



# Vistry Group

## LONG Recommendation

Current Share Price: 1,249 GBX

Target Share Price: 2,502 GBX

**Upside: 107.7% Annual Return: 24.3%**

Date: 07/06-2024

By: Svante Jansson, Samuel Ullmann & Fredrik Lyrvall

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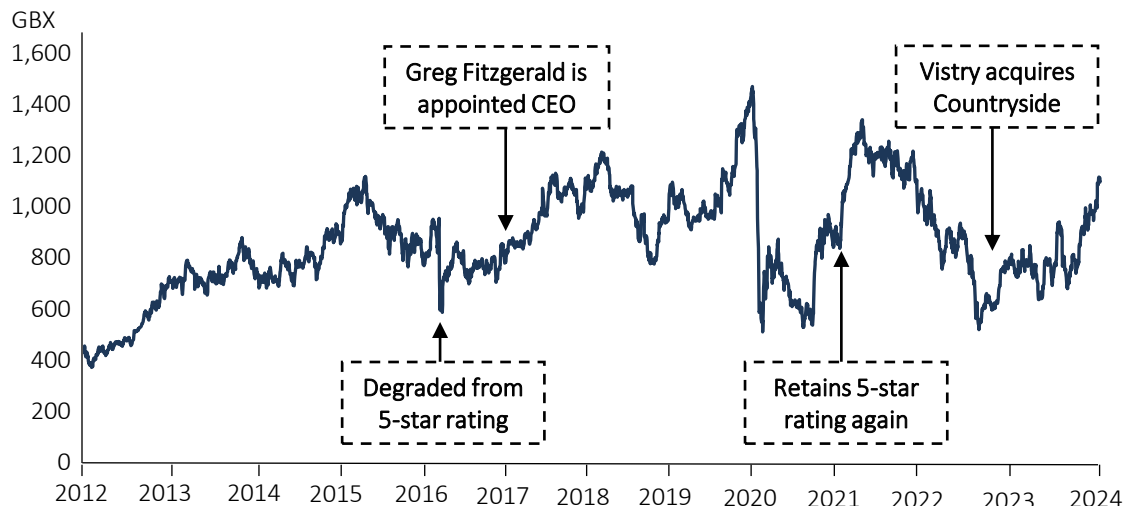
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### Share Price Performance



### Thesis Summary

1

Vistry's transition from a traditional housebuilder to a "Partnerships" model will **fundamentally transform** the economics of the business, with ROIC going from 20.0% in 2023A to 43.5% in 2026E. The transition is also set to release **900 MGBP** until 2026E, which, combined with earnings, will result in **Vistry being able to distribute over 1 BnGBP to shareholders**.

2

Vistry is currently the only large provider of Partnership projects that can deliver on large, complex schemes. **Competitors have failed** when trying to enter the Partnerships delivery market, while finished projects also facilitate relationships for future projects, showcasing Vistry's large moat and competitive advantages.

3

The UK is currently facing the highest supply and demand discrepancy in housing **since WW2**. The UK government goal for **completed net dwellings per annum is set to 300,000**, whereas in **2022A, 234,000 net dwellings were completed**. Therefore, there is a high underlying demand for The Company to continue and scale up completions.

### Business Overview

- Vistry Group or ("the Company") is a UK-based housebuilder and a **leading provider of affordable mixed-tenure homes**. The Company operates under four subsidiaries: Bovis Homes, Linden Homes, Vistry, and Countryside.
- Vistry is divided into two different segments: traditional housebuilding and Partnerships. **Per H2 2023A, the Company announced to focus solely on the Partnership model**, meaning Bovis- and Linden Homes within the traditional housebuilder segment is to be combined with the Partnerships segment.
- Vistry Group **operates on a national level** with 27 business units located across all of the UK.

### Financials

Share Price:	1,288 GBX
MCAP:	4,388 MGBP
EV:	4,575 MGBP
LTM EV/EBIT:	14.0x
LTM ROIC:	20.0%
LTM P/E:	19.2x
LTM P/B:	1.3x

### Insider Ownership/ Main Shareholders

#### Insider Ownership

Gregory Paul Fitzgerald (CEO)	0.2%
Independent board members	0.8%

#### Main Shareholders

Browning West LP	8.7%
Abrams Capital Management LLC	8.6%

### What is the Opportunity?

- Per H2 2022A, Vistry Group acquired Countryside, the biggest UK housebuilder within Partnerships. There are high levels of scepticism about how The Company will be able to integrate Countryside.
- Sell-side analysts also question the ability of management to execute the transition into a full-on Partnerships model. With management's proven track record, we see this as a small risk, creating a tremendous potential upside compared to the downside risk.
- The Company is still valued as a housebuilder on P/B by sell-side; while a multiple on earnings is more appropriate given the transition to the new capital light business model.
- The Company has a complex business model while also undergoing an unprecedented transition into a seemingly "hard to execute" model. In addition, housebuilders have a depressed view in investor's minds due to macroeconomic headwinds. We believe the market undervalues the potential in the case by being too short-term and misunderstanding the capital-lightness of the business model.

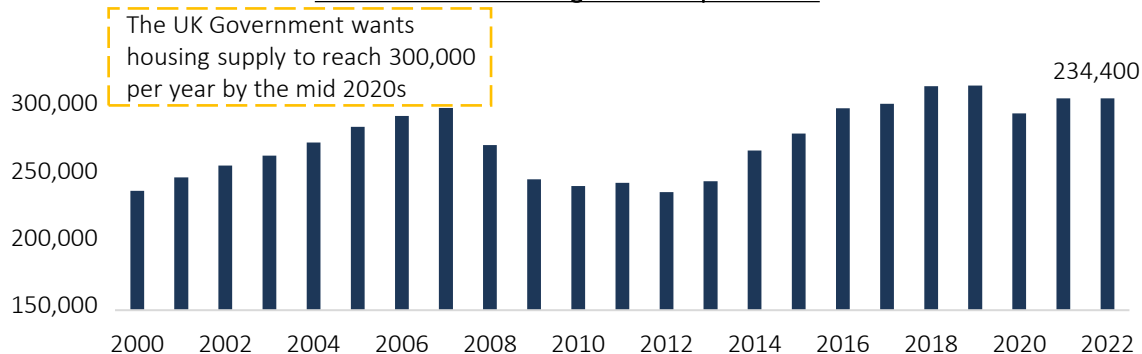


## The Highest Housing Discrepancy since WWII

### Current Housing Situation in the UK

- The UK is undergoing the largest housing shortage of **4.75m homes** since the Second World War
- The affordable housing situation is even worse, with average housing prices increasing from 3.5 times annual average salaries to 8.3 times, with **1.2 million** households waiting for affordable housing.
- With a shortfall of 100,000 homes yearly, there are **17%** fewer affordable houses today compared to a decade ago.

### Additions of Net Dwellings in the UK per Annum



### Homes England

- Homes England** is the government's housing and regeneration agency focusing on delivering affordable housing by forming and financing Partnerships between the public and private sectors.
- Since 2018, Homes England's primary goal has been to support the building of new homes and has supported the development of **152,700** new homes between 2018 and 2022.
- With an increased budget, further support for development is set to increase in the upcoming years.

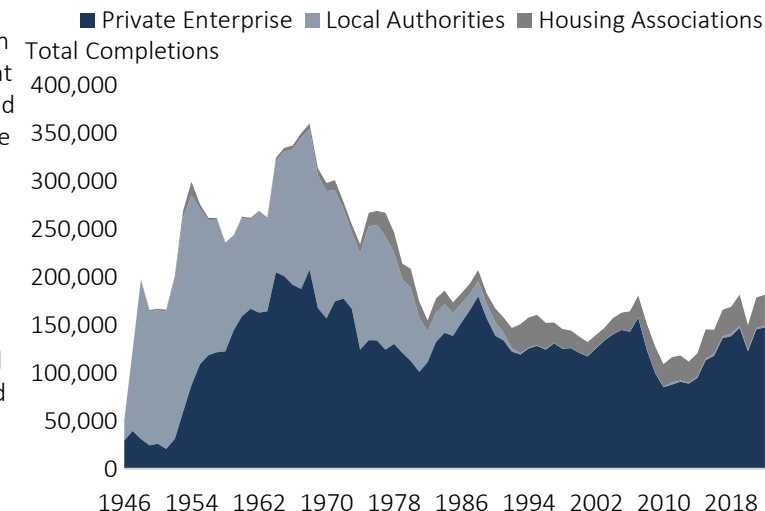
MGBP	Homes England Budget					Total
	2023-24	2024-25	2025-26	2026-27	2027-28	
Investments	497	915	968	947	920	4,247
Housing Infrastructure Grants	369	678	628	346	225	2,246
Development	241	352	304	282	310	1,489
Affordable Homes	2,022	2,203	1,500	0	0	5,725
Help to Buy	161	108	8	10	10	297
Other	159	261	299	377	438	1,534
Brownfield Infrastructure & Land	57	183	329	218	93	880
<b>Total</b>	<b>3,506</b>	<b>4,700</b>	<b>4,036</b>	<b>2,180</b>	<b>1,996</b>	<b>16,418</b>

Sources: House of Commons Library, Homes England, Heriot-Watt University, Politico

### The Discretionary Planning Systems and The Housing Act of 1980 are to Blame

- The Town and Country Planning Act of 1947** requires that all applications for planning permission be decided in accordance with development plans, which are **indicative** and decisions on development are made at the discretion of planning authorities.
- The Housing Act of 1980** gave council house tenants the right to buy their homes at **35-50%** discounted prices to support residualisation. Local council development stopped overnight since the council houses would be sold at a discount.

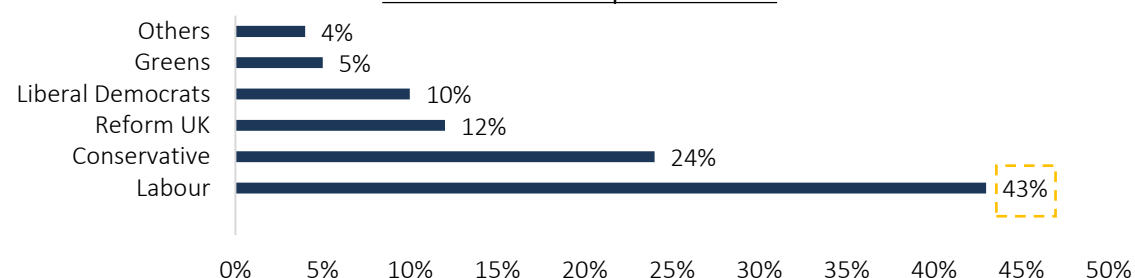
### Net Dwellings by Type of Developer



### Future Outlook of the UK housing crisis

- Since 2019, the government has had the goal of building **300,000** new homes per annum.
- According to Bramley (a professor in UK housing), **340,000** new houses per annum are needed to meet the backlog, of which **90,000** would have to be social housebuilding.
- Labour** has set a target to build 1,500,000 homes in five years if elected, of which social housing will be of crucial importance

### 2024 UK Election Poll per 2024-22-03



## Vistry, the Housebuilder

### Vistry's History and Acquisitions

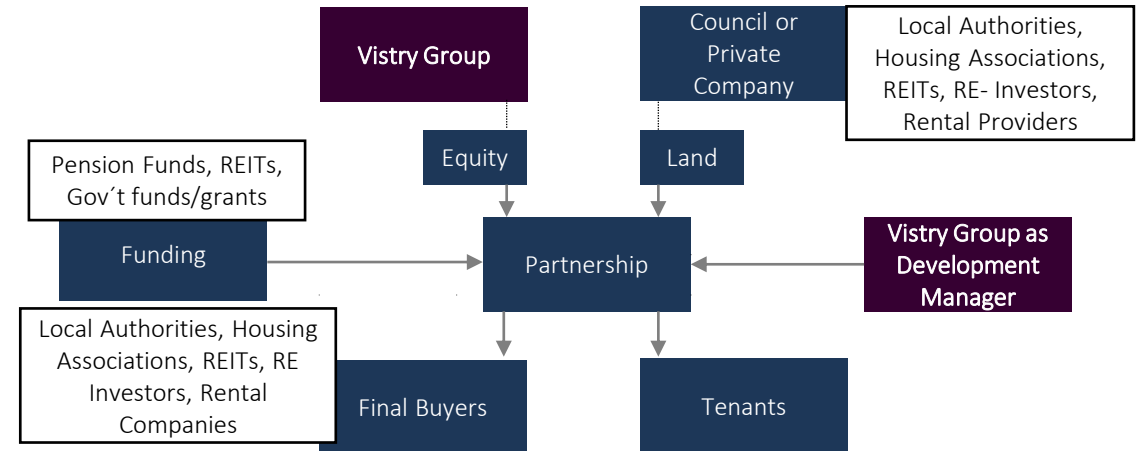
- Vistry Group was formed in 2020 but was **initially formed in 1885** under the name C.W. Bovis & Co.
- In 1965, **Bovis Homes** was formed as a separate business unit focusing on the private housing market. Eight years later, in 1973, with 2,700 completions, Bovis Homes became **the second-largest housebuilder in the UK by volume**.
- One year later, in 1974, Bovis Homes was struck by the banking crisis and was **rescued by P&O**.
- In **1997**, Bovis Homes was de-merged from P&O and **listed on the London Stock Exchange** under the name Bovis Homes Group PLC.
- Bovis Homes **acquired Elite Homes Group** in 2007.
- In 2020, **Vistry Group PLC was formed** after acquiring Linden Homes and Galliford Try's Partnerships and Regeneration business (now Vistry Partnerships).
- Vistry acquires Countryside in 2022** to strengthen its position within Partnerships. In late 2023, Vistry Group announced the strategy of **transitioning to a full-on Partnership housebuilder**.

### Traditional Housebuilders

- Step 1.** The housebuilder **invest capital** to acquire land for future construction
- Step 2.** Planning permission is submitted, and **approval** takes on average **12 months**
- Step 3.** Construction begins
- Step 3.1.** The Construction process is divided into several steps
- Step 4.** The finished building is sold to a private company, REIT or local authority
- Step 5.** With cash from the sold buildings, capital can be invested into a new project

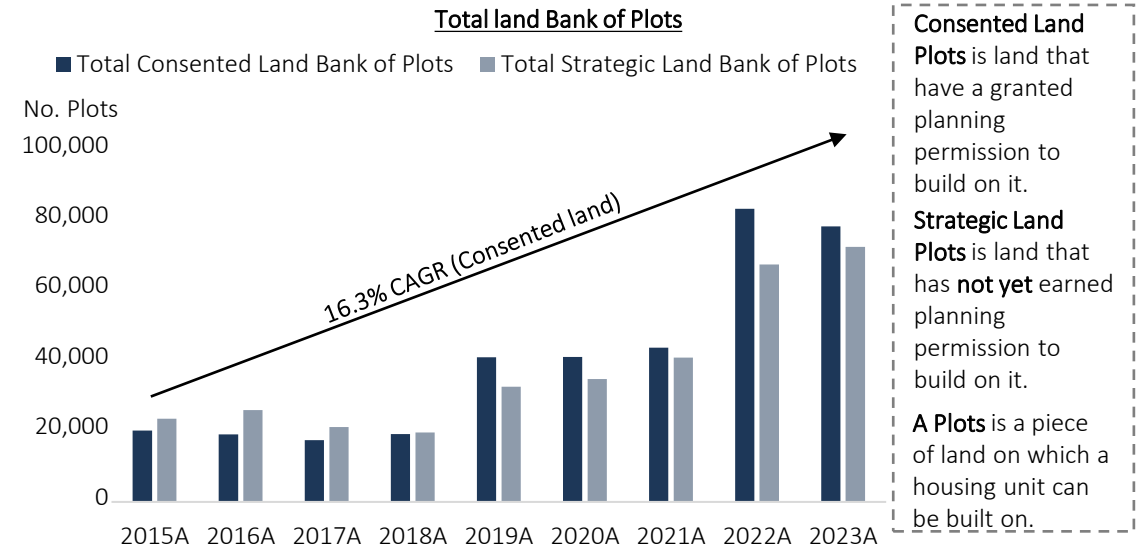
**Traditional housebuilders** must invest large amounts of capital to build new buildings and will, after completion, sell the buildings.

### The Partnership Model for Housebuilding



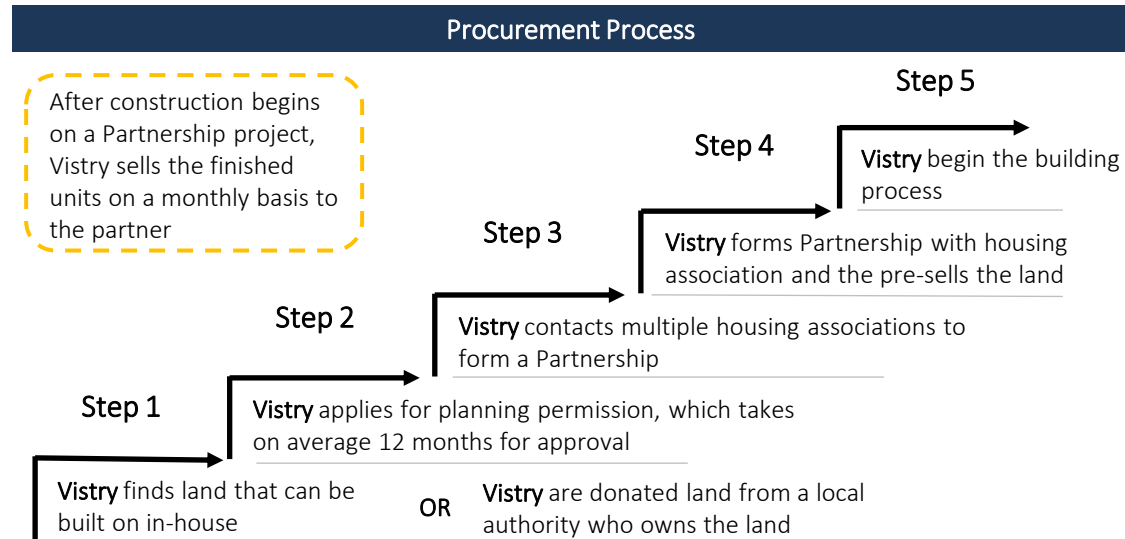
- The **Partnership Model** enables housebuilders to lower the amount of invested capital as **the cash to buy land is funded by the partners**. Furthermore, **65% of tenures are sold in advance**.

### The Land Bank



Sources: Housing Partnerships – London First, The Company, Bloomberg, Grant Thornton

## Partners with a Common Goal

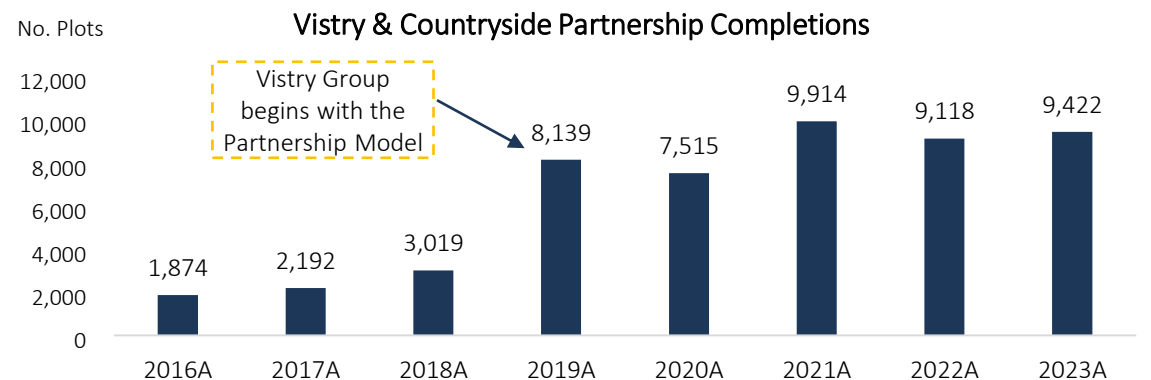


- ### Pre-selling
- Vistry Group is, through the Partnership model, **able to pre-sell houses** to partners.
  - On average, Vistry has **pre-sold 75 – 80% of their Partnership projects**. This leads to cash injections before the housing is completed, which means **less capital is invested** compared to the traditional housebuilding model.
  - This strategy is also favorable to Vistry’s partners as they can **buy the housing for a discount** compared to the open market price. The average selling price depends on the location, whereas **projects in London are more expensive** than in more rural parts of the UK.



- ### Local Authorities, Registered Providers and Private Rented Sectors
- Local Authorities** – These are the local governments in the **317 districts** of the UK. Local Authorities own land in their district, and when partnering with Vistry, the land is donated. The development land can be brownfield sites or buildings that need regenerative construction for affordable housing.
  - Registered Providers** – Includes registered social landlords and housing associations. Vistry partners with RPs when planning permission is secured for a land site where the RPs pre-buy the planned housing on the land. Housing associations primarily rent affordable housing, which is Vistry’s main housing segment.
  - Private Rented Sectors** – Defined as a classification of housing; Property owned by a landlord and leased to a tenant. The landlord can be an individual, company, or institutional investor and partner with Vistry through a joint venture Partnership for shared invested capital and profit.
- The **Local Authorities, Registered Providers, and the Private Rented Sector** have a significant part in the Partnership model to work, while at the same time benefitting from it together with Vistry Group and the people in need of housing in the UK.

- ### The Building Process
- Vistry Group has **three factories** under the domain Vistry Works, producing timber frame panels for the building of houses. Countryside shut down its modular unit factory in 2022A.
  - When the building process begins, Vistry Group **uses subcontractors** for the construction work.



Sources: The Company, Local Government Association

## Enabling Higher ROIC through Capital Light Housebuilding

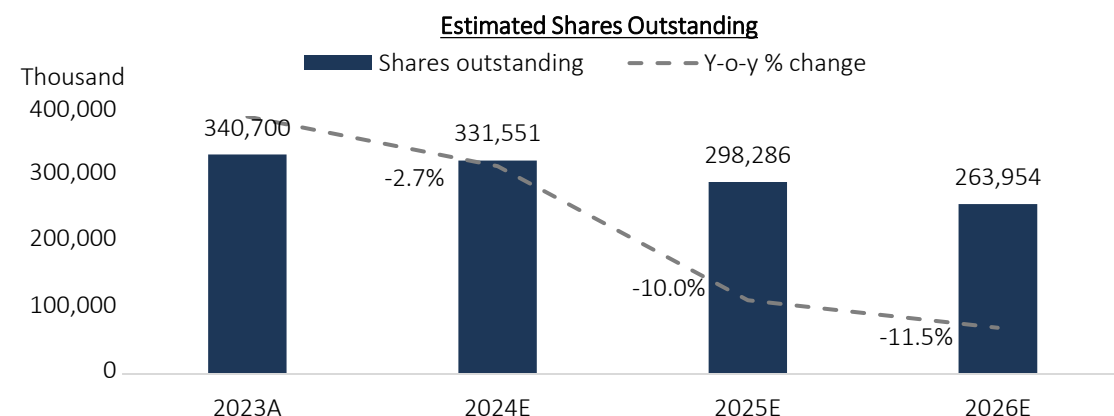
### The Transition of Business Model

Vistry	2023A	2024A	2025A	2026A
<b>Housebuilder</b>				
Cosented Plots	30,200	20,200	10,200	200
<b>Partnerships</b>				
Consented Plots	46,234	56,234	66,234	76,234

- The consented land within **the housebuilder and Partnership** segments has the purpose of **delivering mixed tenure**. During the construction phase, **the building is done the same way**, through subcontractors, leading to an easy switching process of the plots. The usage of the Partnership model, therefore, decreases the invested capital in land
- Currently, Vistry Group has a large consented land bank within the traditional housebuilder segment. As the Company transitions towards the Partnership model, these plots are expected to transfer over to be used via the Partnership model.

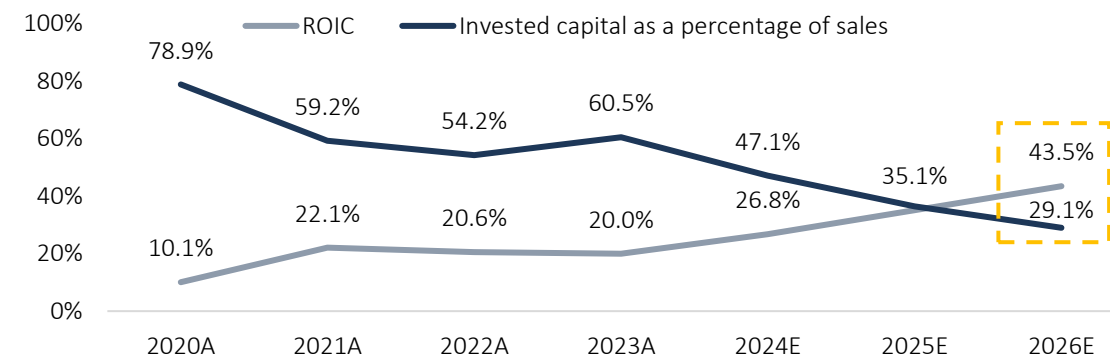
### The Release of 1Bn GBP of Capital from the Transition

- The transition to only using the Partnership model is expected to lead to a release of capital from the land bank of **900 mGBP for the Company to distribute to shareholders** over the next three years.



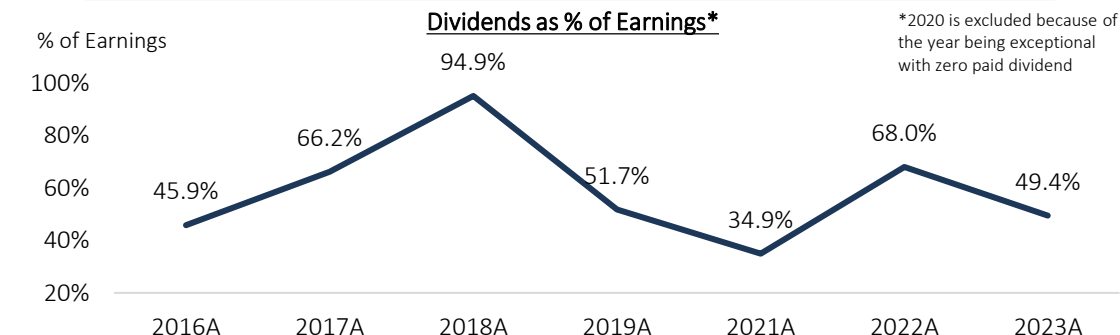
### Higher Returns on Invested Capital

- The transition to only using the Partnership model is expected to lead to a release of capital from the land bank of **900 mGBP for the Company to distribute to shareholders** over the next three years.
- As the inventory decreases (the land bank) when development land is donated, or the land is pre-bought, invested capital decreases significantly leading to a higher **ROIC of 43.5%** in 2026E



### Historical Proof of Shareholder Value Creation

- Vistry has a solid historical reference from paying dividends to the shareholder. From 2016 until 2023, Vistry has, on average, distributed 59% of the net income for dividend.
- Another vital sign that the board and management work towards shareholder value creation is that the release of capital will not be used to “build an empire” but rather to increase shareholder value.



Sources: The Company, Analyst Estimates



## Strong Historical Know-how

### Vistry is the Undoubted leader within Partnerships

- Vistry is currently the only large provider of Partnership projects who can deliver on large, complex schemes, which is confirmed by partners to Vistry:

**Quotation from former Head of Partnerships at Clarion Housing Association:**

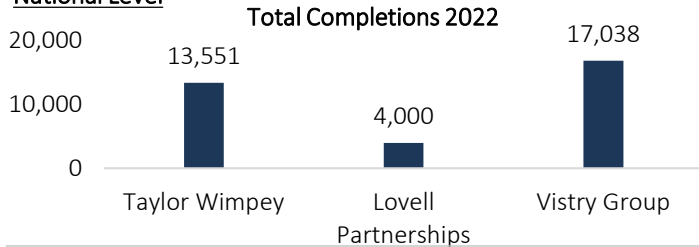
“So, on a national level, there actually aren't that many that operate literally nationally. Countryside are obviously one, and Vistry are another....So, they're a national operator. In terms of other national operators, **it's difficult, there actually aren't that many.**”

**Quotation from former Head of Partnerships at Clarion Housing Association:**

“Whereas with the Partnerships model, with the clue being in the title, it is more of a partnership, and you want to have a bit more control over those time frames and what the end product looks like. And for that, you want an experience provider, **which is why you would always go to the Countryside or the Vistry**, particularly on bigger, more complex schemes than you would to maybe a smaller start-up or regional provider, because they've got more experience.”

### Competitors in the Partnership Segment

**National Level**

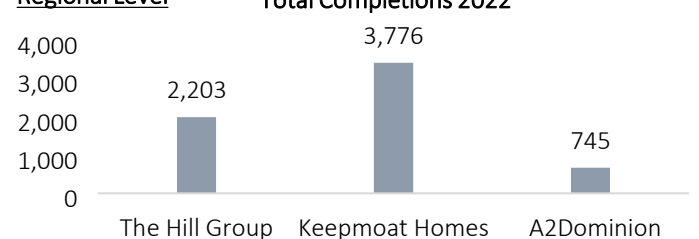


**Taylor Wimpey** – Operates across all regions in the UK.

**Lovell Partnerships** – Operates across all UK regions.

**Vistry Group** – All UK regions.

**Regional Level**



**The Hill Group** – London, the South, East and West UK.

**Keepmoat Homes** – Scotland, Northeast and Yorkshire East.

**A2dominion** – London and Southern UK.

Sources: Taylor Wimpey, Lovell Partnerships, The Company, The Hill Group, Keepmoat Homes, A2dominion, Tegus Client

### Competitors have Failed with the Partnership Model

- Competitors have **failed** when trying to enter the Partnerships delivery market, as seen through Barratt’s negotiations with Enfield Council regarding the redevelopment of the Meridian Water project falling through in 2018.

**Quote from the Mayor of London, Sadiq Khan**

“Barratt is a classic example of how not to do estate regeneration”

- Another example of a competitor that have failed with the Partnership model is the housebuilder Redrow which pulled out of a regeneration of Alton Estate in Roehampton.

**Quote from the Council Leader Ravi Govindia**

“Deeply disappointing that Redrow feels unable to progress... As a result of this, the council has taken the difficult but pragmatic decision that it is better to look at alternative options rather than try and proceed with an unwilling partner”

- The Partnership model is not an easy business model, and it takes years to master, which is something that Vistry Group has proven over many years.**

### Competitive Position within the Partnership Model Housebuilding Market

- Done projects facilities more projects through the creation of relationships between HA, LA, PRs, and Vistry
- The relationships Vistry has established with housing providers, combined with low trust for competitors, **creates a moat for Vistry.**

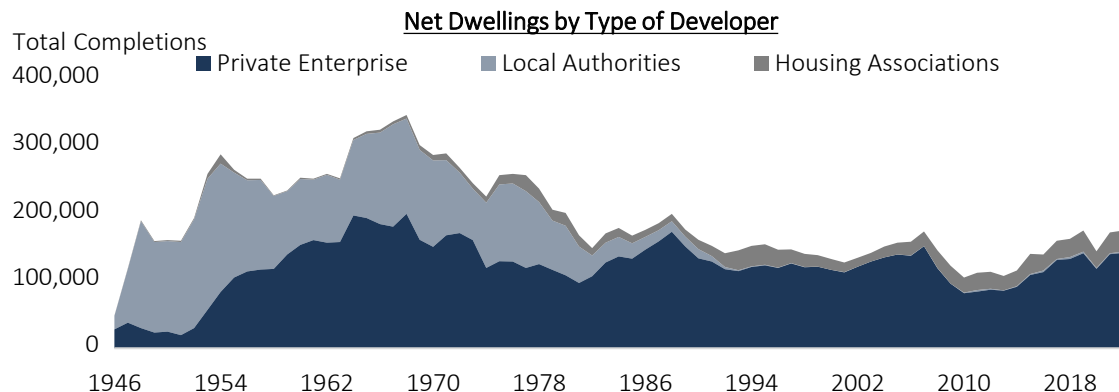




## Undersupplied Housing Market Creates a Floor for Revenue Growth

### The UK is Experiencing The Highest Housing Discrepancy since WWII

- Because of the reforms made in the 1980s, the net dwellings built by local authorities and Housing associations **collapsed**. Notably, the Housing Act is still in place today, meaning that the UK housing market **depends on private enterprises such as Vistry Group** to continue and distribute housing.



### By partisan Support for Increased Housing Development

- No matter who wins** the upcoming election, expected to take place in the second half of 2024, **increased government spending on housing** is expected by partisan support.

#### Labour Deputy Leader Angela Rayner

“The next labour government will deliver the biggest boost to affordable, social and council housing for a generation”



#### Conservative Minister of State of Housing, Planning and Building Safety

“We are going to get a million homes by the end of this parliament”

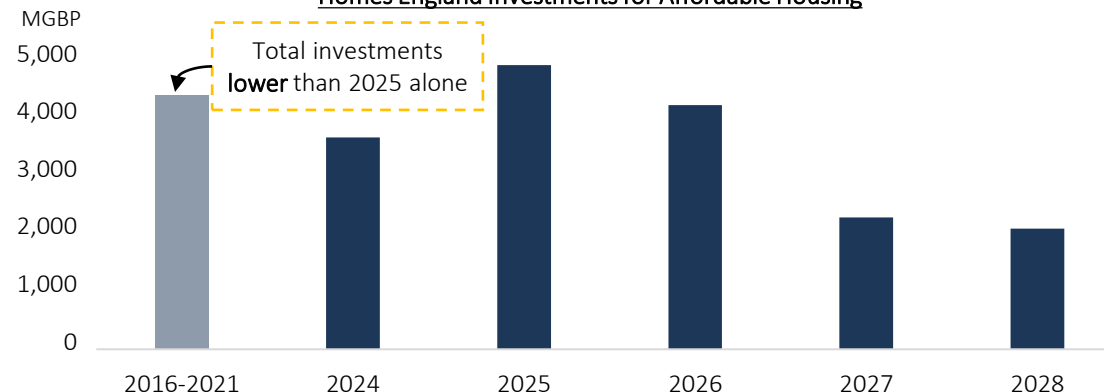


- Both of the largest UK parties**, Labour and Conservative (Tories), **agree on the need for an increased housing supply**, especially affordable housing. Vistry Group is well positioned to deliver homes to achieve this target

### Increased Funding for Housebuilding

- With increasing funding for the private rent sector and housing associations for affordable housing, the Partnership business model for Vistry can meet the demand and capitalize on the increase in spending.

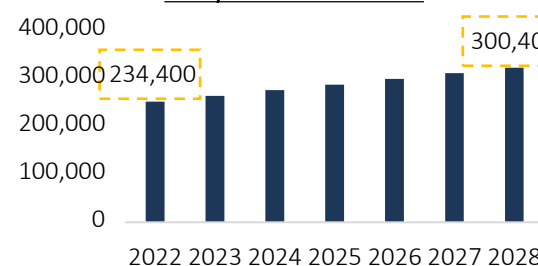
#### Homes England Investments for Affordable Housing



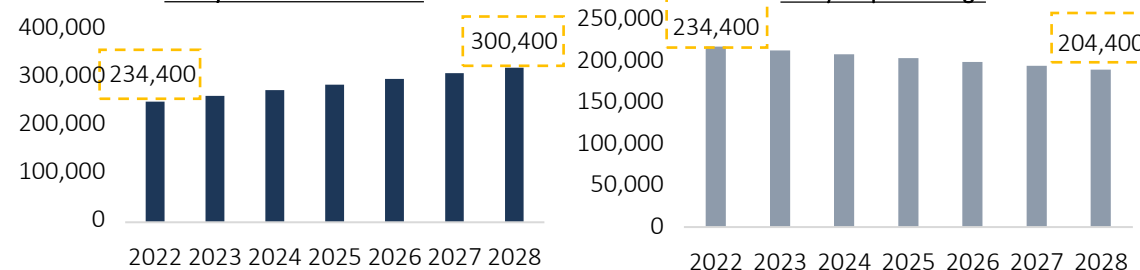
### Vistry Has to Keep Building

- In 2022, Vistry Group completed a total of 17,038 dwellings, representing **7.3% of the total net additional dwellings in the UK**.
- To reach the goal of 300,000 completions, UK housebuilders would have to increase total completions by **11,000 annually until 2028**. The **average** increase has been **4,665** since the year 2000.
- If we assume that Vistry ends its construction, the other housebuilders will have to increase their total completions by **27,000 annually**. Only one time, in 2014, has total completions increased this much (34,090), implying the importance of Vistry to continue and build housing.

#### Vistry Continues to Build



#### Vistry Stops Building\*



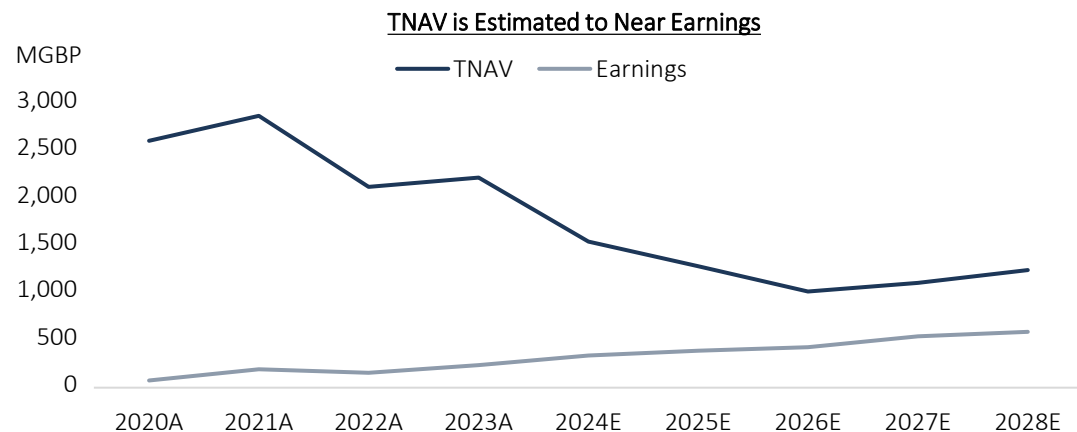
\*Assuming 11 000 completions per year without Vistry Group

Sources: House of Commons Library, Homes England, The Company, Analyst Estimates, UK Parliaments, The Labour Party

## Vistry Provides a Substantial Upside no Matter the Way you Cut it

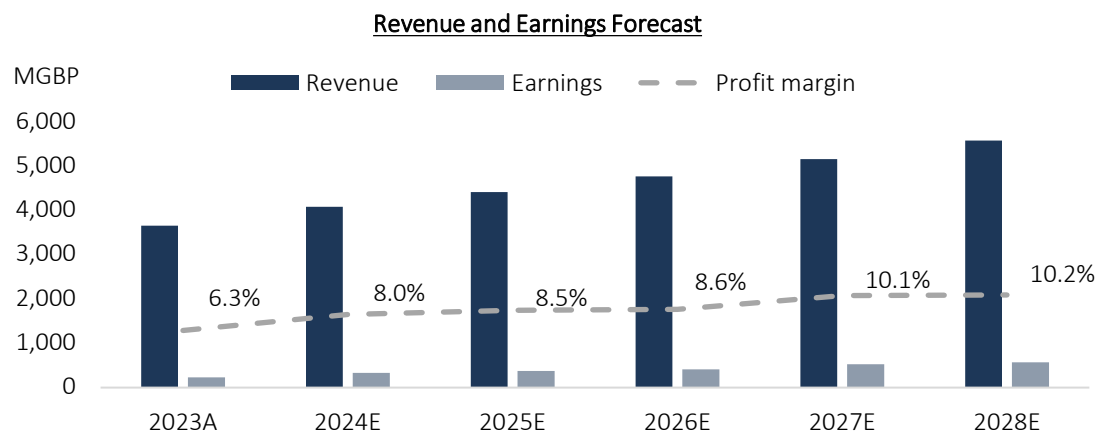
### Vistry should be valued on earnings instead of book value

- Vistry's business model will require less capital going forward and should therefore be valued on an earnings multiple instead of a P/B-multiple.



### Valuation on Earnings

- With a target multiple of 15x 2028 estimated earnings, Vistry provides a potential upside, including dividends, of 221.0% during the upcoming five years, or an ARR of 27.8%.



Sources: Analyst Estimates, Bloomberg, The Company

### Valuation on Cash Flows

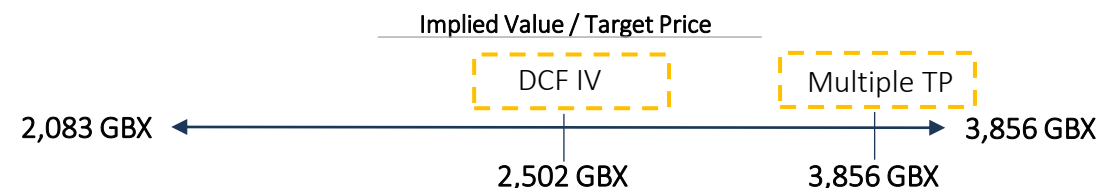
- Based on a DCF with an exit-multiple of 14.3x FCFE 2028, Vistry provides a potential upside of 105.8% or a five-year ARR of 24.3%.
- With an exit-multiple of 12.3x FCFE and a CoE of 12%, Vistry still provides a potential upside of 71.4% or a five-year ARR of 19.3%.

COE	Exit Multiple					
2,502	12.3	13.3	14.3	15.3	16.3	
12.0%	2,083	2,200	2,316	2,433	2,549	
11.0%	2,163	2,285	2,407	2,528	2,650	
10.0%	2,248	2,375	2,502	2,629	2,756	
9.0%	2,336	2,469	2,602	2,734	2,867	
8.0%	2,430	2,568	2,707	2,845	2,984	

### Summary: Valuation

- Different valuation methods provides a five year rate of return between 24.3% and 27.8%.
- Vistry has historically distributed earnings through dividends but is currently opting for buybacks due to the discrepancy between share price and intrinsic value per share.

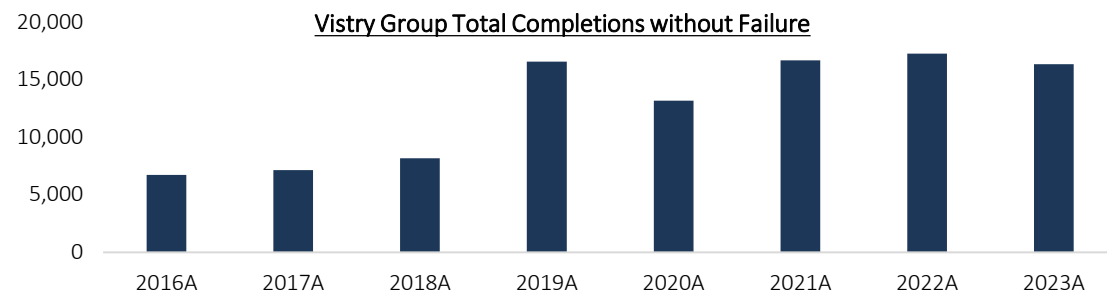
“The form of that distribution will be determined based on the prevailing conditions at the time. So, we'll be looking at, among other things, share price at the time and the Board's view of valuation to determine whether we go down the dividends routes or the buyback routes. We're not writing off either route and we may have some blend of it. However, as we'll come to in a second, we have concluded that at the moment share buybacks makes sense **given the undervaluation of the business.**” - CFO of Vistry, Tim Taylor



## Limited Downside and Favourable Catalysts

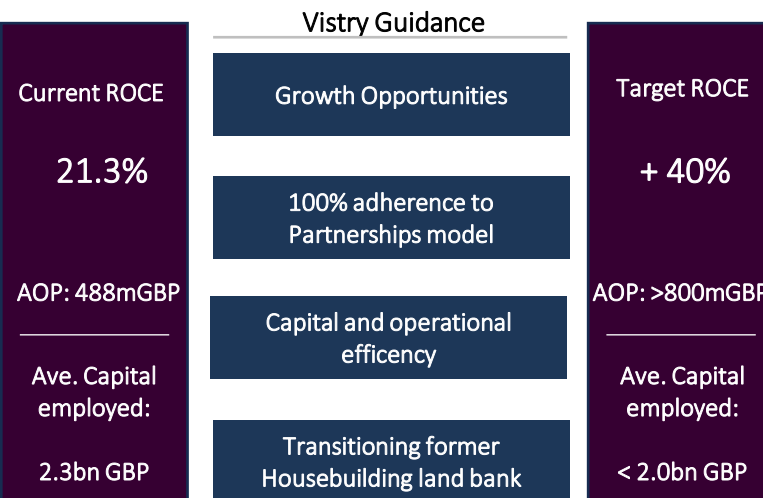
### Risk: Execution Issues Related to the Construction

- When building houses, a risk is that the building process leads to a fatal death or that the houses are not adequately built to last, which could damage the Company's reputation. This is a risk for Vistry Group, however, **out of Vistry Group's 100,687 completions from 2016, no case of execution issue has occurred.**
- Furthermore, **the acquired Countryside has had no execution issues during the same period.** The only failed project was Countryside's modular unit factory, which only affected the company and not the reputation.



### Catalyst: Proven Transition Process

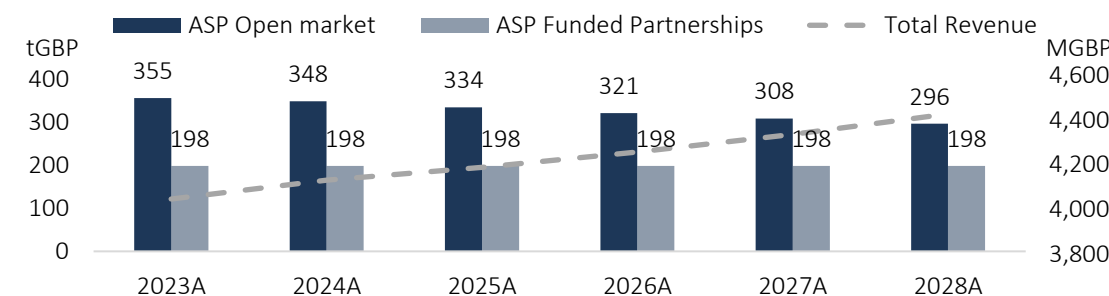
- Currently, there is much uncertainty regarding the probability of successfully transitioning into a full-on Partnerships model, which dampens The Company's valuation.
- If Vistry continues to show signs of a successful transition by reporting an increasing ROCE towards **The Company's target of 40%**, investors will gain confidence in the success of the transition.



Sources: Analyst Estimates, The Company, Countryside

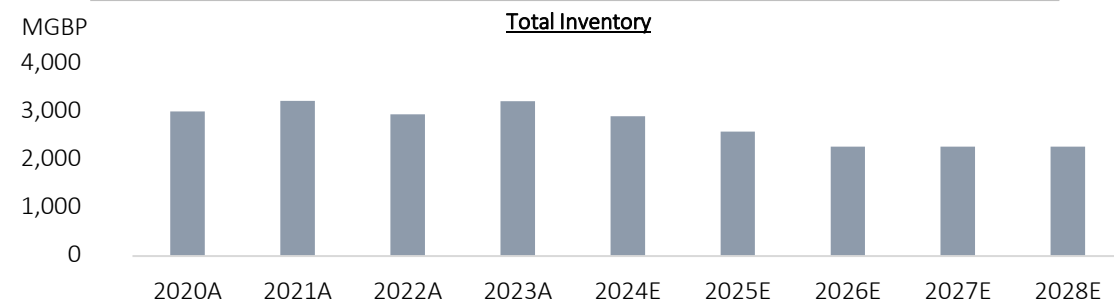
### Risk: Step-Down in the UK Housing Market

- When considering housebuilders, the underlying housing prices concern investors. This means that housebuilders would be severely affected if there were a significant decline in UK house prices. This is true; **However, only 33% of Vistry Group's revenue comes from open-market sales.** The remaining 67% of revenue is partner-funded, which Vistry pre-sells at a fixed price.
- Assuming** that open market completions remain at 2023 levels while the average selling price (ASP) declines **by 2% annually until 2028.** And the funded Partnership ASP remains at 2023 levels while total completions increase by 6% from non-cyclical partners demand, **total revenue would still grow with a CAGR of 1.6%.**



### Catalysts: Lower Inventory Levels from the Transition

- With the transformation to a sole Partnership model, **inventory levels are expected to decrease** because of lower capital invested in land for development. Furthermore, local authorities are prone to partner with Vistry Group and **donate development land** because of Vistry's focus on delivering mixed tenure with affordable housing, which local authorities need.
- Currently, the inventory levels are at an all-time high, which indicates a clear catalyst when the inventory levels **start to decrease** as a component of more pre-selling.



## Highly Experienced Board and Management



**Greg Fitzgerald – CEO and Executive Chairman**

Fitzgerald first served as Managing Director at Midas Homes until 1997, when Galliford Try PLC acquired them. Fitzgerald then served as Managing Director at Galliford Try PLC until 2003 before becoming CEO from 2005 to 2015. After Vistry's acquisition of Galliford Try's partnerships and regeneration division, Fitzgerald was appointed CEO of Vistry Group. Later, in 2024, Fitzgerald was also appointed Executive Chairman. At Galliford Try, Fitzgerald transformed the company from a building contractor into a highly respected housebuilder. The experience is, therefore, of the highest quality, and he is highly respected within the industry, with over 30 years of knowledge at Vistry's disposal.



**Stephen Teagle – Chief Executive Partnership**

Teagle, Chief Executive of the partnerships division within Vistry Group, responsible for a large part in the transition to solely a partnership business. Teagle joined Galliford Try in 2006 and was appointed Chief Executive of the partnerships business in 2016. Furthermore, Teagle is also Chair of the Housing Forum, a cross-sector membership that collaborates to promote improved supply and better quality homes. Teagle has over 25 years of experience working within companies focused on the partnership model of housebuilding and is an essential asset for Vistry Group.



**Tim Lawlor – Chief Financial Officer**

Lawlor joined Vistry Group after the acquisition of Countryside in 2022, where he also served as CFO. Before joining Countryside Lawlor served as CFO at Wincanton PLC, the largest third-party logistic company in the UK. Also, working as CFO at other listed companies such as Serco and Sea Container. Furthermore, Lawlor holds an MBA from Cambridge University and later worked at Deloitte in the UK and the US. Holding concrete knowledge within finance, taxes, and treasury for Vistry Group.



**Paul Whetsell – Independent Non-Executive Chairman**

Paul Whetsell has been with Vistry Group since 2023 as an Independent Non-Executive Director. Whetsell served on the board of the leading American housebuilder NVR from 2007 to 2018, a period when NVR delivered outstanding shareholder returns. Whetsell has 45 years of experience within the hospitality sector, currently serving as CEO at CapStar Hotels, which he founded in 1987. The profound knowledge of serving within one of America's largest housebuilders is a positive factor in Vistry Group's continuing development in the future.