.9	12.4	**10.8**	**11.3**	**12.6**

Source: Company information and Progressive Equity Research estimates

Figure 17: Van Elle – Valuation ratios, FY19-27E (cont.)

YE March (£m)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Market cap (£m)									
High	78.0	49.7	53.9	54.4	58.7	48.5			
Low	33.6	24.1	32.5	38.4	37.9	34.7			
Average/current	62.3	36.4	40.6	48.4	47.5	42.3	**39.5**	**39.5**	**39.5**
add: net debt/(cash)	(12.2)	(12.2)	(8.5)	(7.0)	(8.9)	(6.0)	(9.4)	(12.5)	(16.0)
EV (£m)									
High	65.8	37.5	45.3	47.4	49.8	42.5			
Low	21.4	11.9	24.0	31.4	29.0	28.7			
Average	50.0	24.2	32.0	41.4	38.6	36.3	**30.1**	**27.0**	**23.5**
EV/sales (x)									
High	0.74	0.45	0.54	0.38	0.33	0.31			
Low	0.24	0.14	0.28	0.25	0.19	0.21			
Average	0.57	0.29	0.38	0.33	0.26	0.26	**0.19**	**0.16**	**0.13**
EV/EBITDA (x)									
High	6.9	8.6	10.3	4.9	4.2	3.2			
Low	2.2	2.7	5.4	3.2	2.4	2.2			
Average	5.2	5.6	7.3	4.2	3.2	2.8	**2.1**	**1.7**	**1.3**

Source: Company information and Progressive Equity Research estimates

Risks and responses

A brief summary of some of the key risks and examples of mitigating actions. These are more comprehensively covered in the Principal Risks section of the group's annual reports.

Rapid downturn in markets

Inability to maintain a sustainable level of financial performance at points in the construction cycle, which has greater up- and down-swings than wider economic cycles.

> *Mitigation: Diversified end markets, both geographically and by sector; focus on longer-term partnerships and building on existing client relationships; debt facility of up to £11m provides headroom to withstand a downturn in markets.*

Loss of market share

Inability to achieve sustainable growth, whether through acquisitions, new products, new geographies or industry-specific solutions.

> *Mitigation: Continually seeking to differentiate offering through service quality, value for money and innovation; business development team focusing on customers' requirements and understanding competitors. Reviewing acquisition opportunities where they may be favoured over organic growth.*

Contract, product or solution problems

Failure to manage contracts, products or solution to achieve the required standard, leading to financial loss, including warranty claims and consequent damage to the group's brand reputation.

> *Mitigation: understanding all our risks through the bid appraisal process, application of clear contractual terms and robust policies and processes to manage and monitor contract performance; continuing to enhance technological and operational capabilities through investment in product teams, project managers and engineering capabilities; comprehensive insurance cover including adequate PI cover and clear terms of business with customers and suppliers.*

Raw material inflation and availability; supply chain failures

A shortage of raw materials or products causing delays to project delivery and margin reduction on longer-term contracts where price increases cannot be passed on to customers; supply chain failures leading to delays and contractual penalties. (This has been downgraded for the latest annual report, but we include it as the topic remains a concern across much of the wider sector.)

> *Mitigation: Regular monitoring of key material costs by the procurement function to ensure contract pricing is updated in line with cost inflation; robust processes for monitoring contract financial performance to track the impact of cost volatility; tenders and contracts qualified to transfer the risk of significant material cost increases to the client; the group applies selective criteria when choosing suppliers to ensure standards for quality, reliability and financial partnering are satisfied.*

Appendices

Board

Frank Nelson, Non-executive Chairman. Joined 2020. Over 30 years' experience in the housebuilding, infrastructure and energy sectors. Frank is a qualified accountant. Senior non-executive roles have included McCarthy & Stone, Telford Homes, HICL Infrastructure (HICL) and Eurocell (ECEL) and Chair of private equity backed contractor-developer. Formerly the Chief Financial Officer of Galliford Try (GFRD).

Mark Cutler, Chief Executive Officer. Joined August 2018 as CEO. A graduate of Imperial College, London and a chartered civil engineer with more than 30 years' experience in the infrastructure, construction and utility sectors. Previous senior roles including 15 years with Carillion, joining Tarmac Construction as a graduate, prior to joining Morgan Sindall (MGNS) in 2005 as Managing Director of the infrastructure division Morgan Est. Mark then became Chief Executive of Barhale from 2010 to 2014 before joining Balfour Beatty (BBY) in 2015 to lead the UK regional business and latterly the Balfour Beatty VINCI joint venture for HS2.

Graeme Campbell, Chief Financial Officer. Joined February 2020 from Severfield (SFR) where he was Group financial controller. Prior to that, Graeme was with ASX-listed engineering services company Engenco in Australia, where he was CFO and Company Secretary for four years. Prior to this, Graeme held senior financial roles at Shepherd Group and Premier Farnell. A chartered accountant and FCA qualified, Graeme trained with PWC and is a mathematics graduate of Imperial College, London.

David Hurcomb, Non-Executive Director. Executive positions across the construction sector have included NG Bailey Group, Carillion, Balfour Beatty and Mansell.

Charles St John, Non-Executive Director. A Chartered Accountant. Charles's experience over more than 20 years covers a range of industries, including within the UK building products and services sectors. Until 2012, Charles was a Senior Partner at the private equity firm Cognetas and its predecessor firms, with significant involvement in the growth and development of its investee companies. Currently Non-Executive Director of Anesco Holdings, Capstone Foster Care, NHS Blood and Transplant and Whiteline Group.

Piling techniques and other group activities

Van Elle provides the broadest range of piling and ground engineering services

Various piled foundations techniques are required to transfer structural loads from buildings or infrastructure through weak soils into underlying stable soils or rock – in order to limit vertical and lateral movement for structures to acceptable levels. Piling involves augering, drilling or driving reinforced concrete or steel elements, of varying diameters and sizes into competent soil or rock to retain or support a structure. There are several basic applications:

- **Foundation piles** are typically vertical piles to directly support columns in taller buildings and ground beams in low rise buildings. The most common techniques are continuous flight auger (CFA), rotary bored piling (RBP) and driven piling, precast concrete or steel tube.
- **Retaining walls** are used to facilitate basement excavation, trenches, cuttings and embankments where space is at a premium, cut-and-cover bridges etc. They are primarily used to prevent horizontal and vertical movement of the ground behind the retaining wall. Common techniques include augered secant walls, intersecting circular piles in a line to create a solid wall, augered contiguous walls, circular piles close to each other in a line to create a wall, interconnected driven steel sheet piles. Once the wall is installed, the soil in front is excavated to the levels required for the basement, highway or rail line etc.
- **Ground stabilisation** techniques offer a typically cheaper solution to a full piled foundation, often used in very weak soils and where building loads are fairly low, distribution centre slabs, low rise residential estates, highways etc. The most common methods of ground improvement are vibro stone columns and rigid inclusions (RI), unreinforced columns of concrete installed using displacement techniques.

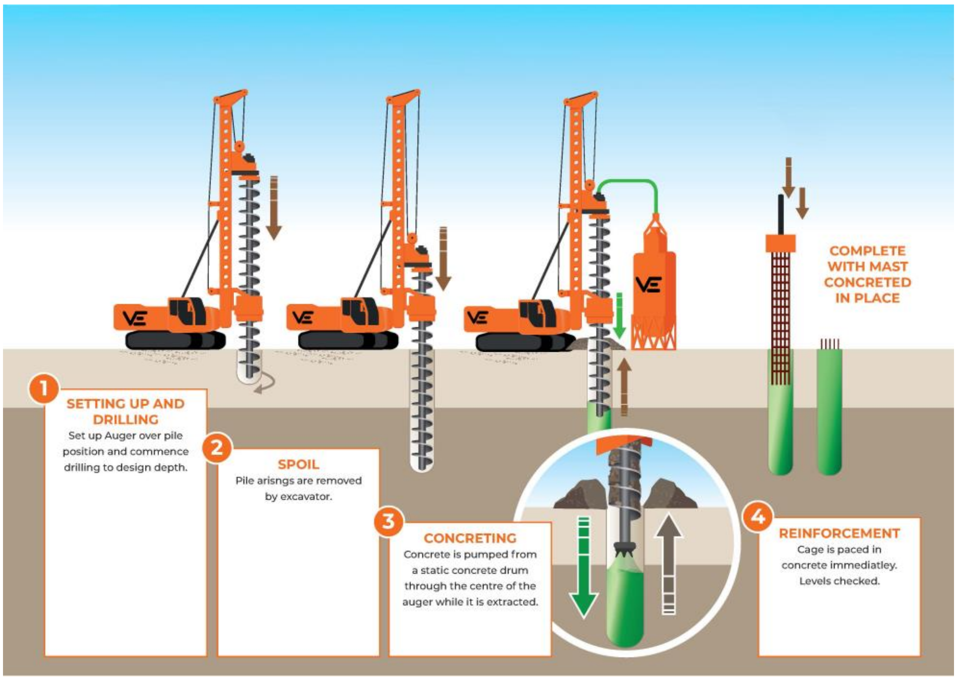
Continuous flight auger (CFA) piles

Continuous auguring, while concrete is poured, allows speedy, low noise and efficient piling

These are augered and concreted in one continuous operation at diameters up to 1m and depths up to 40m, enabling much faster installation than for bored piles. The main benefit is that the ground is never unsupported during the augering operation, supported either by the soil on the auger or concrete injected down the hollow stem auger to the base of the pile, concreting the pile as the auger is withdrawn.

Advantages include speed, low noise and vibration installation. The technique is efficient and cost effective, as production rates are higher than for some other piling methods. They are suitable for a wide range of applications including foundation piles and retaining walls. They are particularly useful in variable and poor ground conditions, such as water bearing sand and gravels.

Figure 18: Continuous flight auger technique



Source: Company website

Rotary bored piles

Large diameters, suited for high load applications

This technique is utilised in situations where structural loads from a building or retaining wall are very high resulting in the requirement for a large diameter piles above 1m to a significant depth 40m plus.

The main difference to CFA piling is that the tool that digs the pile does so in small 'bites', each time the soil is brought to the surface, this means though that the ground could be unsupported effectively an open hole. If the ground cannot hold itself up temporarily, i.e. sand and gravel. then a temporary steel casing is installed to the required depth or support fluid (bentonite or polymer) is used. On reaching the required depth, the base of the pile is cleaned, the reinforcement is lowered into the open bore, and the concrete 'tremmied' using a large hopper and pipe to the base of the pile. The temporary casing is removed during the concreting operation and utilised on the next pile position.

Rotary piles, sometimes referred to as large diameter piles (LDP) are often used in ground conditions which are too hard or deep for the CFA to be used efficiently. They also deliver significantly greater tolerances than CFA techniques, enabling more accurate installation of basement retaining walls maximising basement areas for developers.

Driven piles

Most basic technique; advantage is speed of installation

This is the oldest and most basic form of piling. Precast square concrete or steel piles are driven into the ground by a rig-mounted 3-6 tonne hydraulic pile hammer, piles are driven through softer weaker soils to competent harder denser soils capable of carrying the load from the building. Driven piling is not the quietest technique and is often only allowed away from existing residents. Their advantage, however, is speed of installation, with near immediate follow-on construction without the need for concrete to cure.

They produce very little, if any, spoil, often removed from site at considerable cost and carbon, hence are suited to brownfield sites and contaminated or aggressive soils – a main focus for Labour's new housing strategy. The piles are manufactured within a controlled factory environment, allowing high-quality control and just-in-time delivery. Precast piles are manufactured in section lengths to suit site conditions, minimising waste.

They are typically used for lighter structural loads from housing to commercial and industrial and, in infrastructure, from bridges to embankment support, and rail-related structures. Within the rapidly growing power generation and transmission sector, they can support turbines, overhead lines and substations.

Figure 19: Rotary bored (LHS) and driven piling (RHS)

Source: Company website

Other techniques

- **Cased CFA piling or CSP.** A modified version of traditional CFA and combines some of the benefits of rotary bored with CFA piling using a temporary segmental casing. The combined technique can achieve better pile installation tolerances and penetrate hard ground and obstructions more effectively.
- **Restricted access piling.** A range of piling techniques where restricted environments such as space constraints inside existing buildings, under bridges and in tunnels and basements, as well as rail environments along with weight restricted sites, adjacent retaining walls, very poor ground conditions at the surface.
- **Sectional flight auger (SFA).** Essential CFA, although due to height restrictions that may exist, the auger is split into sections that are added / removed during the augering and concreting operation. The installation of flight auger piles of up to 900mm diameter in 5m of headroom are possible with the SFA technique.
- **Sheet piling.** Interlocking steel sheet piles installed using various methods, driving with a large hammer, vibrated and pushed to depth or hydraulically pressed into position. The different methods are selected based on the length of the sheet piles required and the ground conditions.

Smartfoot: modular foundations speed up housing, especially on brownfield sits

Modular system offers major benefits of speed and accuracy for housebuilders and low-rise buildings

Smartfoot is Van Elle's proprietary precast modular foundation system and is manufactured in-house. It offers major benefits for housebuilders; it is a fast, accurate and sustainable solution for a wide range of applications, including low-rise residential, schools, care homes, hospitals and temporary buildings. It is especially suited for overcoming challenging ground conditions as material does not need to be removed from site to form the ground beams. Challenging sites are more likely in Labour's aim of building more on brownfield and 'grey belt' land.

As a modern method of construction process, the system is the only precast solution to incorporate a post tensioning solution, the off-site manufacturing enables just-in-time delivery, reducing labour costs and waste. A controlled manufacturing process and standardised design improves quality and offers an alternative to traditional trench-filled foundations. The system is used by all of the UK's top-10 housebuilders in various regions and is approved by the National House Building Council (NHBC) and Local Authority Building Control (LABC), the UK's leading providers of warranty and insurance for new homes

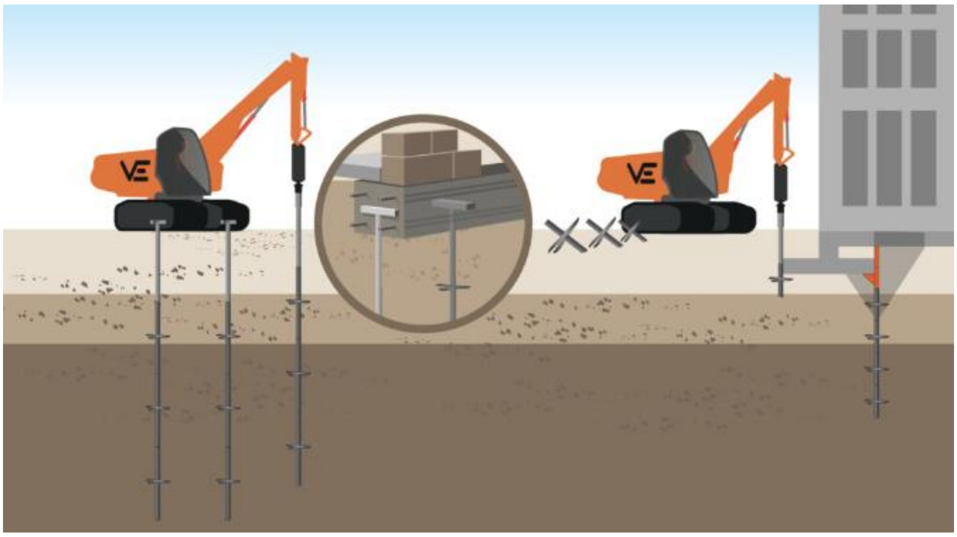
The in-house design team produces each bespoke design to meet the project requirements such as building size, loadings and ground conditions, and the beams are manufactured to suit the builder's programme and then installed by the company's highly skilled operatives.

Figure 20: Smartfoot foundations in place on housing development

Source: Company website

ScrewFast: for multiple infrastructure uses in challenging environments

Figure 21: ScrewFast piles being installed



Source: Company website

Myriad uses in infrastructure and commercial applications such as smart motorway, transmission towers for overhead powerlines or in water treatment works

A modern method of construction, the offsite fabrication of the helical piles and associated foundation grillage enables high-quality, just-in-time delivery and minimal site installation time and temporary works requirements, very useful in challenging and remote environments. Each grillage is designed and manufactured for the particular application, whether for gantries for a smart motorway, transmission towers for overhead powerlines or in water treatment works.

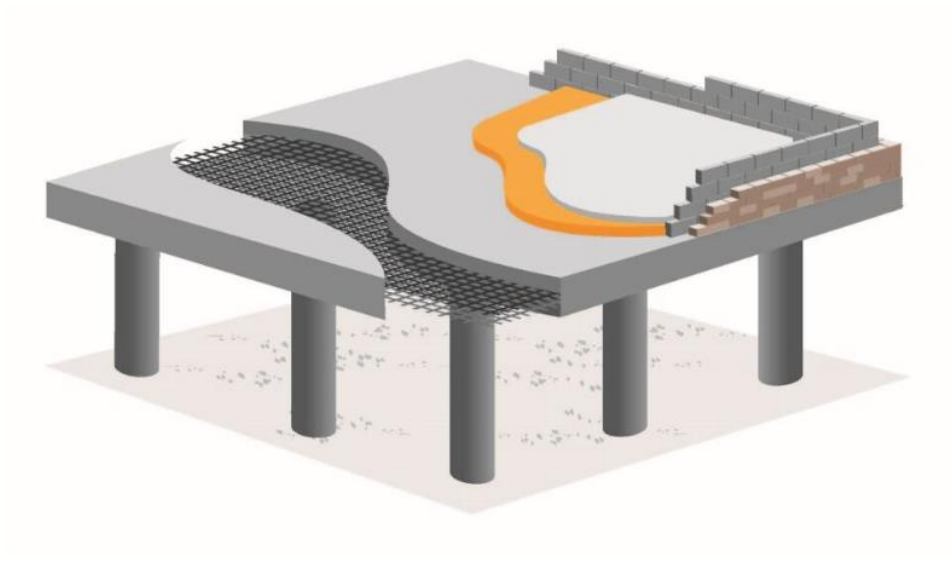
Helical piles are steel shafts with a series of low-pitched circular steel helical plates welded at strategic positions along the shaft. The plates give the foundation both tension and compression bearing capacity, which enables them to be used for a wide range of applications across many industries and sectors.

The piles can be connected in groups using a steel load transfer grillage and are screwed directly into the ground by machine-mounted hydraulic or electrically powered drilling equipment.

ScrewFast's GRIP pile technology is a hybrid micropile, used to transfer load through soft soil into shallow rock, or very hard soil. A GRIP pile consists of a shear tube made of steel CHS. which encases the pile through the soil and a rock socket, which anchors the pile into the rock. The rock anchor comprises a central reinforcing rod encased in grout with a sacrificial drill bit at the toe. The shear tube is installed first – usually by vibrohammering – and increases the piles resistance to lateral loads

Smartdeck

Figure 22: Smartdeck foundation system



Source: Company website

Recently launched complement to Smartfoot foundation beam system offers cost-effective decking

In April 2023, the group launched Smartdeck, an innovative piled raft foundation system that integrates a range of piling techniques delivering a finished foundation to the structural slab level. The system complements the Smartfoot precast foundation beam system and can be used alongside it on the same project to deliver cost-effective solutions to clients. First projects were delivered in the first half of FY24.

Acquisitions and other key events

Figure 23: Van Elle timeline

1984	Founded in Nottinghamshire by structural engineer Michael Ellis as an underpinning and mini-piling contractor.
1987	Hoopsafe System acquired, later developed to become Smartfoot precast concrete foundation beam system.
1990	First large CFA rig purchased, a Soilmec 505, growing into what is today the UK's largest CFA fleet.
1997	Acquisition of A&G Stevenson, starting the group's ground stabilisation operations, now employing over 40 personnel, with a fleet of 10 rigs.
2003	Management buyout with a proportion of the company bought by directors. Turnover £21m and 250 staff. Van Elle Geotechnical Services formed to focus on ground investigation and pile testing, later becoming Strata Geotechnics. First precast concrete factory opened in Nottinghamshire to manufacture Smartfoot foundation beams.
2005	First overseas project in a recycled plant in Holland.
2006	Van Elle transport established, today with a fleet of 20 specialist HGVs.
2012	Formation of Van Elle Rail and first Colmar road-rail vehicle (RRV) acquired. Today the group has 20 RRVs dedicated to piling and foundation activities.
2013	First large rotary piling rig acquired, a Soilmec R625.
2014	Current HQ site in Kirkby-in-Ashfield acquired, allowing expansion of precast concrete production and plant facilities.
2016	Owner Michael Ellis retires. Admitted to AIM with an initial market value of £80m.
2018	Mark Cutler joins as Chief Executive. Over 500 staff and £100m+ turnover. A period of Board and structural change followed, after a series of challenges.
2020	Graeme Campbell joins as CFO and Frank Nelson as Chairman. Specialist Ground Improvement team launched, focused on vibro stone columns and rigid inclusion techniques. Completion of the Midland Mainline electrification programme after construction of over 2,500 on-track foundations. Strata Geotechnics awarded a position on Highways England's national ground investigation framework.
2021	ScrewFast Foundations acquired and awarded a primary partner role on National Highways' Smart Motorway Alliance programme. Van Elle undertakes the UK's deepest CFA piles at Canary Wharf, London.
2023	Rock & Alluvium acquired providing an established presence in the South East.
2024	Settlement of legacy dispute. Strategic collaboration formed with M&J Evans, the largest groundworker in the housing sector. Capacity expanded by 30% at Kirkby: the expanded factory is capable of 24-hour manufacturing, utilises low carbon blended concrete mixes and sits alongside the Smartfoot precast beam factory.

Source: Company data, Progressive Equity Research

Financial Summary: Van Elle

Year end: April (£m unless shown)

PROFIT & LOSS	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Revenue	148.7	139.5	156.2	166.7	178.6
Adj EBITDA	11.9	13.1	14.2	15.7	17.4
Adj EBIT	5.8	5.5	6.5	7.8	9.2
Reported PBT	5.4	5.6	6.1	7.4	8.8
Fully Adj PBT, pre-goodwill, pre-goodwill	5.4	5.3	6.1	7.4	8.8
NOPAT	5.1	4.0	4.8	5.8	6.9
Reported EPS (p)	4.4	3.9	4.3	5.2	6.2
Fully Adj EPS (p)	4.5	3.6	4.3	5.2	6.2
Dividend per share (p)	1.2	1.2	1.3	1.4	1.8
CASH FLOW & BALANCE SHEET	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Operating cash flow	10.0	8.7	13.2	14.2	15.4
Free Cash flow	4.7	5.2	4.3	4.5	5.0
FCF per share (p)	4.4	4.9	4.0	4.2	4.6
Acquisitions	(0.1)	(2.5)	0.0	0.0	0.0
Disposals	N/A	N/A	N/A	N/A	N/A
Shares issued	0.0	0.0	0.0	0.0	0.0
Net cash flow	1.9	(2.9)	3.4	3.1	3.5
Overdrafts / borrowings	8.5	27.9	30.6	32.3	34.2
Cash & equivalents	8.9	6.0	9.4	12.5	16.0
Net (Debt)/Cash, pre-IFRS 16	8.9	6.0	9.4	12.5	16.0
NAV AND RETURNS	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Net asset value	50.0	52.7	56.4	60.6	65.7
NAV/share (p)	46.9	49.4	52.9	56.8	61.6
Net Tangible Asset Value	46.3	48.3	52.0	56.1	61.3
NTAV/share (p)	43.4	45.3	48.7	52.6	57.4
Average equity	48.3	51.4	54.6	58.5	63.1
Post-tax ROE (%)	9.7%	8.2%	8.3%	9.4%	10.5%
METRICS	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Revenue growth	19.1%	(6.2%)	12.0%	6.7%	7.1%
Adj EBITDA growth	22.0%	10.3%	8.1%	10.8%	10.9%
Adj EBIT growth	32.2%	(5.3%)	18.0%	20.1%	19.1%
Adj PBT growth	46.9%	(2.5%)	14.4%	21.5%	20.1%
Adj EPS growth	56.9%	(20.5%)	19.0%	21.5%	20.1%
Dividend growth	19.1%	0.0%	8.3%	7.7%	28.6%
Adj EBIT margins	3.9%	3.9%	4.1%	4.7%	5.2%
VALUATION	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EV/Sales (x)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	2.8	2.5	2.4	2.1	1.9
EV/NOPAT (x)	6.5	8.4	6.9	5.8	4.8
PER (x)	8.2	10.3	8.7	7.2	6.0
Dividend yield	3.2%	3.2%	3.5%	3.8%	4.9%
FCF yield	11.9%	13.3%	10.8%	11.3%	12.6%

Source: Company information and Progressive Equity Research estimates

26 July 2024

Disclaimers and Disclosures

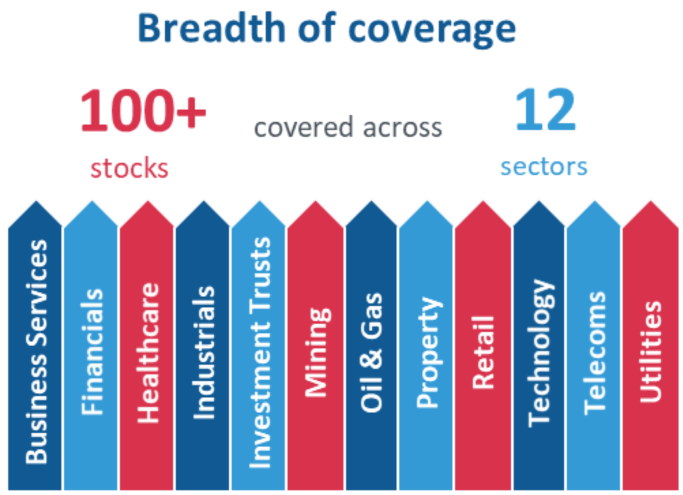
 Progressive's research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

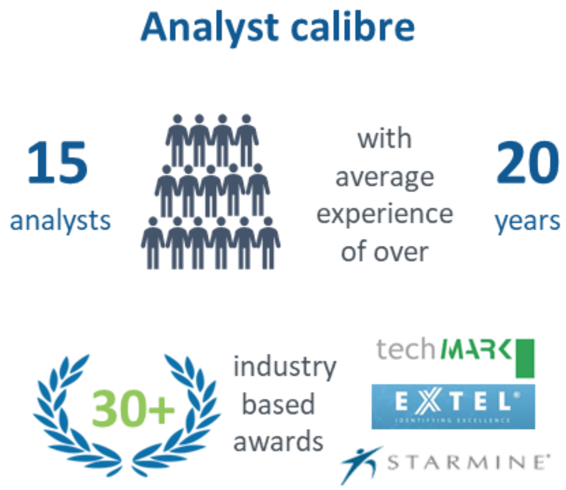
This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL's directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.





To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com