

Third Quarter 2025 Investor Letter

September 30th, 2025

Dear Fellow Investors,

We have now concluded the second quarter as manager of your funds. We wanted to give you a brief update on how things have developed over the quarter and a quick summary regarding one idea we believed at the outset could be a compelling investment, but ultimately demurred on. As you may imagine, there is an incredibly alluring thesis to an investment in the shares. In addition, some excellent investors have committed substantial capital and time into the company.

Though it has not been added to the portfolio, the shares of the company have been subject to much debate and excitement over the past couple of years. We felt it might be instructive for you to understand how we evaluate opportunities, how we evaluate risk and how that translates to the portfolio. In this case, what held us back when some notable luminaries have dived in? We will explain.

Prior to that, as promised in our inaugural missive to you, we will provide a short summary of performance during the quarter as well as a very brief discussion of various developments impacting our overall thinking.

Portfolio Results and Attribution

RETURNS	Q3 2025 ¹	SINCE INCEPTION ²
MAAT PORTFOLIO – GROSS	-5.9%	3.5%
MAAT PORTFOLIO – NET	-4.5%	3.4%
EUROSTOXX 600 (TR) – NET	3.4%	2.9%

¹ Through 30th September 2025

² Inception Date 26th Feb 2025

Since inception, the portfolio has returned 3.4% net in base currency. The two largest detractors in the quarter were Kambi Group Plc. and TeamViewer SE with total returns of -13.4% and -8.9% in base currency, respectively. The remaining positions only made a negligible contribution to the overall portfolio return, a reminder that in concentrated investing, outcomes are usually dominated by one or two names. This despite some very positive developments in those other positions.

We do not worry unnecessarily about short-term volatility, given our long-term focus. However, we stay vigilant regarding path risk and incremental news flow, and continually update our risk-reward assessments.

In Kambi's case, the sell-off appears to be tied to the rapid rise of unregulated prediction markets in the US - an unexpected force reshaping sentiment toward regulated operators. This led to a sell-off for the industry segment as a whole, and Kambi was no exception. Yet during the quarter, Kambi extended and expanded their contract with a large existing client and signed three new

turnkey clients (including one announced on October 9th), while repurchasing ~2.3% of their shares at what we believe is a substantial discount to fair value.

At TeamViewer SE, the largest shareholder, Permira, exited a 14% stake through a private placing in September as the fund it was held in approached maturity. Such transactions often unsettle prices, even when they have little to do with business fundamentals. With the drop in share price, TeamViewer has become a better prospect and we have increased its weighting accordingly.

Market Developments

This quarter brought no dramatic headlines. Markets moved placidly. To us, however current market conditions resemble a duck swimming in a pond – calm at the surface but furiously paddling underneath. As a prominent investment bank highlighted, AI related stocks have accounted for 75% of S&P 500 returns, 80% of earnings growth and 90% of capital spending growth since ChatGPT launched in November 2022. We use AI ourselves. It genuinely improves our work. But we also see its limitations—the messy reality of implementation, the unresolved debates and the gap between promise and practice. We are watching closely and will share our observations in our annual review.

Nonetheless, the wave of AI optimism has also led to a sharp narrowing of market breadth in the US equity markets. In our core markets, investor focus has been on re-arming of Europe and German fiscal stimulus in addition to AI. Markets have decided who the winners and losers will be from these trends. They've done this with remarkable confidence and speed. The executives running these companies are considerably less certain—a divergence we find interesting.

As keen students of Benjamin Graham, we know that in the short term, the market has always been a voting machine. However, we believe that in the long run, change tends to be more carefully weighed by markets and requires diligence at an individual company level. Broad sector sell-offs driven by fears of being AI losers tend to be fertile hunting grounds for fundamental investors with a longer time horizon. We have found a few compelling investments that have fallen through the cracks as a result.

Meanwhile, the economic data that doesn't make the headlines concerns us more: weakening consumers, slowing production and persistent inflation. Tariffs continue to be a wildcard and source of ongoing uncertainty for consumers and businesses. While credit markets are priced as if none of this matters. Despite ominous omens like the recent First Brands fiasco.

Bank of America reports that 58% of fund managers think stocks are overvalued. The same managers are holding less cash than at any point in 25 years. When we read that, we think of the Cinderella story: everyone knows they should leave before midnight, but no one wants to miss a single dance.

As we highlighted in our Q2 letter, the current contradictions in the market dominate our capital allocation discussions and we are very vigilant about path risk. We avoid overleveraged businesses in uncertain times. Leverage amplifies returns in expansion and destroys capital in contraction. Given current uncertainties, we prize financial strength over financial engineering.

We have no crystal ball about credit markets. But we have been around long enough to know that financial engineering is most popular precisely when it's most dangerous. We are passing on several businesses that look interesting on the surface but have capital structures that would keep us up at night. You didn't hire us to get lucky. Gambling with your money and trust is not something that we plan to do.

At the same time, we remain close to fully invested. Our portfolio is concentrated in businesses the market has discarded. Not because they're broken— just because they are unfashionable.

This suits us fine. We have made our best returns buying what others won't touch, and as any of you who have met us know, we have no taste in fashion (with the exception of Jenny).

It is an unavoidable byproduct of our approach that we will experience volatility. That is the price of admission for concentrated investing. But if we can be rational while others panic, we should compound wealth at rates that will dazzle you.

Ultimately, the quality of thinking matters more than the quantity of activity. We think hard, act seldom, and wait patiently. It's boring, but it works.

Overleaf you will find the promised case study. We hope you find it illuminating and a lens into how we evaluate companies and consider risk.

Investment case study – Vistry Group PLC (VTY):

NVR, Inc is no common housebuilder. From June 1993 through to the present, shareholders in the NVR have enjoyed an IRR of 17.80% per year and seen their capital grow to 137x their original investment. No dividends were paid during that interval, while all excess cash was used to buy back shares¹. For reference, from the same date and through the same period, Microsoft shareholders have had an IRR of 17.96%. As with others, we would love to have had the benefit of hindsight and invested in NVR 30 years ago. The next best thing would be to find today's NVR – to the extent one exists.

You can imagine our excitement then when we felt we might have found one: a company called Vistry, that looked very similar. We were positively predisposed when we saw it had experienced a major sell-off starting in October 2024 after what was portrayed as a one-off problem. Especially considering Vistry was being touted as the 'NVR' of the UK housing market.

Even better, the UK housing market had what seemed to be excellent conditions and tailwinds for all builders. Those could be roughly summarized as follows:

- A chronic shortage of housing stock (**insufficient supply**)
- A growing population and high prices (**growing demand**)
- A government under pressure to address the situation (**government stimulus and deregulation**)

Such market tailwinds, aligned with an NVR like business model seemed wonderful. When one added in the major decline on a one-time issue, then it seemed like Christmas had come early. However, despite our excitement and positive pre-disposition, we calmed ourselves and reverted to process. As we always do with any potentially large position, we dove into in-depth research. Even at the risk of missing out on an ultra-cheap price. We always think about downside risk first, and our investment process is there for a reason. Vistry was already a popular and well promoted idea. If it was anything like what the popular narrative suggested, then it was likely to be a big winner. We need not catch the absolute low if the upside is enormous.

Unfortunately, when we dug deeper, the narrative did not match reality as far as we could tell. We think the analogy to NVR is a weak one. As a result, in the final analysis while we didn't find Vistry to be overly expensive, nor did we find it to be particularly cheap. Indeed, looking at our existing positions, we believe all have better risk/reward dynamics.

For the avoidance of doubt, there is a bull case for Vistry that can certainly lead to outstanding returns for investors. We just don't rate it as very probable. We could very well be wrong. To the extent you or someone you invest with has superior data, knowledge or understanding of the space then you should trust their judgement ahead of ours. Nevertheless, it occurred to us that Vistry could be a great case study to illustrate for you how we research and evaluate ideas – even if we don't ultimately invest.

¹ 93.5% of the shares outstanding at the time of the emergence from bankruptcy have since been retired.

What is Vistry?

Vistry is a UK based and listed homebuilder and master plan developer (this involves designing new neighbourhoods). The company is an amalgamation of three long-established homebuilders (Bovis, Linden/Galliford, and Countryside), cobbled together by a seasoned, well-regarded but quite promotional CEO. The most recent acquisition was Countryside Partnerships (formerly known as 'Countryside Properties') in late 2022. Vistry has a Market Cap ('MC') of ~£2.14bn and an Enterprise Value ('EV') of ~£3.60bn at the current £6.46 share price.

Countryside² as an independent company had been a market darling through mid-2021 and was itself analogized to NVR in the US. A new ill-equipped CEO at Countryside, lax controls and an accounting mishap led to a rapid 50%+ decline in the share price and shortly thereafter, the departure of that CEO.

Activist investors³ proposed radical change in the company. Their proposal was a simple one to describe – divest of low ROCE activities, and reinvest in higher ROCE activities. Countryside (and Vistry) had a mixed approach to homebuilding. In this approach, the key variation was just to pre-sell some proportion to housing associations (local municipal government entities) and rental companies. The idea for Vistry was to move more towards these pre-sales with lower capital employed – the model outlined by Countryside.

This approach allows for much higher turnover, less risk on the sales price and generally as a result, a higher ROCE. As a corollary, the appeal of pushing this approach was that businesses with high ROCE tend to trade at higher multiples and to produce better returns to investors over time. Hence the analogy to NVR. It was believed that the problem with Countryside was not the model, but rather execution. Vistry would solve that by bringing their seasoned management team.

The analogy certainly holds true as it pertains to capital employed and a theoretically higher ROCE. However, we see this as a weak analogy. NVR built its model on optionality. Land was not paid for, instead options were bought. For Vistry (and Countryside before it), there is no such optionality. Rather there is an obligation to build and do so quickly on large projects won. This is the first major difference between the NVR & Vistry – the rest we will show.

Vistry has a seasoned, well-regarded and pioneering CEO at the helm in the form of Greg Fitzgerald. He was a pioneer in the 'Partnership' builder model with councils who wanted to build affordable and private rental homes in large projects on derelict sites. He and Vistry with their experience and processes should have ensured no such problems that Countryside experienced would repeat. Substantial growth in unit volume alongside returning to near peak margins were promised at the time Countryside was acquired. This was met with delight from investors. Vistry's

² The parallels of the Countryside experience to Vistry are stunning. As with Countryside, Vistry saw its share price get crushed after a wave of three profit warnings in ~3 months from October 2024 onwards, as a result of lax controls and the flexibility percentage of completion ('POC') accounting affords.

³ Countryside had two excellent activist investors from prior to the fall who agitated for major strategic changes – while building their stake. Those were David Capital (owned 6.1%) and Browning West (owned >15%).

share price was at ~£6 per share when the deal closed in November 2022. It peaked after that at £14.3 per share on September 5th 2024.

However a cascade of profit warnings in subsequent months would lead to a 60% decline in Vistry's share price. This piqued our interest. Our knowledge of NVR's record and experience with other homebuilders left us well positioned to evaluate the opportunity. If the popular narrative of Vistry being a new NVR was even partially true – then this could be an extraordinary opportunity.

The critical questions for investors to answer after the late 2024 fall in our opinion were as follows:

- 1) Can the target unit volumes be achieved?
- 2) Can margins hit the targeted levels?
- 3) Were the problems that caused profit warnings a one-off event, Or does risk remain?

Another lure for the case was a coterie of excellent activist investors⁴. Despite our great admiration for these investors and their track records, when it comes to Vistry, we could not find sufficient comfort in our own analysis to add it to our portfolio. In our effort to explain why, we will do so through the lens of the three questions posed above. To do so satisfactorily I must first share with you the targets management had set.

Management Targets:

In September of 2024, the company re-iterated medium term targets:

- **40% ROCE,**
- **£800mm of adjusted EBIT,**
- **EBIT margin** of over **12%**, and
- A commitment of **returning £1bn to shareholders by the end of 2027.**

Management was pressed on the associated earnings call relating to this about how these targets could be achieved. A projected 30% increase in production vs. estimated full year unit volume for FY 2024 (est. 18k units) was given as the primary enabler, suggesting unit volume by 2027 or thereafter of ~24k units.

If these targets could be achieved, it would imply Vistry is valued at only 4.5x EV/EBIT come year end of 2027 or 2028 (assuming it is delayed by the problems of 2024). While the return of £715mm (£285mm in total had been returned since 2022, vs. the £1bn mentioned) would return 33% of the Market Capitalization. Seductive indeed. But wait, that's not all!

On that same call, the CEO relayed a stretch ambition, further out of getting to 30k-40k units per year. Now to be fair, he was referring to a comment by an industry participant and the governments

⁴ Browning West currently own 9.5% of the shares. A former associate of Seth Klarman and Baupost, David Abrams of Abrams Capital Management had been a holder of 8.5% of Vistry (and 2.7% of Countryside) prior to the proposed acquisition and also supported the deal. Abrams now owns over 12.5%. The top 3 shareholders own ~30% of Vistry's shares, and the top 20 just over 70%.

stated goals of adding substantial housing stock, and that such a unit volume target from Vistry would be required to get anywhere close to the Governments desired level. However, he also stated they were looking for ways to make this possible, and potentially thinking of adding another factory (to their existing three) for pre-fabrication. While he also cautioned this would require changes in planning permission and government stimulus programs. This struck us as more of a dream potential scenario, but some seemed to interpret it as a long-term promise.

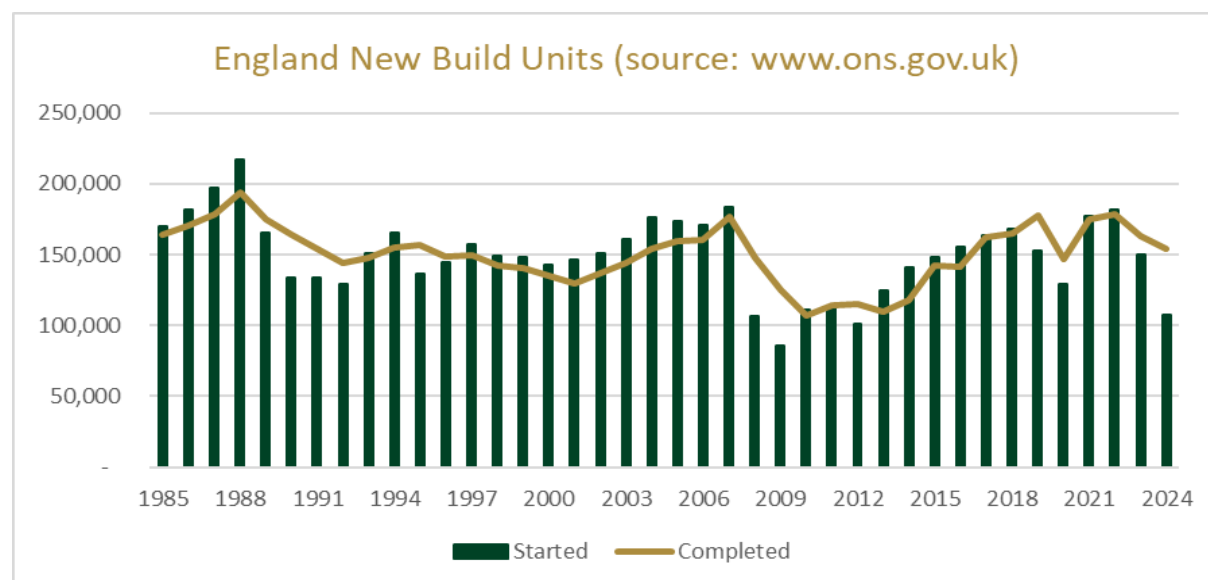
Which is a nice segue to the questions outlined above.

Can the target unit volumes be achieved?

We think not! On a unit level, these financial targets suggest Revenues of ~£6.7bn. At the upper end of the unit volume expectation of **24k units**, it would suggest an average selling price ('ASP') per house of £278k and EBIT per house of £33k. However, Vistry has yet to ever produce even 18k units in a year. Whether in its current form, or if one does a pro-forma retrospective of the now combined constituent entities back over time.

This is the second point where we believe the popular analogy to NVR breaks down. NVR was growing from a much lower production base in 1994, of ~4.3k units. That in the US market which had new home starts of ~1.3mm units in 1994. By 2024, new home starts in the US were still at ~1.35mm units, while NVR had grown production to ~22.8k units. We believe the difference in these base rates is important. Vistry operating in a much smaller market and from a much higher starting point will have a significantly more challenging path to growth.

We can first look at the historical record of production for the UK market over the past 40 years:



The peak in production (completions) over that 30 year period was ~194k units in 1988. The first 10 years average, from 1985-1995 was ~164k units per year. In the past 10 years, that average was ~161k units per year. The three biggest homebuilders in the UK now are Vistry, Barrat Development and Taylor Wimpey. The following table shows their unit volume of completions

over the past decade or so, while the ONS figures for total new home builds is also included at the top, in gold, for comparison⁵ (Countryside's figures are given also):

Completions	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	CAGR 13-24
England New Home Builds - (www.ons.gov.uk)	109,450	117,820	142,480	141,880	162,470	165,490	177,880	146,660	174,940	178,360	163,330	153,900	
Countryside	1,591	2,044	2,364	2,657	3,389	4,295	5,733	4,053	5,385	-	-	-	
Vistry	2,813	3,635	3,934	3,977	3,645	3,759	3,809	7,526	11,080	11,951	16,118	17,225	17.9%
Barrat Development	13,246	14,191	15,599	15,905	16,645	16,680	17,111	12,604	17,234	17,908	17,206	14,004	0.5%
Taylor Wimpey	11,547	12,458	13,470	14,112	14,688	15,164	15,843	9,602	14,144	13,773	10,438	10,593	-0.8%
Bellway PLC	5,652	6,851	7,752	8,721	9,644	10,307	10,892	7,522	10,138	11,198	10,945	7,654	2.8%
The Berkeley Group	3,761	3,742	3,355	3,776	3,802	3,678	3,698	2,723	2,825	3,760	4,043	3,521	-0.6%

We would highlight two things:

- Vistry is already the largest housebuilder in the UK, at 17.2k units.
- None of these builders has been able to exceed unit volume of 18k units in a year.

If this history is any guide, then even maintaining the 2024 rate of production will be a challenge. Another reference point for this is the landbank. Houses take several years to build. One must acquire a site, gain planning permission, recruit labour and engineers, purchase materials and build.

As a result, all builders keep a landbank, and landbanks must be replenished. Vistry aims to lower the burden of doing this by engaging in partnerships with local councils and municipalities. Delaying capital outlays and easing pressure on their balance sheet. The following table shows the average number of lots held in the landbank vs. the annual completions in that year per builder (years of inventory):

Years of Unit production in Landbank	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Avg 13 - 24
Vistry	5.20	4.97	5.04	4.70	4.69	4.61	4.55	5.34	3.86	4.82	4.74	4.30	4.74
Barrat Development	4.35	4.69	4.52	4.49	4.51	4.76	4.68	6.37	4.51	4.52	4.09	4.73	4.68
Taylor Wimpey	6.12	6.03	5.62	5.40	5.10	5.01	4.77	8.06	6.23	6.01	7.66	7.46	6.12
Bellway PLC	5.84	5.17	4.67	4.01	3.93	3.99	3.92	5.93	5.45	5.55	4.99	6.51	4.99
The Berkeley Group	6.83	9.61	11.17	11.35	12.19	12.74	14.86	21.45	22.40	17.60	14.36	15.36	14.16

While the next table shows the progression of landbank inventory units for the same builders over the same period (where Vistry figures are pro-forma for the combined entities):

Lots	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	CAGR 13-24
Vistry	14,638	18,062	19,814	18,704	17,096	17,328	17,328	40,218	42,770	77,763	76,434	74,020	15.9%
Barrat Development	57,654	66,570	70,523	71,351	75,043	79,432	80,022	80,324	77,642	80,926	70,390	66,239	1.3%
Taylor Wimpey	70,628	75,136	75,710	76,234	74,849	75,995	75,612	77,435	88,155	82,830	80,000	79,000	1.0%
Bellway PLC	32,991	35,434	36,211	34,979	37,855	41,077	42,721	44,589	55,233	62,106	54,564	49,792	3.8%
The Berkeley Group	25,684	35,963	37,473	42,858	46,351	46,867	54,955	58,413	63,270	66,163	58,045	54,081	7.0%

A landbank of 4 – 7 years seems to be a reasonable range for the larger UK builders in general. NVR's landbank is good for ~6 years of production.

If Vistry is to run at the targeted 24k unit completions a year, that range would imply they need a landbank of 96k – 168k units. At an annual completion run-rate of 30k units, it would require a landbank of 120k – 210k units. Even at the lower end of unit completion, the required landbank would be considerably bigger than any in the historical record above. Interestingly, replacement in the landbank for Vistry for the year was only 16.5k units in 2024, and 15.3k units in 2023. Which does not bode well for hitting that 24k target by 2028 or 2029.

However, this disregards the announced government plans to address the shortage of affordable housing. The current Labour government has set a target of 1.5mm new homes in England by 2029. Especially affordable homes. To aide in doing so it campaigned on updating and

⁵ Sources for all tables relating to companies come from their public filings or Maat research

debottlenecking the national planning permission framework as well as potential increases in buyer supports. They introduced a planning and infrastructure bill in 2025 to enhance compulsory purchase powers for councils. This removes the need for central government approval for such actions. It also has other proposals to speed permissions. In addition, the chancellor confirmed a £39bn investment over 10 years (2026 – 2036) for affordable housing. Annual spending is planned to start small and ramp up to £4bn per year from 2030. It was relating to these plans that Greg Fitzgerald mentioned the stretch targets of 30k-40k units.

No doubt, if proposed reforms to planning and the targeted spending comes to pass, it shall support an increase in the supply of land. Though we would caution there have been several initiatives from former UK governments these past 25 years that have not matched stated targets.

More importantly, these measures do little to deal with other limiting factors in the market. Land availability has not been the sole limit over the past 30 years. Other major constraints on growing annual unit volumes rapidly relate to the construction process.

First, there is the issue of skilled labour. Increasing the proportion of the population that has the requisite skills in carpentry, bricklaying, quantity surveying or general building is no trivial matter. Training takes time, and requires interested individuals. The domestic population has been turning away from this profession for a long-time. This was cured in the past by immigration. However, immigration is a hot button issue for the British government at present and we feel it would be foolish to ignore the headwind this presents. Regardless of how the UK wants to increase skilled labour, it is likely to take longer to change than changes to planning permissions.

Second is the issue of building materials and capacity. Especially as it pertains to Modern Methods of Construction ('MMC')⁶. A surefire way to increase annual unit volume would be to use MMC on all development sites. MMC can halve the build time relative to traditional methods, if not more so. It is quicker in general, and it requires less skilled labour, mitigating the first point alluded to above.

However, old habits and methodologies die slowly. It will take considerable time for this transition to happen. As will setting up logistics for facilitation. MMC requires a lot of work to be done away from the building site in factories. That requires factories to be built and this transition has been slower than many expected and hoped for.

A large part of the appeal for Vistry buying Countryside was to bring their MMC expertise and capacity. They highlighted the three timber-frame factories and the capacity associated as a major strategic addition to Vistry. However, we believe the maximum capacity from those three factories which took an original investment of just over £40mm, is ~7.5k per annum.

More generally, there is a lack of capacity for the UK as a whole. This is not something that can be changed quickly. We also fear that Vistry will be disadvantaged in gaining outside capacity from

⁶ MMC refers to a range of building techniques that prioritize off-site manufacturing, digital design and process optimization to improve efficiency. It makes building more modular and much quicker.

independent MMC factories given they are now perceived as a competitor. So MMC can't help too much in unit growth.

If one considers the historical record and the constraints around labour, engineers, surveyors and building materials we hope it is clear why we think moving from ~17.2k to 24k units is a herculean challenge. While the idea of getting to the range of 30k – 40k units seems nigh on impossible to us in any reasonable intermediate time frame. However, the shares can still be fairly valued or marginally cheap even at those lower volumes if the target margin is achieved. Which brings us to the next question.

Can margins hit the targeted levels?

We think this is possible, but with a high-risk of being missed. First, let us give some context before getting to brass tacks on our view of a sustainable margin for Vistry. Briefly covered below.

Stylized Example of Cost / Margin Structure for a UK Homebuilder:

The following table lays out a stylized model of the cost items for a homebuilder, with the traditional approach of buying land upfront, then building:

Cost Items as % of Revenues	Nature of Work	Baseline % of Revenues	Labor component
COGS Items			
Land Cost		15.0%	
Construction Costs % (of Which)		61.5%	38%
<i>Site Work (2-6 weeks)</i>	<i>Clearing, grading, driveways, walkways, landscaping</i>	7.6%	45%
<i>Foundations (2-4 weeks)</i>	<i>Excavation, concrete, footings, slabs</i>	10.5%	45%
<i>Framing (4-8 weeks)</i>	<i>Lumber, trusses, sheathing, roofing structure</i>	16.6%	40%
<i>Exterior Finishes (3-6 weeks)</i>	<i>Siding, exterior doors, windows, roofing materials</i>	13.4%	20%
<i>Major System Rough-ins (2-4 weeks)</i>	<i>Plumbing, electrical, HVAC</i>	19.2%	40%
<i>Interior Finishes (8-12 weeks)</i>	<i>Drywall, painting, flooring, cabinets, countertops, interior doors, trim</i>	24.1%	45%
<i>Final Steps (2-4 weeks)</i>	<i>Fixtures, appliances, final cleaning, punch list items</i>	6.5%	25%
<i>Other (throughout)</i>		2.1%	0%
Total COGS elements:		76.5%	23.1%
Contingency		5.0%	
Total COGS + Contingency		81.5%	
Gross Margin		18.5%	
Opex Items			
Overhead and General Expenses	incl. Architect / engineers, general office, etc	5.0%	
Sales Commissions		2.5%	
Marketing Costs		0.5%	
Total OPEX		8.0%	
EBIT Margin		10.5%	

The parameters can vary substantially for the various regions around England (London vs. Newcastle). Or for houses vs. apartments. But for Vistry, it should be a decent approximation for their traditional open market sales.

The order of costs is roughly in order of activity. Such that land purchase comes before construction, etc. For each stage, a brief description of the nature of the work involved for that stage is included.

You will also see for each of the stages of construction an estimated time for completion. The range above is ~5.5 months on the low end, and just over 10 months on the long-end. The latter

is an optimistic timeline using traditional building methodology. The former assumes MMC, with pre-fabricated timber frame skeleton and other modular elements.

UK Homebuilder Industry Margins 2013 – 2024:

Above we gave an idea of a typical home build construction timeline and allocation of costs. As we did when looking at unit volumes, we can also look to the historical experience of the largest UK builders for the last decade on both Gross and EBIT margins:

Gross Margin %	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 Avg 13 - 24
Countryside	15.7%	17.1%	21.1%	21.5%	21.7%	22.6%	20.5%	12.1%	13.5%			18.4%
Vistry	23.4%	24.4%	24.5%	19.8%	18.0%	21.8%	21.5%	14.2%	18.5%	14.9%	15.0%	18.8%
Barrat Development	14.3%	16.8%	19.0%	18.9%	20.2%	20.8%	22.8%	20.6%	23.1%	24.8%	21.2%	19.9%
Taylor Wimpey	19.6%	23.1%	25.1%	25.6%	26.0%	26.3%	24.1%	20.0%	24.0%	25.6%	20.4%	23.2%
Bellway PLC	18.3%	21.3%	24.6%	25.7%	25.9%	25.6%	24.6%	19.0%	20.9%	22.3%	20.2%	22.0%
The Berkeley Group	29.4%	31.4%	33.8%	34.3%	34.5%	34.6%	31.3%	33.2%	28.8%	28.3%	27.3%	31.1%

EBIT Margin %	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 Avg 13 - 24
Countryside	6.2%	9.3%	12.4%	13.0%	15.2%	14.7%	13.8%	-0.6%	5.2%			9.9%
Vistry	14.9%	17.0%	17.3%	15.2%	12.4%	16.4%	16.3%	6.8%	12.4%	7.7%	9.8%	12.8%
Barrat Development	10.2%	13.0%	15.4%	15.8%	17.4%	17.9%	19.0%	17.0%	18.9%	19.9%	16.2%	15.7%
Taylor Wimpey	13.1%	17.5%	19.9%	20.6%	20.9%	21.4%	19.3%	13.1%	19.2%	20.5%	13.3%	17.6%
Bellway PLC	13.6%	17.2%	20.8%	21.9%	22.3%	22.1%	21.0%	14.5%	17.0%	18.5%	16.0%	17.9%
The Berkeley Group	20.4%	23.1%	24.7%	24.6%	27.8%	28.8%	26.0%	24.5%	22.8%	21.6%	20.3%	23.7%

As you can see, on both margin measures Vistry⁷ is the lowest of the bunch, as expected. Please recall that Vistry's long term target is a 12% EBIT margin. Their historical average, with a much lower proportion of lower margin pre-sales from 2013 – 2019 was 21.9% gross and 15.6% EBIT.

However, given that Vistry is targeting 66% of units for pre-sale in the future, Countryside is likely the better guide, at least on gross margin. Countryside averaged 18.4% gross margin through 2021, compared to Vistry's 20.7% (given the drop-off in 2020/2021). During that period, Countrysides proportion of private completions vs pre-sale was as follows:

Countryside Mix Split	2013	2014	2015	2016	2017	2018	2019	2020	2021
Private Completions as % of Total Units	47.0%	43.3%	46.1%	42.4%	49.0%	46.4%	38.0%	35.9%	44.5%
Private Completions as % of Total Revenue	60.8%	66.8%	73.5%	74.2%	75.5%	75.0%	60.7%	58.0%	64.2%

Looking forward, Vistry will have only ~33% of higher margin units as private completions which ceteris paribus suggests a lower prospective gross margin.

Moreover, the period considered above incorporated something of a 'goldilocks' set of conditions through 2021, where Home Price Inflation ('HPI') exceeded Build Cost Inflation ('BCI'). As a result we believe the margin experience of the industry for that period was super-normal, while margins for the next 5-10 years may be lower. The following data table shows official government statistics for both New Home builds⁸ vs. ONS data on BCI throughout that period (Table RHS below shows the annualized CAGR in each of HPI, BCI and the gap between them):

HPI England New Build				England		
Year	ASP	Units built	HPI	BCI - ONS	HPI > BCI	
2013	221,495	109,450	6.5%	1.4%	5.1%	
2014	236,914	117,820	7.0%	0.0%	7.0%	
2015	259,239	142,480	9.4%	0.7%	8.7%	
2016	275,702	141,880	6.4%	5.1%	1.3%	
2017	286,513	162,470	3.9%	4.0%	-0.1%	
2018	293,614	165,490	2.5%	3.2%	-0.7%	
2019	288,072	177,880	-1.9%	1.4%	-3.3%	
2020	307,076	146,660	6.6%	1.8%	4.8%	
Average			5.1%	2.2%	2.9%	

Index		2013				
Year	HPI	BCI - ONS	HPI	BCI - ONS	HPI > BCI	# of years
2013	1.07	1.01	6.5%	1.4%	5.1%	1
2014	1.14	1.01	6.7%	0.7%	6.1%	2
2015	1.25	1.02	7.6%	0.7%	6.9%	3
2016	1.33	1.07	7.3%	1.8%	5.5%	4
2017	1.38	1.12	6.6%	2.2%	4.4%	5
2018	1.41	1.15	5.9%	2.4%	3.5%	6
2019	1.39	1.17	4.8%	2.2%	2.5%	7
2020	1.48	1.19	5.0%	2.2%	2.8%	8

⁷ The competing companies listed have different fiscal years. Some have a December year end (YE), while others differ: Bellway (July YE), Barrat (June YE), Berkeley (April YE). This affects YoY comparisons.

⁸ UK land registry for ASP - <https://tinyurl.com/acaary4d>; ONS is 'Office for National Statistics' www.ons.gov.uk/

From 2013 – 2020, HPI dramatically outperformed BCI. Especially in the first four years and 2020. That should have accrued to margins for builders. In traditional homebuilding, the BCI is experienced as an average over the life of the building project, while for unit sales and revenues – these should get the benefit of the full HPI for the entire period. Such that the 2.9% average difference in HPI vs. BCI will be amplified when it comes to gross and EBIT' margin. This truly was a halcyon period for the homebuilders. However, things were about to turn for the worst for the market. The following is an extended version of the prior table of HPI and BCI but now extended through 2024:

Year	HPI England New Build		BCI England		
	ASP	Units built	HPI	BCI - ONS	HPI > BCI
2013	221,495	109,450	6.5%	1.4%	5.1%
2014	236,914	117,820	7.0%	0.0%	7.0%
2015	259,239	142,480	9.4%	0.7%	8.7%
2016	275,702	141,880	6.4%	5.1%	1.3%
2017	286,513	162,470	3.9%	4.0%	-0.1%
2018	293,614	165,490	2.5%	3.2%	-0.7%
2019	288,072	177,880	-1.9%	1.4%	-3.3%
2020	307,076	146,660	6.6%	1.8%	4.8%
2021	314,269	174,940	2.3%	9.0%	-6.7%
2022	338,611	178,360	7.7%	10.0%	-2.3%
2023	343,847	163,330	1.5%	3.5%	-2.0%
2024	374,793	153,900	9.0%	4.0%	5.0%
Average			5.1%	3.7%	1.4%
Average			5.1%	2.2%	2.9%

CAGR since Jan 1st 2013						
Year	HPI	BCI - ONS	HPI	BCI - ONS	HPI > BCI	# of years
2013	1.07	1.01	6.5%	1.4%	5.1%	1
2014	1.14	1.01	6.7%	0.7%	6.1%	2
2015	1.25	1.02	7.6%	0.7%	6.9%	3
2016	1.33	1.07	7.3%	1.8%	5.5%	4
2017	1.38	1.12	6.6%	2.2%	4.4%	5
2018	1.41	1.15	5.9%	2.4%	3.5%	6
2019	1.39	1.17	4.8%	2.2%	2.5%	7
2020	1.48	1.19	5.0%	2.2%	2.8%	8
2021	1.51	1.30	4.7%	2.9%	1.8%	9
2022	1.63	1.43	5.0%	3.6%	1.4%	10
2023	1.65	1.48	4.7%	3.6%	1.1%	11
2024	1.80	1.53	5.0%	3.6%	1.4%	12

The situation had reversed substantially by the end of 2023. BCI exceeded HPI throughout 2021, 2022 and 2023. The corresponding drop in margins from 2021 onwards should thus be no surprise.

This is of course a broad top-down view of the issue. We can also build from the bottom up and account for Vistry's differentiated business model. The company has a structurally lower margin, as it focuses on pre-sales. In addition, while the model lowers absolute risk of moving units, by guaranteeing many unit sales upfront, it does take on substantial margin risk. This is best demonstrated by example.

The following case was first mentioned in a Countryside Capital Markets Day ('CMD') in June 2018, long before being acquired by Vistry:

Case study: Bilston Urban Village, Wolverhampton





- 420 homes
- 45% Private, 30% Institutional PRS, 25% Affordable

- GDV £79m
- ROCE > 70%

- Private ASP of £271k
- Start on site October 2019

- 100% timber frame system
- In association with City of Wolverhampton Council
- £2m+ S106 contributions towards education and public open space

This project – Bilston Urban Village⁹ - used MMC and the timber frame system, as is stated in the exhibit above. It was on a former mining site in Wolverhampton, and was sent out by Wolverhampton Council and Homes England to a panel of potential bidders in October 2016:

In the graphic above, GDV refers to Gross Development Value, which is simply ASP times the number of units. From the above we can put together a hypothetical revenue build for this project per unit type:

Tenure	% of Units	# of Units	ASP (£k)	GDV (£mm)	% of GDV
Private	46%	192	271	52	66%
Institutional PRS*	29%	123	130	16	20%
Affordable (Section 106)*	25%	105	105	11	14%
Total / Average	100%	420	188	79	100%

*ASP is assumed

Countryside was approved as a panel member in the bidding process and was notified they had won in December of 2018. They expected to make an **18% gross margin on the project with 46% of units being private** as of June 2018. Both affordable and PRS units were pre-sold.

This was to assure the outcome with large block sales, albeit at lower margin. This reduced sale risk for Vistry and secured supply for the council. In this case, the institutional PRS¹⁰ partner was Sigma, while the affordable partner was Accord Housing.

With the site secured in December 2018, the council agreed that payment terms would be spread over three years. Once planning permission was achieved, 20% of the land price was payable from Sigma and Accord. This threshold was met in early 2019 and construction work began in October of 2019. Roughly 3 years from when the Request for Quotation ('RFQ') went out from Wolverhampton Council.

The following table shows the key milestones for the project and time between them as well as how the estimated GDV developed over time:

Date	Milestone	# Months from RFQ	# of Months from Planning Permission	Estimated GDV (£mm)	Change in Estimated GDV (£mm)
10/1/2016	Wolverhampton council issues RFQ for Urban Village	-		£ 72	-
1/1/2017	Evaluation and initial Proposals Presented from Prospective Builders (full year)	3		£ 72	-
1/1/2018	Reviews, Comments and Final Plans Submitted (6 months)	15		£ 72	-
6/1/2018	Countryside - notified they have won	20		£ 72	-
12/1/2018	Council agrees to payment terms over development timeline	26		£ 72	-
4/1/2019	Planning Permission Obtained - Payments by Sigma and Accord begin	30	-	£ 72	-
10/1/2019	Construction begins - site work & foundations	36	6	£ 72	-
10/1/2020	Sigma - delivered their 123 units	48	18	£ 72	-
12/1/2020	Accord - delivered their 105 units	50	20	£ 72	-
11/1/2021	All Private (192) units Sold - avg 6/month	61	31	£ 79	7
12/1/2021	370 homes completed; remaining 50 have timber frames erected	62	32	£ 79	-
6/1/2022	All 420 homes completed and delivered	68	38	£ 79	-

⁹ In pre-sold heavy planned communities, the cadence usually works as follows in terms of units completed and delivered: Affordable & Council housing, PRS homes and finally Private housing.

¹⁰ PRS stands for Private Rental Sector and refers to homes that are sold to investors who buy to rent homes out

The PRS homes were delivered first. Within 18 months of planning permission approval all 123 units were delivered to Sigma. It took 20 months from planning approval for the completion and delivery of all 105 of the 'Section 106' affordable housing units. All units were sold within 32 months, and the final units were delivered within 38 months. This was a much faster pace of production and sale per unit than for traditional homebuilders. We hope this gives a better understanding of how multi-tenure differs from traditional homebuilding.

This project was done during the 'goldilocks' period described. When labour and material costs were constrained, while home prices appreciated notably.

This is evident from the increase in GDV from first mention in June 2018 at £72mm, to the last mention in the 2021 CMD 3.5 years later at £79mm. We believe that incremental £7mm of GDV was almost solely attributable to the 192 private units. That is ~£36.5k per unit, or an increase vs. initial expectations (£234.5k) of ~16%.

Most of the high-cost elements of building took place prior to the major cost inflation spike in 2021. The anticipated gross margin at 18% was much lower than a traditional homebuilder would target. This is a strategic trade-off vs. increased turnover and lower capital investment. While the outright risk on the volume of sales is lower than with the traditional approach.

However, we think it is critical that investors understand that the **risk is not eliminated. Rather it is reduced and transformed.** A traditional homebuilder can decide to slow-down or speed-up production based on prevailing conditions and to allow maximization of profit for a given home. They have the benefit of flexibility on rate of production and sale. Though this entails more capital intensity and a lower ROCE¹¹.

As we hope the Bilston project shows the opposite is true for Vistry. They are obligated.

Once such a multi-tenure deal is secured and payment terms agreed, the incentive is to move as quickly as possible. Regardless of what may happen to the housing market and prices. Because the builder has locked in revenues, with no inflation escalator on the majority of units. However, their costs cannot be hedged. At best, our research indicates that builders can only lock in prices for labour or materials for one year, and typically for only six months or less¹².

Vistry is taking on substantial margin risk with their approach. A mix of lower margins, in tandem to uncertainty on brownfield sites along with unhedgeable input cost risk means that time is the enemy of anyone pursuing such a model. In a major bull market, with only 33% of units being market sales, one would expect to see Vistry lag badly behind traditional housebuilders on margins at any level, as they simply get less benefit from HPI.

You can imagine the gross margin on the Bilston Village example given above would have been lower than 18% had BCI exceeded HPI throughout the period as it did from 2021 onwards.

¹¹ NVR can vary production too as they have optionality

¹² In addition, such projects on brownfield sites typically have higher costs and risks prior to the proposal phase from expenses relating to surveying, planning and preparing quotes

Vistry's stated target is a 12% EBIT margin. It is easier again to look first at gross margins as companies can vary in their efficiency with overhead expenses. Countryside is the best proxy for Vistry given the pre-sale heavy mix of unit production proposed by Vistry. Better, Countryside gave superior disclosure of margins across unit types in the past. The following table shows three sets of assumptions for Vistry's prospective gross margins in the coming few years – by unit type. The first column is the historical experience for Countryside from 2013 - 2021. While the other columns represent our generous and harsher assumptions for Vistry:

Bottom-up Margin estimate Unit Type	Gross Margin %		
	Countryside '13 - '21	Generous Assump.	Harsher Assump.
Private Completions	22.9%	25.0%	21.0%
Affordable	14.4%	15.0%	13.0%
Private Rental Sector (PRS)	14.3%	20.0%	14.0%
Blended Average	17.0%	19.8%	15.8%

As you can see, with harsher assumptions or the Countryside data the average margin would come out at 15.8% - 17.0% respectively. While with what we believe

are generous assumptions, the margin would be 19.8%. We believe the generous assumptions are overly optimistic in all but the rosiest of scenarios. A more reasonable optimistic gross margin baseline would seem to be ~18% (as with Bilston Village). The question then is whether operating expenses (OPEX) can be dropped to 6% or less to achieve the targeted 12% EBIT margin¹³. This is certainly achievable, but far from easy.

For Vistry (pro-forma) from 2013-2024 OPEX as a percentage of revenues averaged 9.2%. For Countryside from 2013-2021 it averaged 8.5%. Other builders have had averages closer to 6%, however Vistry achieving this into the future will be no easy feat.

In addition, as we have explained, Vistry is heavily exposed to margin risk. If BCI in the coming 3-5 years should exceed HPI, or even just the assumptions that had been used for BCI when bidding for projects, then the gross margin would almost certainly be less than the 18% target and depending on the extent of BCI even worse than our harsh assumptions envisioned above. Which would imply an EBIT margin of below 10%.

However, we are not suggesting that Vistry's 2024 EBIT margin of 4.4% is representative of the future either. That reflects the profit warnings alluded to above. But the four years prior (2020-2023) should have been free of such headwinds and had no writedowns. Yet Vistry had an average reported EBIT margin during that period of 7% (Adj. ~9.2%). Lest you think this was all attributable to COVID, that is not the case. During the same period, Barrat, Taylor Wimpey and Bellway had average EBIT margins of 15.6%.

Moreover, that period and before had a higher mix of higher margin private sales for Vistry. Just the items above have given us substantial doubts about target margins. However, like a bad infomercial: Wait! There is more. Which brings us to the last of the 3 questions we posed:

¹³ We must point out here that the EBIT margins for Vistry from the table on P11 are management adjusted. For instance, reported EBIT margin in 2024 was 4.4% vs. the management adjusted margin of 7.1%.

Were the problems that caused profit warnings a one-off event, Or does risk remain?

We believe risk does remain and that the drivers of the profit warnings from late 2024 could create future problems for profit margins. Once again, we have the benefit of hindsight. From the time that the Countryside acquisition closed market consensus was that the problems Vistry inherited from Countryside operation would be solved by the takeover of a seasoned operator.

No better evidence of this comes from the small bidding war that ensued after Countryside's share price fell. In May of 2022, Countryside rejected a take-private bid of £1.53bn from Jeff Ubben's Inclusive Capital. A few months later, an acquisition by Vistry and championed by those aforementioned activists was completed at a lower total value of £1.25bn – allowing shareholders to participate.

Those hopes were dashed with the three profit warnings in 2024. Nevertheless, bulls argue that the last of these warnings was a form of cleaning up any remaining issues and that investors now face a future where such concerns can be disregarded. We do not share this optimism.

We fear a poor corporate culture remains. A mix of aggressive intermediate goals from the CEO, Greg Fitzgerald alongside some discouraged employees and increasing competitive intensity in the pre-sale space may have created insidious malincentives.

We mentioned at the outset that Vistry utilizes POC accounting. In lay terms, this is a form of mark to model accounting, on a constantly updating budget basis. Such accounting is prone to abuse and that clearly occurred with Vistry over the past three years or so. Akin to derivative or insurance accounting, one can play with the variables to delay reporting bad news, potentially for years. However, in the end the truth will always come out.

A brief exposition of the three profit warnings from late 2024 that laid the shares low should explain our rationale. However, we must first explain a little more about how the accounting using POC (used for pre-sale projects) vs. traditional homebuilding differs. For their private sale units, we believe that Vistry accounts for them similarly to other homebuilders, with revenue only recognized upon the point of legal completion – when the house is sold and title transferred.

For the pre-sold units POC is used, and for this there are two distinct elements of revenue recognition. First is an upfront land sale when title of the land is handed over from former owner to the builder. Recall from the Bilston Village example that 20% of that cost was paid upon award of planning permission. Once construction starts, revenues are booked as certain milestones are reached.

Those milestones can be related to proportionate costs incurred¹⁴ as compared to total estimated costs.

¹⁴ Alternatively, revenue can be realized using a survey of work, based on certain building mileposts being met. For example, one would have recognized revenue on ~50% of the estimated full balance once framing was completed, as 15% would have been charged for land, 7.6% for site work, 10.5% for foundations and 16.6% for framing.

Those estimated costs are then supposed to be updated for variable movements as one passes through time. For example, if one assumed labour cost inflation of 2% but it is being realized at 5%, that should be updated for experience, and into the future, unless one believes it is temporary.

The principle makes sense: to match revenue with costs as one goes. However, it is reliant on accurate cost estimates. If those are underestimated in the current or anticipated future periods, then one will report inflated profits during the early periods. Those will then need to be adjusted for later. With POC in the UK, later restatements of earlier inflated results does not happen. Rather, a one-time catch-up / or unwinding of the prior period will be captured in the current period. Leading to a potentially large profit warning. This is what happened with Vistry.

Three profit warnings in 11 weeks and a not so Merry Christmas:

Date	# of Sites (of total)	FY 2024 EBIT Guidance (£mm)			Hit to 2025/2026 Guidance (£mm)	Total Warning (2024 - 2026) (£mm)
		Pre-Date	Post-Date	Cumulative Estimate Hit		
8-Oct-2024	9/300	430	350	80	35	115
8-Nov-2024	18/300	350	300	130	-	165
24-Dec-2024	18/300	300	250	180	-	215

In the span of a mere 11 weeks, starting on October 8th, 2024, Vistry announced three concurrent and worsening profit warnings. A summary of the cascade is shown in the table above. The first announcement relayed that problems had been found with controls / reporting relating to nine project sites.

More specifically, it was reported that the problems related to a 10% cost underestimate on those sites, with the result being an £80mm hit to 2024 guidance, in addition to a hit of £35mm vs. FY 2025 and 2026 guidance. A full review was promised. Initial results of that came within a month, and with a bad prognosis. Nine more sites were found to have similar problems and a further £50mm hit to guidance was added to the tally. The following quotes give some sense of the cause of the problems and are excerpted from the associated press release:

“The significant issues have been found to be confined to the South Division and can be attributed to insufficient management capability, non-compliant commercial forecasting processes and poor divisional culture... [The] review has highlighted the pressure being felt from organisational change as a fundamental driver underlying the issues in the South Division...Some areas of regional cultural and process inconsistencies have been noted”

Getting to the specifics of the problems found, they expanded further on the driver of the profit hit and why it had been increased from a month before (emphasis added):

“The increase reflects additional developments where the total full-life cost projections to complete the development were understated, and a reduced expectation of FY24 activity across the South Division. The understated costs in CVRs¹⁵ have been found to be from a wide range of cost types and are symptomatic of general control issues”

¹⁵ CVR is an acronym for ‘Cost Value Reconciliation’. This is a common process in construction for POC projects (IFRS 15), comparing actual costs to prior / current estimated budget costs. If a discrepancy is discovered where profitability is above or below the budget, then assumptions must be updated and a loss or gain taken. This should

Interestingly, the final sentence of the press release reaffirmed the medium term targets we opened this with, with only the timeline potentially at risk. With that, many thought the problems were finished and life could move on. Those hopes were dashed just six weeks later, on Christmas Eve. This last warning affected only 2024 and was for an incremental £50mm, bringing the cumulative revision to £215mm, £180mm of which was the equivalent of overstated profits in the prior two years. Unlike the prior warning, no reassurance was given here about medium term targets.

The purpose of the CVR process is to bring together site managers, regional managers and folks from head office, to work through the old budgets, and changes occurring and to update the assumptions for the accounts on the go. To be clear, Vistry had established and well-regarded systems in place for the CVR. They simply were not followed.

Worse, Vistry have a team at HQ to audit the various regions. However, it appears this was understaffed and lacked respect. Regional heads discovered it could be two years before the audit team would come for an inspection. That is plenty of time to do sufficient damage. Inspections of the Southern Division apparently did take place, but it seems they were merely perfunctory. They certainly failed to spot the major problems under the surface.

In lay terms, it looks like unscrupulous people within certain divisions abused the scope for judgement within the process. As costs came in higher than they had expected, they just ignored the cascade impact into the future. In effect, suggesting that increased costs for say, lumber, or labor had experienced a one-time increase and would revert back. The ability to manipulate contingency reserves or to assume savings on given cost items later were built into the models to keep margins level.

It's not hard to imagine how this may have gone. Imagine for a moment you are a mid-level manager. Your senior executive team are outspoken about hitting massive growth figures in unit volume and also about maintaining generous margins while doing so. They are not in the details, and reluctant to hear anything but 'Yes'.

Now further imagine you are of weak character, or simply naïve. In addition, you may have the option to take a job at a competitor long before anyone may discover any discrepancies in the accounts. If there are weak controls around or above you, and if you have the motive, means and opportunity, then the temptation to fudge the numbers and receive a bonus – and higher paying job away – could be overwhelming. Or perhaps you just fear the whirlwind of delivering bad news in a place where the messenger tends to get shot?

We believe this is precisely what happened at Vistry. By all accounts there is not a great culture within the company and opportunity was afforded as the company was integrating three very different businesses and operating norms. We suspect unreasonable demands along with frustration and high pressure provided additional motive.

happen frequently and should ensure accuracy. Related to this, in the 18 months prior to the first warning, CVR's per site were moved from a frequency of 12x per year, to 6x per year, while it appears the supervisory function was not well respected by all, or very effective.

Why such a pronounced impact in 2024? After all had profits been restated, then the average margin of the prior two years would have been just over 5% rather than 8%. However, recall what we described earlier about POC accounting. For units using that approach, one does not re-state profits, rather there is a one-time correction taken in the period in which the problem is discovered - creating a true-update of lifetime economics for any mistakes in the past, affecting the present and indeed into the future – as we saw with the profit warnings.

This can be hard to intuit, but a few tables should help to crystalize what this means. The following is another stylized table showing a hypothetical multi-tenure development, taking five years. The years are broken into half years, and each table has an upper and lower half. The upper half (During Period) shows each distinct period, with the final column on the RHS showing year 5 as a whole. The lower half (Cumulative) is simply the cumulative sum of the upper half.

The first table shows stable margins across the projection (where HPI = BCI):

Item	Annual	Half-year										
During Period	YR 1 -H1	YR 1 -H2	YR 2 -H1	YR 2 -H2	YR 3 -H1	YR 3 -H2	YR 4 -H1	YR 4 -H2	YR 5 -H1	YR 5 -H2	Year 5 - Total	
Revenue Realized	30.5	30.7	30.8	31.0	31.1	31.3	31.4	31.6	31.7	31.9	63.6	
Gross Profit Realized	6.4	6.4	6.5	6.5	6.5	6.6	6.6	6.6	6.7	6.7	13.4	
Gross Margin %	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	
EBIT Realized	4.7	4.8	4.8	4.8	4.8	4.9	4.9	4.9	4.9	5.0		
EBIT Margin %	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%		
In Year -->		9.5		9.6		9.7		9.8		9.9		
Cummulative	YR 1 -H1	YR 1 -H2	YR 2 -H1	YR 2 -H2	YR 3 -H1	YR 3 -H2	YR 4 -H1	YR 4 -H2	YR 5 -H1	YR 5 -H2	Year 5 - Total	
Revenue Realized	30.5	61.2	92.0	122.9	154.0	185.3	216.7	248.3	280.1	312.0	312.0	
Gross Profit Realized	6.4	12.8	19.3	25.8	32.4	38.9	45.5	52.2	58.9	65.6	65.6	
Gross Margin %	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	
EBIT Realized	4.7	9.5	14.3	19.1	23.9	28.7	33.6	38.5	43.4	48.4		
EBIT Margin %	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%		

On its own this is not useful, but as a baseline for comparison it should prove quite helpful. The next table is the same in every respect, except that in this case BCI (6.5%) runs at a little over 2x the HPI (3%):

Item	Annual	Half-year										
During Period	YR 1 -H1	YR 1 -H2	YR 2 -H1	YR 2 -H2	YR 3 -H1	YR 3 -H2	YR 4 -H1	YR 4 -H2	YR 5 -H1	YR 5 -H2	Year 5 - Total	
Revenue Realized	30.5	31.0	31.4	31.9	32.4	32.9	33.4	33.9	34.4	34.9	69.2	
Gross Profit Realized	6.4	6.3	6.1	6.0	5.8	5.6	5.4	5.2	4.9	4.7	9.6	
Gross Margin %	21.0%	20.2%	19.5%	18.7%	17.9%	17.0%	16.1%	15.3%	14.3%	13.4%	13.9%	
EBIT Realized	4.7	4.6	4.4	4.2	4.0	3.8	3.5	3.3	3.0	2.8		
EBIT Margin %	15.5%	14.7%	14.0%	13.2%	12.4%	11.5%	10.6%	9.8%	8.8%	7.9%		
In Year -->		9.3		8.6		7.8		6.9		5.8		
Cummulative	YR 1 -H1	YR 1 -H2	YR 2 -H1	YR 2 -H2	YR 3 -H1	YR 3 -H2	YR 4 -H1	YR 4 -H2	YR 5 -H1	YR 5 -H2	Year 5 - Total	
Revenue Realized	30.5	61.5	92.9	124.8	157.1	190.0	223.4	257.2	291.6	326.4	326.4	
Gross Profit Realized	6.4	12.7	18.8	24.7	30.5	36.1	41.5	46.7	51.6	56.3	56.3	
Gross Margin %	21.0%	20.6%	20.2%	19.8%	19.4%	19.0%	18.6%	18.1%	17.7%	17.2%	17.2%	
EBIT Realized	4.7	9.3	13.7	17.9	21.9	25.7	29.2	32.5	35.6	38.3		
EBIT Margin %	15.5%	15.1%	14.7%	14.3%	13.9%	13.5%	13.1%	12.6%	12.2%	11.7%		

Not such a disastrous outcome it appears. Though the 'During Period' gross margin ends up nearly 8% lower by the 10th half-year period, the 'Cumulative' gross margin is less than 4% lower. The difference ends up being in gross profit terms ($-\pounds 9.3\text{mm} = \pounds 56.3\text{mm} - \pounds 65.6\text{mm}$) over the life of the project vs. the level margin from the prior table.

Here is where it gets interesting and relevant to Vistry. This hit must be flushed through the accounts in that final year. We have to undo the prior overstatement of $\pounds 9.3\text{mm}$ (in this case) all in year 5. The impact is shown below, the table is the same as above, except for the Year 5 (H1 + H2) total gross profit:

During Period	YR 1 -H1	YR 1 -H2	YR 2 -H1	YR 2 -H2	YR 3 -H1	YR 3 -H2	YR 4 -H1	YR 4 -H2	YR 5 -H1	YR 5 -H2	Year 5 - Total
Revenue Realized	30.5	31.0	31.4	31.9	32.4	32.9	33.4	33.9	34.4	34.9	69.2
Gross Profit Realized	6.4	6.3	6.1	6.0	5.8	5.6	5.4	5.2	4.9	4.7	(9.3)
Gross Margin %	21.0%	20.2%	19.5%	18.7%	17.9%	17.0%	16.1%	15.3%	14.3%	13.4%	-13.4%

To bring the original assumed flat 21% margin for the whole project to the 17.2% figure, in one-year at the end, you require a final year gross margin assumption of -13.4%, on the affected units. We end up at the same lifetime 17.2% gross margin from the prior page with £56.3mm in gross profit. But that last year on the affected units shows a large loss.

If we assume 20% of units completed in 2024 had such problems and our stylized example above applied, then that 20% would have had a gross margin of -13.4% and assume the remainder at 16%, that would deliver the 10% margin the business ultimately reported.

This is akin to under provisioning by a bank or insurance company on a derivative contract. However, it seems many investors did not appreciate that this form of accounting was used by any homebuilder, either in proportion or at all. Or if they did, how open to abuse it can be.

While this is only a stylized example, it illustrates what occurred at Vistry. Perhaps the rogue actors hoped that on the proportion of open market homes, that the market would bail them out? This is feasible and probably happened in the prior half decade. We think it unlikely this nefarious conduct emerged out of the blue. Countryside's 2021 warning suggests so.

The root cause would then be integration problems, a poor culture and controls and a disconnect between senior management and front line employees – with poor behavior being driven by fear or greed incentivized by perhaps unreasonable goals.

Are these problems now fully behind us? We fear not. Cultural problems are very slow to correct. More concerning to us is on projects won / tendered for in the 2021 - 2023 period where construction is just beginning or yet to begin. Is it possible further shoes drop? If you go back to the cadence of profit warnings, in the last there was acknowledgement of some issues in other divisions.

Our fear around the existing land bank being built to overly optimistic assumptions relates to this. Not to suggest that projects will be loss making.

Rather just lower margin than anticipated or budgeted for when deals were won. Only time will tell, but we worry the next few years will disappoint vs. expectations. The stretch goals, extreme pressure and urge to add to the landbank at a record rate were every bit as present from 2020 through October of 2024. We fear the expected margins when these were tendered for were in line with our harsher case margin assumptions from earlier. While if BCI is worse than assumed in those tenders, then margins could be even worse than our harsher case.

To be very clear, one need not have a further profit warning from prior overstatement. Rather, if BCI simply continues to grow at a rate faster than HPI, as outlined in their plans, then Vistry would just gradually have to reduce both gross and EBIT margin targets. If normalized EBIT margins end up at 7% - 8% rather than the targeted 12% then the value proposition for shareholders is not positive. We hope this explains our stark concerns around the margin target.

Valuation:

We don't mean to be overly negative here. The bull case speaks for itself. Moreover, do we mean to suggest that the ~10% adjusted gross margin from 2024 is the new normal? Absolutely not! That is a one-off relating to POC accounting and prior year overstatements.

Moreover, Vistry has some very real advantages in their area of focus. Especially their industry leading experience and track record of quality delivery on multi-tenure projects. Financial results have disappointed and shocked at times. However, what matters to home buyers: build quality, on time delivery and reliability - has remained at a very high level. Such a solid record and reputation help considerably when bidding for projects.

Notwithstanding those real positives, our fears on the key variables remain. Stripping out all of the acquisitions, the complexity of accounting and the associated mishaps we believe one can value Vistry simply on a normalized EBIT basis. Using just the following: 'Unit Volume * ASP * Margin'

With that in mind, we layout below three simple cases (margin refers to EBIT margin) as per that formula, and then multiplying by a what we hope is a reasonable multiple:

Case	ASP	Units	Margin	Revenues	EBIT	Multiple	EV	Market Cap	Share Price - Full EV	Upside - Full EV	Market Cap - Simple	Share Price - Full EV	Upside - Simple
Base	280	17,000	9.0%	4,760	428	9.00x	3,856	2,400	£ 7.25	21.8%	3,213	£ 9.70	63.1%
Base	280	17,000	10.0%	4,760	476	9.00x	4,284	2,828	£ 8.54	43.5%	3,642	£ 11.00	84.8%

Case	ASP	Units	Margin	Revenues	EBIT	Multiple	EV	Market Cap	Share Price - Full EV	Upside - Full EV	Market Cap - Simple	Share Price - Full EV	Upside - Simple
Bull	290	22,000	8.3%	6,380	530	10.00x	5,295	3,840	£ 11.59	94.8%	4,653	£ 14.05	136.1%
Bull	290	22,000	9.3%	6,380	590	10.00x	5,902	4,446	£ 13.42	125.6%	5,259	£ 15.88	166.9%

Case	ASP	Units	Margin	Revenues	EBIT	Multiple	EV	Market Cap	Share Price - Full EV	Upside - Full EV	Market Cap - Simple	Share Price - Full EV	Upside - Simple
Bear	275	15,000	6.0%	4,125	248	10.00x	2,475	1,019	£ 3.08	-48.3%	1,833	£ 5.53	-7.0%
Bear	275	15,000	7.0%	4,125	289	10.00x	2,888	1,432	£ 4.32	-27.3%	2,245	£ 6.78	13.9%

You may see we have two measures of EV and Market Cap in those tables. The difference between the two is a function of how one measures the EV. In our case, we believe the items headlined in gold above are the more appropriate. In that measure of EV we incorporate both Land Creditor debt¹⁶, leases and provisions. The simple EV (and Market Cap) exclude each of these. As all are real liabilities that must ultimately be covered we include them when making our conclusion.

However, others may exclude them. As for fair multiples, this is also open to debate. We encourage you use your own. As a reference point, here is the historical multiple range of EV/EBIT for the aforementioned competitors and Vistry from 2013 onwards (with the average given on the RHS):

EV/EBIT	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Avg 13 - 24
Vistry	18.3x	10.9x	10.0x	6.4x	10.4x	7.8x	10.4x	19.2x	9.2x	7.4x	8.9x	5.9x	10.4x
Barrat Development	13.1x	10.0x	9.8x	5.5x	7.0x	4.4x	7.2x	10.6x	6.7x	2.6x	5.1x	15.6x	8.1x
Taylor Wimpey	14.4x	12.3x	12.1x	7.5x	7.6x	4.8x	7.0x	9.9x	7.1x	3.6x	6.2x	9.1x	8.5x
Bellway PLC	12.8x	9.2x	9.6x	6.1x	7.6x	4.6x	6.6x	11.3x	7.0x	3.2x	5.2x	12.6x	8.0x
The Berkeley Group	11.0x	6.1x	8.2x	5.7x	5.2x	4.5x	7.7x	10.6x	7.6x	6.6x	7.4x	6.7x	7.3x

Coming back to the parameters and formula outlined. On **Units**, we believe that maintaining 17k units per year is no small feat. The histories of Vistry (pro-forma) and competing builders have shown this to be something of a ceiling. While the last two years of landbank addition being under

¹⁶ Land creditor debt refers to a trade payable arising from deferred consideration for real estate. An obligation to pay for land/property that has been acquired but not yet paid for, where the seller is owed the outstanding amount.

17k does not bode well for the future. We still use that figure for our **Base case**. Nevertheless, we believe that a 9% - 10% EBIT margin is achievable in that case. A multiple of only 9x is used as this will be for a business that has not grown unit volume for 3-5 years at that point.

For the **Bull case** we increase unit volume by 5k units per year. We believe this would be a fantastic achievement by the company. However, we believe this could only be achieved at the expense of lower **Margins**. Hence we use a lower range of 8.3% - 9.3%. But we do allow for a higher multiple reflecting higher growth. We weight this scenario with a very low probability.

For the **Bear case** we assume the problems remain within the group and that the lower recent intake to the landbank translates to lower completions. Worse, this assumes that the 2020-2024 situation of BCI outstripping HPI continues at a similar rate, driving EBIT margins towards the average of the 2020-2024 period (7%) or below (6%). This represents the fear that projects bid on in the past 3-4 years have not incorporated sufficient contingency reserves and may come realize a blended gross margin of 12% - 13% or so. We use the 10x multiple as we assume the market may treat this as a trough.

This would be extremely disappointing, but in an environment of BCI in excess of HPI it is entirely feasible. Here the downside is limited if people use the simple EV and ignore non-conventional liabilities.

However, we believe in such a scenario, people are likely to be meticulous in considering downside risk and contingent liabilities. As a result, we think the focus would be on how we look at EV. In that case, the downside would be 25% to 45% from the current share price.

Conclusion

In our opinion, the odds of the Bull case being realized is 5% or less. While we fear the Bear case is a 30% probability. That leaves 65% for the base case. No doubt, bulls on the name will take issue with the probabilities we have used here. In addition to what I am sure they would argue are low multiples and perhaps ASP's. We are merely offering our own opinions and assumptions here.

Despite all of our concerns and negativity, the assumptions above still suggest that Vistry is cheap. Just not startlingly so. The following tables show the upside/(downside) to the shares from the assumptions above, with the first showing the probabilities we just covered:

Probability		
Bear	Base	Bull
30%	65%	5%
Upside / Downside - Full EV / Simple		
Low Margin	2.2%	22.8%
High Margin	17.3%	38.0%

This table shows the probability weighted return for the full EV as we calculate it on the left side, and for the simple EV excluding the land creditor debt, etc. on the right. Then on the upper and lower rows for the low or high margin assumption from the cases laid out above. For these weights we see an expected return in the range of 2.2% - 17.3%. Not terrible, but not terribly appealing.

If we were to use the same cases, but a more evenly weighted set of probabilities, with higher odds assumed of the Bull case (moving that to 25%), then the results would improve as follows:

Probability		
Bear	Base	Bull
25%	50%	25%
Upside / Downside - Full EV / Simple		
Low Margin	11.3%	31.9%
High Margin	44.0%	64.6%

This shows a substantial improvement in return profile, as you would expect. Yet still not exciting.

We can certainly appreciate someone looking at the bull case alone, and assuming higher margins, a higher multiple and greater unit volume of production.

Even to what many may consider our modest bull case assumptions, the upside is 95% (on a Full EV, Low Margin) to 167% (to simple EV, High Margin). Furthermore, if we used more generous bull case assumptions such as a 12% EBIT margin and an EV/EBIT multiple of 12x, then the upside would be 293% on the full EV, and 334% on the simple EV.

If Management can deliver on their targets then investors will enjoy wonderful returns. Regardless, we can only trust our own work, the facts gathered and our reasoning. On that basis, even though Vistry is clearly not expensive, we don't think it is hugely compelling given our large fear around the Bear case and high likelihood of a challenge on unit volumes and margins even in the Base case. More importantly we feel we have better risk / reward propositions currently in our portfolio.

We know the above has been a long exposition covering a lot of ground and for any of you who made it this far, we appreciate your patience and interest. Though we elected to pass on Vistry at current prices, we hope this shows why, despite an enticing popular pitch narrative.

More importantly it should offer you a better idea of how we analyse individual companies and the risks they face.

To end this letter, let us leave you with some thoughts: Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria. We are somewhere between optimism and euphoria in narrow market segments, while pessimism reigns in neglected areas.

This divergence is where we do our best work.

In these uncertain times, we are reminded that worry is interest paid on trouble before it comes due. We cannot control markets, only our response to them. We choose to respond with discipline, patience, and gratitude for the opportunities before us.

Thank you for your continued trust.

Best Regards,



Shaun Heelan, Chief Investment Officer

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