

# SPRINGFIELD PROPERTIES

## HOME CONSTRUCTION

14 September 2021

### SPR.L

152p

Market Cap: £155.6m

#### SHARE PRICE (p)



12m high/low 172p/85p

Source: LSE Data

#### KEY DATA

Net (Debt)/Cash	£(20.8)m (at 31/05/21)
Enterprise value	£176.4m
Index/market	AIM
Next news	AGM, 27 Oct
Shares in Issue (m)	102.4
Chairman	Sandy Adam
Chief Executive	Innes Smith
Finance Director	Michelle Motion

#### COMPANY DESCRIPTION

Scotland's only quoted housebuilder, admitted to AIM in 2017, building over 1,000 private and affordable homes a year

[www.springfield.co.uk](http://www.springfield.co.uk)

SPRINGFIELD PROPERTIES IS A RESEARCH CLIENT OF PROGRESSIVE

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## Rebound in market pays dividends

Scotland's only quoted housebuilder has reported an 81% uplift to £18.5m in adjusted PBT for the full year to May 2021, beating our estimate of £18.0m, driven by high demand for the Group's private and affordable homes. Net debt fell from £70.9m to £20.8m, again, moderately beating our estimate. A more substantial 'beat' was the dividend, totalling 5.75p, 28% ahead of our 4.5p forecast. We leave our P&L estimates for FY2022 - 23E broadly unchanged but increase our assumed dividends by 20% and 23% to 6.0p and 6.75p respectively and introduce FY2024E forecasts.

- Market boost.** Strong demand drove total completions up by 34% to 973 homes (+42% for Private Housing and +23% for Affordable Housing). The Group's total average selling price rose by 5.5%, boosting revenue by 51% to £217m. The gross margin slipped from 19.1% to 17.9% primarily due to two reported strategic land sales during the year, but these and the release of work in progress enabled the substantial reduction in net debt (quoted post-IFRS16). Diluted EPS, adjusted for the exceptional Covid-related staff costs of £0.6m (FY2020, £0.4m), rose by 72% to 14.2p - just below our estimate of 14.7p, mainly due to a higher tax charge.
- Navigating changing market.** Operational highlights include: navigating the inflationary environment, with a high proportion of fixed-price contracts, largely mitigating its impact; its first private rental sector (PRS) homes; broadly maintaining the plots in the land bank at 15,281 (FY2020, 15,882); and further evidence of its established ESG commitment.
- Further growth assumed.** For FY2022E, we have – possibly over-conservatively – trimmed our PBT estimate by 3.1% from £19.6m to £19.0m to reflect the widely reported issue of build cost inflation across the UK industry but maintain our net debt estimate at £29.8m. We have not changed our FY2023E PBT of £21.9m and have increased our estimated net debt from £24.7m to £29.2m, assuming a greater degree of work in progress in the Group's signature 'Village' developments. Our new FY2024E estimates include a 15% Y/Y increase in PBT to £25.2m.
- Strong Scottish market and unique multi-tenure model.** We believe the Scottish market should offer significant growth in volumes and prices, due to undersupply. A distinctive feature is Springfield's 'Village' communities; the Affordable Housing should benefit from the Scottish Government's focus on the sector; its multi-tenure model also features its delivery of private rented homes with Sigma Capital. (Springfield in brief, page 7).

FYE MAY (£M)	2020	2021	2022E	2023E	2024E
Revenue	143.5	216.7	227.1	248.7	283.1
Fully Adj PBT	10.2	18.5	19.0	21.9	25.2
Fully Adj EPS (p)	8.2	14.2	14.8	17.1	18.7
Dividend per share (p)	2.00	5.75	6.00	6.75	7.50
PER (x)	0.0x	10.7x	10.2x	8.9x	8.1x
Dividend yield (%)	1.3%	3.8%	3.9%	4.4%	4.9%
EV/EBITDA (x)	13.0x	8.0x	7.8x	6.9x	6.1x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

## A game of two halves for two divisions in FY 2021

There is a marked difference in the H1:H2 phasing of completions between the two divisions, with Private benefiting in H1 from completions of sales delayed in H2 2020 and Affordable Housing nearly doubling from H1 to H2 2021, due to slower site start-ups.

### H1 and H2 performance FY 2020 - 21

Year-end May (£m)	2020 H1	2020 H2	2020 FY	2021 H1	2021 H2E	2021 FY
<b>Private Housing</b>						
Completions	258	161	<b>419</b>	311	282	<b>593</b>
YoY change (%)	10.3%	-59.3%	<b>-33.5%</b>	20.5%	75.2%	<b>41.5%</b>
ASP (£000)	221.2	260.0	<b>236.1</b>	239.0	249.1	<b>243.8</b>
YoY change (%)	-2.7%	14.3%	<b>4.0%</b>	8.1%	-4.2%	<b>3.3%</b>
Revenue	57.1	41.9	<b>98.9</b>	74.3	70.3	<b>144.6</b>
YoY change (%)	7.3%	-53.5%	<b>-30.9%</b>	30.3%	67.8%	<b>46.2%</b>
<b>Affordable Housing</b>						
Completions	180	128	<b>308</b>	132	248	<b>380</b>
YoY change (%)	24.1%	-27.7%	<b>-4.3%</b>	-26.7%	93.8%	<b>23.4%</b>
ASP (£000)	123.1	159.0	<b>138.0</b>	147.6	143.8	<b>145.1</b>
YoY change (%)	-6.7%	18.4%	<b>3.8%</b>	19.9%	-9.6%	<b>5.2%</b>
Revenue	22.2	20.4	<b>42.5</b>	19.5	35.7	<b>55.1</b>
YoY change (%)	15.8%	-14.4%	<b>-0.9%</b>	-12.1%	75.2%	<b>29.7%</b>
<b>Total completions</b>	<b>438</b>	<b>289</b>	<b>727</b>	<b>443</b>	<b>530</b>	<b>973</b>
YoY change (%)	15.6%	-49.6%	<b>-23.6%</b>	1.1%	83.4%	<b>33.8%</b>
H1:H2 split (%)	60.2%	39.8%		50.5%	54.5%	
Total ASP (£000)	180.8	218.5	<b>195.8</b>	211.8	199.8	<b>205.3</b>
YoY change (%)	-5.2%	10.0%	<b>0.1%</b>	17.1%	-7.2%	<b>5.5%</b>
Other revenue	0.6	1.5	<b>2.1</b>	0.6	16.4	<b>17.0</b>
<b>Total revenue</b>	<b>79.8</b>	<b>64.6</b>	<b>144.4</b>	<b>94.4</b>	<b>122.3</b>	<b>216.7</b>
YoY change (%)	5.4%	-43.9%	<b>-24.3%</b>	18.3%	92.0%	<b>51.0%</b>

Source: Company Information and Progressive Equity Research estimates.

The decline in the gross margin in H2 was mainly due to the reported sale of two significant strategic sites in May to major housebuilders.

The Board has proposed a final dividend of 4.45p, bringing the total for the year to 5.75p.

**H1 and H2 performance FY 2020 - 21 (cont.)**

Year-end May (£m)	2020 H1	2020 H2	2020 FY	2021 H1	2021 H2E	2021 FYE
<b>Gross profit</b>	<b>15.9</b>	<b>11.5</b>	<b>27.4</b>	<b>18.5</b>	<b>20.3</b>	<b>38.8</b>
<i>Margin (%)</i>	<i>19.9%</i>	<i>18.0%</i>	<i>19.1%</i>	<i>19.6%</i>	<i>16.6%</i>	<i>17.9%</i>
Admin, other income	(9.0)	(7.1)	<b>(16.1)</b>	(8.7)	(10.3)	<b>(19.0)</b>
<b>EBIT</b>	<b>6.9</b>	<b>4.3</b>	<b>11.3</b>	<b>9.8</b>	<b>10.0</b>	<b>19.8</b>
Share in PBT of JV	0.4	0.4	<b>0.9</b>	-	-	-
<b>Total operating profit</b>	<b>7.3</b>	<b>4.8</b>	<b>12.1</b>	<b>9.8</b>	<b>10.0</b>	<b>19.8</b>
<i>Margin (%)</i>	<i>9.2%</i>	<i>7.4%</i>	<i>8.4%</i>	<i>10.4%</i>	<i>8.2%</i>	<i>9.1%</i>
Exceptionals	-	(0.4)	<b>(0.4)</b>	(0.5)	(0.2)	<b>(0.6)</b>
Net interest	(1.0)	(0.9)	<b>(2.0)</b>	(0.7)	(0.5)	<b>(1.2)</b>
<b>PBT, reported</b>	<b>6.3</b>	<b>3.4</b>	<b>9.7</b>	<b>8.6</b>	<b>9.3</b>	<b>17.9</b>
<b>PBT, pre-exc</b>	<b>6.3</b>	<b>3.9</b>	<b>10.2</b>	<b>9.0</b>	<b>9.5</b>	<b>18.5</b>
<i>H1:H2 split (%)</i>	<i>62.0%</i>	<i>38.0%</i>		<i>48.8%</i>	<i>51.2%</i>	
Tax	(1.2)	(0.9)	<b>(2.1)</b>	(1.6)	(2.5)	<b>(4.2)</b>
<b>Net attrib. Profit</b>	<b>5.1</b>	<b>2.6</b>	<b>7.6</b>	<b>6.9</b>	<b>6.8</b>	<b>13.7</b>
Wtd ave shares (million)	96.3		<b>96.9</b>	97.9		<b>99.4</b>
Wtd ave dil. shares (million)	97.3		<b>97.9</b>	99.3		<b>101.2</b>
Basic EPS (p)	5.3		7.9	7.1		13.8
Adjusted EPS (p)	5.3		8.3	7.5		14.4
Adjusted, fully dil. EPS (p)	5.2		<b>8.2</b>	7.4		14.2
DPS - declared (p)	-		<b>2.0</b>	1.3		<b>5.75</b>
NAV (p)	94.2		<b>98.0</b>	103.3		<b>109.0</b>
Net cash/(debt) pre-IFRS16	(56.0)		<b>(67.5)</b>	(35.2)		<b>(18.2)</b>

Source: Company Information and Progressive Equity Research estimates.

Revenue estimates, FY 2019 - 2014E						
Year-end May (£m)	2019	2020	2021	2022E	2023E	2024E
<b>Private Housing</b>						
Completions	630	419	593	563	648	713
YoY change (%)	37.0%	-33.5%	41.5%	-5.0%	15.0%	10.0%
ASP (£000)	227.0	236.0	243.8	240.2	247.4	249.8
YoY change (%)	2.5%	4.0%	3.3%	-1.5%	3.0%	1.0%
Revenue	143.3	98.9	144.6	135.3	160.3	178.0
YoY change (%)	40.6%	-30.9%	46.2%	-6.4%	18.5%	11.1%
<b>Affordable Housing</b>						
Completions	322	308	380	494	459	689
YoY change (%)	3.9%	-4.3%	23.4%	30.0%	-7.0%	50.0%
ASP (£000)	133.0	138.0	145.1	149.5	153.2	137.9
YoY change (%)	10.6%	3.8%	5.2%	3.0%	2.5%	-10.0%
Revenue	42.9	42.5	55.1	73.8	70.4	95.0
YoY change (%)	15.1%	-0.9%	29.7%	33.9%	-4.7%	35.0%
<b>Total completions</b>	<b>952</b>	<b>727</b>	<b>973</b>	<b>1,157</b>	<b>1,207</b>	<b>1,402</b>
YoY change (%)	23.6%	-23.6%	33.8%	18.9%	4.3%	16.1%
<i>H1:H2 split (%)</i>						
Total ASP (£000)	195.6	194.5	205.3	196.3	206.0	194.8
YoY change (%)	8.2%	-0.5%	5.5%	-4.4%	4.9%	-5.4%
Other revenue	4.6	2.1	17.0	-	-	10.0
<b>Total revenue</b>	<b>190.8</b>	<b>143.5</b>	<b>216.7</b>	<b>227.1</b>	<b>248.7</b>	<b>283.1</b>
YoY change (%)	35.6%	-24.8%	51.0%	4.8%	9.5%	13.8%

Source: Company Information and Progressive Equity Research estimates.

P&L and per share data, FY 2019 - 24E						
Year-end May (£m)	2019	2020	2021	2022E	2023E	2024E
<b>Group revenue</b>	<b>190.8</b>	<b>143.5</b>	<b>216.7</b>	<b>227.1</b>	<b>248.7</b>	<b>283.1</b>
<b>Gross profit</b>	<b>34.3</b>	<b>27.4</b>	<b>38.8</b>	<b>40.4</b>	<b>46.4</b>	<b>51.0</b>
Operating expenses	(17.3)	(16.1)	(19.0)	(20.0)	(23.0)	(24.2)
Share in JV net income	0.6	0.9	-	-	-	-
<b>Operating profit</b>	<b>17.6</b>	<b>12.1</b>	<b>19.8</b>	<b>20.4</b>	<b>23.4</b>	<b>26.8</b>
Exceptionals	(0.6)	(0.4)	(0.6)	-	-	-
Interest	(1.1)	(2.0)	(1.2)	(1.4)	(1.5)	(1.6)
<b>PBT, reported</b>	<b>16.0</b>	<b>9.7</b>	<b>17.9</b>	<b>19.0</b>	<b>21.9</b>	<b>25.2</b>
<i>Underlying tax rate (%)</i>	<i>18.8</i>	<i>20.6</i>	<i>22.6</i>	<i>19.0</i>	<i>19.0</i>	<i>23.0</i>
Reported tax	(3.1)	(2.1)	(4.2)	(3.6)	(4.2)	(5.8)
<b>Net attrib. profit</b>	<b>12.8</b>	<b>7.6</b>	<b>13.7</b>	<b>15.4</b>	<b>17.7</b>	<b>19.4</b>
<b>PBT pre-exceptionals</b>	<b>16.5</b>	<b>10.2</b>	<b>18.5</b>	<b>19.0</b>	<b>21.9</b>	<b>25.2</b>
Wtd. ave. shares (million)	96.3	96.9	99.4	102.1	102.1	102.1
Diluted shares (million)	97.3	97.9	101.2	103.8	103.8	103.5
EPS, basic (p)	13.3	7.9	13.8	15.1	17.4	19.0
EPS, pre-exceptionals (p)	13.9	8.3	14.4	15.1	17.4	19.0
<b>EPS, diluted, pre-exc (p)</b>	<b>13.8</b>	<b>8.2</b>	<b>14.2</b>	<b>14.8</b>	<b>17.1</b>	<b>18.7</b>
DPS - declared (p)	4.40	2.00	5.75	6.00	6.75	7.50
NAV (p)	91.9	98.0	109.0	117.6	128.7	143.2
Dividend cover (x)	3.2	4.2	2.5	2.5	2.7	2.5
<b>EBITDA</b>	<b>18.6</b>	<b>13.6</b>	<b>21.9</b>	<b>22.6</b>	<b>25.5</b>	<b>28.9</b>
FCFPS (p)	11.2	(32.8)	51.8	(0.4)	6.8	(1.4)
TNAV (p)	90.2	96.3	107.4	116.0	127.1	141.6

Source: Company Information and Progressive Equity Research estimates.

**Cashflow and balance sheet, FY 2019 - 24E**

Year-end May (£m)	2019	2020	2021	2022E	2023E	2024E
<b>Adjusted cash flow statement</b>						
Group op profit inc exc.	16.5	10.8	19.1	20.4	23.4	26.8
Depreciation	1.6	2.4	2.2	2.2	2.2	2.2
Intangible amortisation	-	0.0	-	-	-	-
Other	0.6	2.4	0.5	-	-	-
Working capital changes	(2.7)	(42.2)	35.2	(18.0)	(13.0)	(23.0)
<b>Operating cash flow</b>	<b>16.0</b>	<b>(26.6)</b>	<b>57.0</b>	<b>4.6</b>	<b>12.5</b>	<b>5.9</b>
Capex	(1.2)	(0.5)	0.0	0.0	0.0	0.0
Interest	(1.2)	(1.6)	(1.3)	(1.4)	(1.5)	(1.6)
Tax	(2.9)	(3.1)	(4.2)	(3.6)	(4.2)	(5.8)
<b>Free cashflow</b>	<b>10.7</b>	<b>(31.8)</b>	<b>51.5</b>	<b>(0.4)</b>	<b>6.9</b>	<b>(1.4)</b>
Acquisitions, investments	(20.9)	(3.2)	0.3	(2.0)	-	-
Dividends - paid	(3.8)	(3.1)	(3.3)	(6.6)	(6.4)	(4.6)
Financing	4.9	36.5	(34.2)	-	-	-
<b>Chg cash/(net cash, f-cast)</b>	<b>(9.0)</b>	<b>(1.5)</b>	<b>14.3</b>	<b>(9.0)</b>	<b>0.5</b>	<b>(6.0)</b>
<b>Summary balance sheet</b>						
Intangible fixed assets	1.6	1.6	1.6	1.6	1.6	1.6
Tangible fixed assets	5.0	6.3	4.5	2.4	0.2	(2.0)
Investments	2.4	5.3	6.0	6.0	6.0	6.0
Working capital	125.1	162.8	128.8	146.8	159.8	182.8
Provisions, others	(16.0)	(9.3)	(8.9)	(6.9)	(6.9)	(6.9)
Net cash/(debt)	(29.6)	(70.9)	(20.8)	(29.8)	(29.2)	(35.3)
<b>Net assets</b>	<b>88.6</b>	<b>95.9</b>	<b>111.2</b>	<b>120.1</b>	<b>131.4</b>	<b>146.2</b>

Source: Company Information and Progressive Equity Research estimates.

*Scottish market underpinned by long-term growth prospects and a distinctive home buying model. Springfield offers a differentiated and lower risk model*

## Springfield in brief: distinctive model in growth market

Springfield was founded by current Chairman Sandy Adam, who began housebuilding in 1988, and the Group was admitted to AIM in October 2017. We continue to believe that economic and political dynamics are likely to support growth in housebuilding volumes and prices in Scotland, where values have lagged most of the UK. In our view, Springfield benefits from a distinctive business model and we believe strategically important acquisitions and an innovative rental partnership over the past three years are supportive of a return to growth now that the logistical and economic hurdles of Covid-19 are normalising. For more a more detailed introduction, see our initiation note of 12 February 2019, *Local hero*, featured within the [Springfield research section](#) on Progressive's website.

- **A more attractive market?** There is strong pressure in Scotland to build more private and affordable homes. Scotland lags England in the proportion of homes owned privately and the Scottish Government has pledged to build 110,000 affordable homes by 2031-32. House prices in Scotland are more affordable in relation to household incomes than almost any other region of the UK's mainland.
- **A distinctive model.** Springfield has a differentiated business model which focuses on two differing markets, both of which have high demand and, arguably, a lower risk profile: family housing and affordable housing (the latter is provided both as part of planning requirements in the Private Housing division as well as in its own right in the Affordable Housing division, see over). The Group buys land mainly 'off market' at more attractive prices, it argues, than in the mainstream market, preferring more complex long-term projects, demonstrated particularly in its Village sites.
- **Distinctive Village communities.** A cornerstone of Springfield's strategy is its focus on mid-sized Village communities. All of these are set in a rural context, but close to fast growing cities, located in Dundee, Perth, Stirling, Livingston and Elgin. A factor in Springfield's success in securing these sites has been its close co-operation with local councils and other stakeholders, a key differentiator for the company, in our view.
- **Smart deals.** The acquisitions of Dawn Homes in 2018 increased Springfield's presence in the West of Scotland, while Walker Group in 2019 strengthens its position in popular commuter areas around Edinburgh, with higher priced homes and stronger gross margins than Springfield's then existing Private Housing division.
- **Private rental progress.** Earlier this year marked the commencement of Springfield's first private rental sector (PRS) development with specialist Sigma Capital. The site, for 75 family homes at Bertha Park, will be the first development of single-family homes for the private rented sector in Scotland. A number of existing Springfield sites, primarily in its Village developments, have been identified as potential sites for PRS development.
- **Formalising ESG credentials.** As we observed in our 15 December 2020 note, [Resurgent Scottish market fuels cash inflow](#), Springfield has had for a number of years an ongoing commitment to 'ESG' – arguably before it rose up the investment agenda. This includes evolving solutions in energy saving, biodiversity, water management and waste reduction and, on the social side, an active training programme in local communities. The Group is already established on the route map to net zero and well prepared for the next step changes in energy standards. A Group Quality, Environment and Sustainability Manager has been appointed and the Group has engaged with a specialist consultant to work with the Board and senior management.

**Financial Summary: Springfield Properties**

Year end: May (£m unless shown)

	2020	2021	2022E	2023E	2024E
<b>PROFIT &amp; LOSS</b>					
Revenue	143.5	216.7	227.1	248.7	283.1
Adj EBITDA	13.6	21.9	22.6	25.5	28.9
Adj EBIT	12.1	19.8	20.4	23.4	26.8
Reported PBT	9.7	17.9	19.0	21.9	25.2
Fully Adj PBT	10.2	18.5	19.0	21.9	25.2
NOPAT	8.9	15.3	16.5	18.9	20.6
Reported EPS (p)	7.9	13.8	15.1	17.4	19.0
Fully Adj EPS (p)	8.2	14.2	14.8	17.1	18.7
Dividend per share (p)	2.0	5.8	6.0	6.8	7.5
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	(26.6)	57.0	4.6	12.5	5.9
Free Cash flow	(31.8)	51.5	(0.4)	6.9	(1.4)
FCF per share (p)	(32.8)	51.8	(0.4)	6.8	(1.4)
Acquisitions	(3.2)	0.3	(2.0)	0.0	0.0
Disposals					
Shares issued					
Net cash flow	(1.5)	14.3	(9.0)	0.5	(6.0)
Overdrafts / borrowings	72.4	36.6	36.6	36.6	
Cash & equivalents	1.5	15.8	6.8	7.4	
Net (Debt)/Cash	(70.9)	(20.8)	(29.8)	(29.2)	(35.3)
<b>NAV AND RETURNS</b>					
Net asset value	95.9	111.2	120.1	131.4	146.2
NAV/share (p)	98.0	109.0	117.6	128.7	143.2
Net Tangible Asset Value	94.2	109.6	118.4	129.8	144.5
NTAV/share (p)	96.3	107.4	116.0	127.1	141.6
Average equity	83.8	92.2	103.5	115.6	125.7
Post-tax ROE (%)	9.1%	14.9%	14.9%	15.3%	15.4%
<b>METRICS</b>					
Revenue growth		51.0%	4.8%	9.5%	13.8%
Adj EBITDA growth		60.9%	3.1%	13.0%	13.2%
Adj EBIT growth		63.1%	3.5%	14.4%	14.5%
Adj PBT growth		82.1%	2.8%	14.9%	15.0%
Adj EPS growth			4.8%	14.9%	9.7%
Dividend growth		187.5%	4.3%	12.5%	11.1%
Adj EBIT margins	8.4%	9.1%	9.0%	9.4%	9.5%
<b>VALUATION</b>					
EV/Sales (x)	1.2	0.8	0.8	0.7	0.6
EV/EBITDA (x)	13.0	8.0	7.8	6.9	6.1
PER (x)		10.7	10.2	8.9	8.1
Dividend yield (%)	1.3%	3.8%	3.9%	4.4%	4.9%
P/NAV (x)		1.39	1.29	1.18	1.06
FCF yield		34.1%	(0.3%)	4.5%	(0.9%)

Source: Company information and Progressive Equity Research estimates



**Disclaimers and Disclosures**

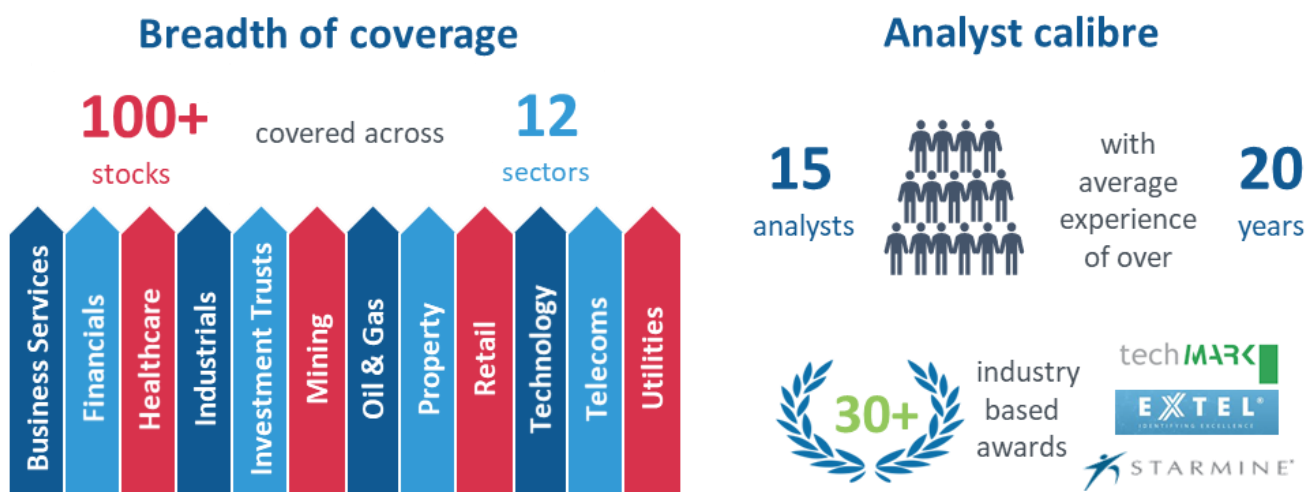
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