

AVENTINE CAPITAL PARTNERS

January 13, 2025

RE: Letter to Limited Partners, Q4 2024

Dear Partners,

The fund returned -4.85% (net of all fees and expenses) for the fourth quarter of 2024.¹

	Net Performance			
	2024		Since Inception*	
	Q4	YTD*	Total	Annualized
Aventine Capital Partners LP	-4.85%	-6.06%	-6.06%	n/a
MSCI ACWI ex-USA ²	-7.60%	-0.24%	-0.24%	n/a
S&P 500 ³	2.41%	12.33%	12.33%	n/a

**June 2024*

Portfolio Composition				
Top 5	Top 10	Long	Short	Net
49.3%	74.6%	77.3%	0.0%	77.3%

Geographic Exposures			
North America	Europe	APAC	Emerging
9.7%	62.3%	0.0%	5.3%

The following top five holdings accounted for 49% of the portfolio (alphabetical):

Alight: This US-listed benefits management firm provides outsourced administration of healthcare and retirement benefits for mostly enterprise clients. It serves 70% of the Fortune 100 and 50% of the Fortune 500. Revenue is 93% recurring, with over 95% retention. Alight was a division of Aon that was acquired by Blackstone in 2017 before listing in 2021. The company is executing a technology-driven strategy that underpins organic revenue growth in the mid-single digits and margin expansion as clients transition to the cloud. During 2024 the company divested its lower-margin Payroll and Professional Services divisions for 10x EBITDA and 24x free cash flow, leaving a focused and higher quality benefits management operation. Reputable activist investors are on the board and an experienced new CEO, Dave Guilmette, was appointed in August 2024. Alight currently trades for 8x my estimate of midterm free cash flows and less than half the earnings multiple of slower-growing peers.

Helios Towers: This UK-listed telecommunications infrastructure company is a leading operator of cellular towers across nine markets in Africa and the Middle East. The business acquires, builds and maintains the towers on which mobile network operators (MNOs) install and operate their antenna equipment. African mobile user penetration and data consumption rates are less than half those of developed markets. Helios

stands to benefit as demographic trends and rising data usage drive higher tenancy ratios on its towers. Since listing in 2019, Helios has expanded from five to nine markets and doubled its tower count to 14,000 via a series of acquisitions while maintaining relatively low leverage. Contracts are 70% hard currency with blue-chip global MNO clients and include pass-through clauses for power and cost inflation. This high-margin business (50% EBITDA margins and 10% maintenance capex costs) offers a utility-like service with inflation protection. Helios trades at a material discount to global peers despite having lower leverage, higher growth rates and an inflecting free cash flow profile. The enterprise currently trades at 6x next year's EBITDA and <4x my estimate of mid-term EBITDA, far below recent industry M&A transactions.

TT Electronics: This UK-listed business is a global designer and manufacturer of electronic components serving Original Equipment Manufacturers (OEMs) across a wide range of end markets. Over 70% of its sales are low-volume, high-spec components and over 50% serve highly regulated industries including healthcare, aerospace and defense. TT has grown over the years via M&A and operates 18 design/manufacturing facilities on three continents, utilizing a highly federated operating model that has led to inefficient operations and below-peer margins. New leadership under CEO Peter France is executing an aggressive restructuring program designed to cut costs and streamline operations. This program was fully unveiled in August 2024 but was immediately followed by a September profit warning, leading to a sharp loss of confidence in management by the market. We were able to acquire shares at materially de-risked prices as low as 75p/share. Following the profit warning TT received three non-binding acquisition offers from two bidders, the highest of which was an all-cash offer of >140p/share. The board rejected each bid as “fundamentally undervaluing” the business and recommitted to the ongoing restructuring program. Shares trade for 4.5x my estimate of mid-term earnings and 3.5x management's guided earnings potential.

Vicat: This French-listed materials business operates vertically integrated cement, aggregates and ready-mix concrete plants across twelve markets globally. France is 31% of sales and the US is 19%. It is controlled by a multigenerational founding family who are active in management and own 63% of the equity. Free cash flow has been suppressed for several years due to large growth capex initiatives, most notably in Alabama and Senegal. Both of these projects completed in 2024 and capex is poised to decline to historically normal levels. As with peers, Vicat suffers from a severe undervaluation of its North American operations, which represent 23% of group EBITDA but if valued in line with US peers is worth 60% of Vicat's enterprise value, leaving the rest of the business trading at below 2.0x EV/EBITDA. It is unlikely the family will do anything to address this undervaluation, but options exist. Meanwhile the 5.5% dividend yield and high-teen levered FCF yield provide a valuation underpin. Shares trade at historically low discounts to peers, below replacement cost and for less than 4x my estimate of mid-term EV/EBITDA.

Vistry Group: This British homebuilder utilizes a differentiated model of partnering with public and private sector property managers to develop or redevelop land into residential communities for sale, for rent, and for government subsidized homes. Unlike traditional homebuilders, Vistry's partnership model requires less upfront spending on land, allowing for returns on capital employed that can exceed 40% and a less cyclical earnings stream. In November 2022, Vistry acquired its only national competitor, Countryside PLC, becoming the de facto incumbent builder of affordable mixed tenure housing in the UK. Vistry's CEO, Greg Fitzgerald, is a proven operator with a multi-decade track record of UK homebuilding experience. During the fourth quarter of 2024 the company issued three profit warnings, two of which related to an instance of isolated fraud within the business. Shares traded down sharply and ended the year

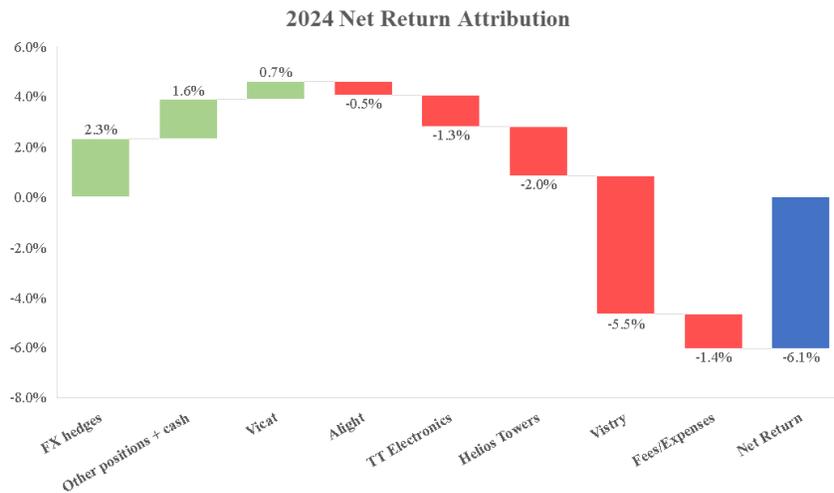
valued at 0.75x Price/TNAV (tangible net asset value), implying a below-liquidation valuation. I believe the share price reaction materially exceeds the impairment to intrinsic value and have built Vistry into our largest holding at-cost. In addition to trading below liquidation value, shares currently trade at 7x forward (depressed) earnings, 4x my 2027 earnings estimate and 3x management’s aspirational goal.

Comments on the year

Our 2024 results are unimpressive on an absolute and relative basis. This is disappointing, but I consider seven months too short a timeframe to draw any meaningful inferences. As I wrote last quarter, our strategy involves making concentrated investments in unloved companies, and I won’t time the bottom perfectly. We own a collection of profitable operating businesses led by skilled management teams, acquired at attractive valuations. During the fourth quarter I took advantage of declining share prices to increase the weightings of several positions, most notably Vistry Group, which is discussed in the appendix to this letter.

It’s worth emphasizing that I don’t manage the fund for relative returns. None of our holdings are in the S&P 500 and only one – Alight – is US-listed. This has hurt relative returns over the last seven months. International markets (as measured by the ACWI ex-USA index) are currently trading at a 38% price-to-earnings discount to the S&P 500 – the widest gap since at least 2004 and two standard deviations below its 20-year average. This reflects both an expensive US market and cheap foreign markets. After such a long period of underperformance there are growing signs of capitulation towards non-US investing – a trend I view positively. I continue to find compelling opportunities across international markets.

The table below provides an attribution waterfall of our net returns for the year, segmented by the top five positions, all other positions, currency hedges and operating expenses.



Unaudited internal estimates

As you can see, four of our top five positions generated >100% of our unrealized losses for the seven-month period. Vistry is a significant detractor that I discuss further below. Our largest positions represent a combination of the highest expected returns and the lowest risk of impairment. They are businesses that, should they get cheaper, become increasingly attractive *and less risky* to own. This is most obviously the

case with Vistry, where after a steep derating in Q4 the company now trades at 0.70x tangible net asset value, a reliable valuation backstop given the relatively liquid nature of its tangible assets (land).

I take no satisfaction in reporting negative returns, even if they reflect unrealized losses in businesses whose intrinsic values I believe remain well above our cost base. My earliest purchases in our largest positions were demonstrably “too early,” which is indistinguishable from being “wrong” in the short term. But the companies we own are leaders in their respective industries. Most serve global end markets, offering critical products or services at competitive prices. Their share prices are discounted for reasons that I believe I understand and consider myopic. Eight of the twelve companies in our portfolio are undergoing strategic transformations that will improve their future earnings profiles in ways that are difficult to anticipate when looking at past performance. I cannot predict when share prices will reflect these improvements but am confident that the intrinsic values across our portfolio continue to compound higher.

Currency hedges materially benefitted our portfolio returns in 2024. By fully hedging our euro and sterling exposures, we offset the mid-single-digit devaluations of both against the dollar. I don't expect to always be fully hedged. Most companies we invest in manage their own currency exposures, either operationally or through financial instruments, and duplicating these efforts is unnecessary. Some sell into global markets and gain a competitive advantage when their local currency declines. Currencies tend to exhibit mean-reverting tendencies over the long term, and I implement hedges dynamically to reduce exposure to overvalued currencies (as measured by purchasing power parity) or to manage shorter-term tail risks from geopolitical volatility. Our current hedges reflect the latter, addressing risks stemming from the 2024 US/EU election cycles and diverging monetary policies, which have contributed to the dollar's ongoing strength. As the euro and sterling approach historically undervalued levels, I may reduce or remove these hedges. My focus remains on owning globally diversified businesses with durable earnings power, that are capable of navigating a range of macroeconomic environments, including currency fluctuations. Hedging serves as a complementary tool to my fundamental investment strategy, enhancing our ability to perform in both stable and volatile environments.

This year there were no realized gains and minimal gains from interest and dividends. I strive to minimize your taxes without letting tax decisions compromise the investment strategy. Most fund managers do not consider after-tax returns and I'm proud to provide a tax-efficient investment vehicle. This is enabled by the patience of your capital, which lets me make long-term investments in businesses that can compound their own capital, rather than relying on our own short-term trading gains.

Exited Positions

In future years the year-end letter will include detailed analysis of exited positions, providing a post-mortem on the investment theses and outcomes. This year we launched in June, deployed 77% of our capital into 12 businesses, and exited no positions.

Given this, I've included an appendix overview of Vistry Group PLC, our largest position at-cost and the largest detractor to our returns in 2024. As with my discussion on TT Electronics last quarter, I hope this provides you with a useful example of my investment process. It also serves as a time-stamped summary of my views for you to reference when the position is eventually exited.

Indexed and correlated

“If you think about it, public markets do not work the way we think they work. ... In the US, which is the most developed of the capital markets, do we have price discovery in the short term? I don’t think so. Think about what’s happened in US markets. 80% of the volume is the S&P 500. 60% plus of the market is passive. Ten stocks are 39% of the S&P 500. Four stocks have determined basically profitability for the last 4 years. One stock is larger than every public market other than Japan. That’s the universe you’re going into. I’m not saying it’s risky, I’m saying it’s indexed and correlated. It is about capital flows now, it is not about price discovery of an individual security in the short term.”

-Marc Rowan, CEO of Apollo, in December 2024

An investor who wants access to index returns should buy index ETFs, guaranteeing them benchmark-like returns. This is a fine approach, but it’s important to know what you own. At the end of 2024, the top ten stocks in the S&P 500 made up 39% of the index. These ten stocks trade at 30x earnings and have driven over 55% of the index’s total returns since 2021. This level of index concentration is unprecedented, and history suggests that it doesn’t bode well for future returns.

I am not a macro investor and don’t spend time predicting macro events, other than to stress test the businesses we own. However, as discussed in the inaugural Q2 letter, certain macro trends give me confidence that our strategy has tailwinds supportive of future outperformance. These include: (1) extreme concentration within purportedly diversified indices like the S&P 500, (2) the historic underperformance of so-called value investing strategies, and (3) the historic underperformance of non-US markets.

The trends referenced in the Q2 letter have expanded further in the last six months. In the short term, this has hurt our relative performance, however in the long term it makes me even more confident in the prospective returns of our strategy. I subscribe to Marc Rowan’s view that markets have become increasingly “indexed and correlated.” The rise of passive and non-fundamental (i.e. quantitative) strategies, which now dominate trading volumes, weakens price discovery in the short term. This creates opportunities for actively managed, long-term capital to buy quality businesses below intrinsic values.

Marc Rowan was sharing this view in support of private market investing (Apollo’s business), but it is equally supportive of our strategy. Enabled by the patience of your capital, I do not care about short term stock market price moves, other than as opportunities for position entry and exit. I seek to own resilient businesses whose operations are not affected by stock market cycles, with skilled leaders who can take advantage of over- or under-valued share prices to increase per-share values.

The businesses we own are idiosyncratic and not present in most major indices. The median market cap of our portfolio, at \$1.4bn, is too small for many institutional investors, a dynamic that can depress price discovery in the short- and medium-term but not the long-term. Additionally, most of our businesses are executing strategic initiatives whose outcomes are uncorrelated to macro events.

Over time, of course, you should rate my performance relative to readily available investment alternatives, most obviously the MSCI ACWI ex-US index and the S&P 500 index, both of which I reference at the top

of every quarterly letter. My goal is to generate excess returns through a market cycle, and I expect to do this in part by avoiding the increasingly indexed and correlated attributes of the broader market.

In Closing

Spicer Jeffries is conducting the partnership's 2024 audit. K-1 forms should be available in late February and will be distributed via email by the fund's administrator, Liccar. We expect taxable income to be minimal given the absence of any realized gains during the year.

Thank you for your confidence and support. I take seriously the responsibility of investing your capital and am particularly humbled by your decision to invest as founding partners. As one of the largest investors in the fund, my experience is the same as yours. I remain excited about the companies that we own.

I would also like to thank the team at Kinney Asset Management for their backing and support: Peter Kinney, Brent Batts, Karen Moore and Adam Schloss.

The Founders' Class remains open and I'm appreciative of introductions to investors you think might be a good fit. Referrals from existing partners are the best as I try to attract people aligned with our strategy.

Please don't hesitate to reach out with any questions or ideas. Wishing you all a happy and healthy 2025.

Sincerely,



Philip B. Berkman
General Partner

Direct: 312.548.8423

Mobile: 617.866.8388

Email: philip@aventinecap.com

¹ All performance figures represent unaudited net performance estimates for partners that made initial contributions at the inception date in the Founders' Series of partnership interests. Individual partner returns may vary depending on the timing and series of their investment. The partnership is audited on an annual basis.

² The MSCI ACWI ex USA index captures large and mid-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 85% of the global equity opportunity set outside the US. It is a total return index inclusive of net dividends received.

³ The S&P 500 includes 500 leading companies in the U.S. and covers approximately 80% of the available market capitalization. It is a total return index inclusive of gross dividends received.

Appendix: Vistry Group**FY24 Summary Figures:**

Share Price (1/10/25):	£5.20	Adj. Revenue (£mn):	4,117
Diluted S/O (mn):	332	Adj. EBIT (£mn):	402
Market Cap (£mn):	1,777	5-yr revenue CAGR	24.1%
Enterprise Value (£mn):	1,973	5-yr avg. EBIT margin:	11.5%
Net Debt / EBITDA:	0.5x	5-yr avg. ROIC:	19.5%

Introduction

During the fourth quarter I made Vistry our largest position at cost. It's currently a 10% weighting in the portfolio and could become slightly larger. Over the last 14 weeks shares have declined 60% to levels that I believe are far below intrinsic value. The equity today trades below liquidation value and I underwrite a 3.2x return / 33% 4-year IRR to £16/share.

Vistry is a business I know well. Over the last five years I've built relationships with the CEO, CFO, board and top shareholders. I've spent considerable time analyzing the business model, competitive landscape and demand drivers. I believe Vistry is a differentiated business that should trade at a premium to the housebuilding sector. Even if I'm wrong, however, shares today offer a material margin of safety: if Vistry only ever trades like a low-growth cyclical housebuilder there is still a 70% upside on mid-cycle earnings valued at sector average multiples. Or a 40% upside if it is opportunistically acquired at 1x tangible book.

When we launched in June, Vistry wasn't a day-one holding based on valuation. Following the Q4 profit warnings and a thorough reassessment of my underwriting I've made it a high-conviction core position.

Summary

Vistry is the largest housebuilder in the UK, delivering 17.5k units/year in a market that delivers 200k units/year and is critically underbuilt. Vistry is also, by a large margin, the biggest "partnerships" developer in the UK, a differentiated business model that can generate >40% ROCE via an asset-light delivery mechanism that is lower-risk and less cyclical than traditional housebuilding. Vistry bulk presells 2/3 of its units via multi-year partnerships with institutional buyers, generating lower margins but higher returns on invested capital versus traditional builders. It focuses on affordable housing and has a 65+ year legacy of executing large-scale greenfield and brownfield developments across the UK.

The Group is led by an excellent operator, Greg Fitzgerald, and has a shareholder friendly board. The company's mid-term target is to generate £800m of operating profit by growing deliveries to >25k houses annually. This is an overly ambitious goal that I do not underwrite them achieving this decade.

Following the recent negative events described below, shares currently trade at 0.70x tangible net asset value (TNAV), the primary valuation metric applied to the sector. This translates into 4.1x my estimate of 2027 earnings, or 3.0x management's own ambitious targets. UK housebuilders typically trade at a slight premium to TNAV, reflecting the liquidating nature of their business model, which equates to 8x-12x earnings through the cycle. Vistry is a higher quality business that should trade at a premium to peers.

Put differently, this is a £1.8bn market cap business with £200m of year-end net debt. It is cash generative and growing. In 2025 it will generate >£450m of core operating profit and >£350m of profit before tax. The company is returning £1bn of excess capital to shareholders over several years via a highly accretive repurchase program, the remaining ~£800m of which is worth 45% of the current market capitalization.

The market today is applying a trough multiple to depressed earnings. On 11x mid-term earnings, shares are worth 3x their current value. There is a large margin of safety in this underwriting.

Company Overview

Vistry utilizes a differentiated model of partnering with public sector entities and institutional property managers to develop or redevelop land into residential communities for sale, for rent, and for government subsidized homes. Unlike traditional homebuilders, Vistry's partnership model requires less upfront spending on land, provides a less cyclical earnings stream and offers returns on capital that can exceed 40%.

In 2024, approximately 75% of the houses Vistry delivered were partnership units, while the remaining 25% were open-market for-sale units. Partnership projects have several highly attractive qualities:

- Limited up-front cash costs for land and permitting, as partners typically bring or buy the land
- Bulk pre-sale of houses to investment-grade institutional and government landlords
- Pre-agreed financial terms that include inflation escalators and periodic cost estimate resets
- Smoother cash flows thanks to partners paying Vistry on a percentage completed basis

The benefits of this model over traditional housebuilding can't be overstated. Traditional housebuilding is extremely cyclical and capital intensive. Builders must buy land on spec, permit the land, build the house, market the house and sell it to an individual buyer. Once done they must rinse and repeat, with pressure to constantly source new land. For this they generate high-teen operating margins and, if all goes well, 20%-25% returns on capital employed.

Under the partnerships model, Vistry partners with local authorities and private sector institutional landlords. These partnerships develop "multi-tenure" sites that mix government subsidized, rental, and private for-sale houses. While a traditional housing development might have a few hundred homes, Vistry's sites can have thousands of homes and include parks, schools and other public infrastructure. Developments are complex and phased over many years. For its services Vistry generates low-teen operating margins and returns on capital employed that can exceed 40%.

The partnerships model was pioneered by a business called Countryside Properties. Founded in 1958, Countryside became an expert in large and complex community developments. By the 1970s it had become the partner of choice for land-rich, cash-poor local authorities trying to address an affordable housing shortage. Oaktree took Countryside private in 2013 and re-listed the business in 2016. At the time it remained a hybrid partnerships/traditional builder.

In late 2022 Vistry acquired Countryside. This was a transformational acquisition that merged Countryside's strong partnerships brand with Vistry's strong leadership. One year later Vistry's board decided to become a 100% partnerships business, announcing the winddown of its traditional housebuilding division. Given the lower capital needs of the partnerships model, Vistry concurrently announced the return of £1bn of excess capital to shareholders via a massive buyback program across several years. The market cap at the time was £2.8bn.

Industry Dynamics

There is an acute housing shortage in the UK. It is a country of 68m people with 30m housing units. Various estimates calculate a shortage of over 4m units. Per capita housing penetration is below that of similarly developed nations. France has the same population as the UK but 8m more houses.

The UK needs to build 300k houses/year but hasn't built more than 250k/year since the 1980s. There were just 199k new-build completions in the year to March 2024. In 2019 the Tory government introduced a 300k/year target that Covid interrupted. The recently elected Labour government has made housing a top priority and is instituting planning reforms and stimulus funding. It has a goal to deliver 1.5 million new homes over the next five years. There is a 1m+ household waitlist for subsidized government housing.

The number of active builders in the UK has declined by 50% over the last decade as M&A and scale have consolidated the market. The top 10 housebuilders are responsible for 40% of new completions, while large homebuilders (>500 deliveries/yr) are responsible for over 75% of completions. Although there are political pressures to support smaller builders, the government has acknowledged the necessary role large builders play and has explicitly named Vistry as a critical partner in increasing national production by 50%.

Regarding partnerships, there are approximately 1,600 registered housing providers in the UK, primarily non-profit housing associations but also for profit and government entities. There are also 382 local government councils. Vistry has a diverse exposure to the UK market via longstanding relationships with 141 of the largest housing providers. Other listed housebuilders have experimented with small partnership projects, but none have the nationwide footprint of Vistry. It would take years to build a comparable reputation and pipeline. The closest competitor is Keepmoat, which was acquired opportunistically in 2021 by Aermont Capital for 8.5x EBITDA, over twice Vistry's current valuation.

Business Quality

I generally rate housebuilders as low-quality businesses. Most builders are capital intensive, extremely cyclical, and produce a commodity product serving rate-sensitive consumers. They rely on landbanks that must be continually replenished, and operating profits are highly sensitive to the price they pay for land.

By contrast, Vistry's partnerships model is capital light, with partners bringing or buying the land up front. It is primarily a B2B business, where it has earned a brand reputation as the partner of choice for local authorities and institutional landlords across the UK. These partners pre-buy over two thirds of Vistry's deliveries and their demand is counter cyclical: during recessions the need and funding for affordable housing increases.

Case in point: In the difficult market of 2023 most UK homebuilders delivered between 25% and 35% fewer homes than they did in 2022. Vistry delivered just 5% fewer, bolstered by its institutional partnership sales. In 2024 Vistry increased its total deliveries while most peers continued to report negative growth.

As the largest housebuilder in the UK, with a multi-year pipeline of contractual work, Vistry has material scale advantages. It offers subcontractors and building product suppliers more continuity of work than any other builder, and in exchange it demands below-market pricing. During 2022-23 Vistry reduced its procurement costs while other housebuilders struggled to pass on 5%+ inflation to homebuyers.

Management Quality

I have known Greg Fitzgerald for nearly five years and rate him highly. He is the longest-tenured CEO of any UK-listed housebuilder, starting from the bottom to become an industry-renowned operator.

Vistry has a deep bench of seasoned operators below Greg, many of whom have worked with him for decades. There are clear risks around transitioning the model and growing the business so quickly, as we have just seen (“Recent Events” below). That should not distract from the fact that Vistry’s senior team is among the best in the industry, supported by a board who understands capital allocation.

Greg owns 1.7m shares outright and 2.7m inclusive of unvested performance shares (worth £20m at current prices). He purchased £2.2m more following the first profit warning in October. Long-term incentives are measured against total shareholder return, earnings per share and return on capital employed. Greg is aligned with shareholders, as is the board thanks to the presence of 10% owner Browning West.

Balance Sheet & Capital Allocation

The balance sheet is fine. Vistry will end 2024 with £200m of net debt. Intramonth average net debt is higher at >£700m, reflecting the fact that Vistry still has ~25% of annual deliveries that are open market sales. They must carry the inventory and development costs associated with these ~5,000 for-sale homes, only receiving cash upon the closing of a sale. At £250k average selling price and 15% gross margins, that’s £1bn of full-year work-in-progress that turns 2x annually (a typical home takes 6 months to construct), requiring ~£500m of debt-funded working capital. This is asset-backed debt and Vistry generates nearly £500m of operating profit annually. There is minimal risk here, although it’s worth noting that most peers maintain modest net-cash year-end balances to protect against the higher cyclicity of their business model.

Greg and the board are impressive capital allocators. During past recessions he opportunistically issued equity to buy land at fire-sale prices that proved highly accretive. Over the last 20 years he has successfully executed multiple strategic acquisitions, most notably Countryside. Their decision to become a pureplay partnerships business was driven by an understanding that the partnership model has higher returns and lower cyclicity than the traditional model Greg has spent most of his career in.

None of his peers (or their boards) are willing to deploy material capital into the partnerships model, viewing it as a lower-margin business while failing to appreciate its higher ROCE and higher quality of earnings. This is a classic “innovators dilemma.” Also, despite pressure from dividend-obsessed UK shareholders, Vistry in 2023 converted its dividend into a buyback program, seeing the obviously accretive benefit of retiring shares at depressed valuations.

Although I am not underwriting this, if the remaining £800m repurchase program is executed at prices anywhere close to current levels, Vistry will retire 45% of its equity. The business is unlike any other housebuilder in its ability to grow revenue while simultaneously reducing capital employed. For this reason alone, it clearly doesn’t deserve to trade on a multiple of tangible book value, the industry standard, and instead should be rated against its earnings potential.

Recent Events

Shares declined -39% in 2024 and -57% since the start of October, primarily due to the following situation:

On October 8th Vistry issued a profit warning. Local leadership in one division had been taking advantage of project accounting norms to intentionally understate cost estimates. 18 of Vistry’s 300 development sites were affected, with 60% of the issue relating to just five sites. This localized fraud went unnoticed for over a year and was uncovered as part of the transition to a pureplay partnerships model.

Project accounting (also referred to as contract accounting) is a standard accounting practice that matches costs with revenues over the life of multi-period project, providing a more accurate representation of

financial performance during the project's duration. It relies on life-of-project cost estimates that are regularly updated via Cost-Value-Reconciliation (CVR) reviews, which in the case of Vistry are held monthly. When cost estimates increase, as they often do, revised figures are input to Vistry's centralized finance system, updating the life-of-project earnings profile and current period financial statements. Project accounting avoids the need for prior period restatements by allowing current period adjustments to correct for prior period over/under statement of profits. Normally these are immaterially small, given the monthly cadence of CVR reviews. In the case of Vistry, local management intentionally suppressed life-of-project cost estimate increases for over a year before being caught. They had hoped to make up the difference before the developments were completed. Critically, reported cash flows were accurate throughout.

As required by regulation, this information was publicly disclosed within 24 hours of it being discovered. Management initially estimated a £115m reduction to profit before taxes across 2024-2026 but hired independent forensic auditors to complete a detailed review of the whole business. The results of this audit were presented in November. While the findings confirmed that the bad behavior was isolated to the South Division, it increased the non-cash provision to £165m.

Local leadership was fired and the Group's COO (the former CFO) resigned. Consensus estimates for 2024-2026 were necessarily reduced and the long-term earnings potential of the business is now in question. Mid-term targets of £800m in operating profit are unlikely to be hit this decade.

Then on December 24th there was another profit warning, this time triggered by delays to expected deal closures that pushed some revenue into 2025 and therefore reduced earnings for 2024.

My view on these events

First, the good news. The independent audit materially de-risks the business, eliminating the possibility of widespread fraud. The auditor reviewed all 6 divisions, 26 regions and 300 sites. They did not find fault in Vistry's financial controls. In reviewing the entire business, they identified just £8m of valuation adjustments across Vistry's other 282 sites, an immaterially small figure against the Group's £4.8bn forward sales position. This should be interpreted as a strong endorsement of Vistry's accounting procedures and underwriting conservatism.

There's no denying the negative implications of these events. Even if isolated, they point to pressure within the organization to deliver on aggressive growth and margin targets. Vistry is likely trying to grow too fast, and perhaps there is a logistical limit to the scale one housebuilder can achieve.

Management credibility is an obvious concern. Localized fraud can happen at any business, and the audit did not find any shortcomings in Vistry's financial controls, but it's clear that aggressive growth led to a breakdown in oversight. Greg Fitzgerald admitted that had he visited the problem sites (5 out of 300) during the last year he would have immediately been suspicious of the budgeted cost estimates. Following these events, Greg has removed a layer of management and instituted new cross-region checks and balances. Greg is arguably the best operator in the sector, recent issues notwithstanding, and he is motivated to rebuild his reputation before retiring in a few years.

Vistry's reputation has been damaged. In November, The Times ran a [hit piece](#) on CEO Greg Fitzgerald, repackaging public information in a sensationalist way. The Economist published a less biased [article](#) questioning the entire industry's ability to meet the Labour government's ambitious housebuilding targets.

Industry checks indicate that recent events have not damaged Vistry’s relationships with partners. I have talked with several industry insiders following these events. One affordable housing expert with deep partnerships experience summarized it as follows: “there is some rubbishing of Vistry being spread by competitors whose noses are out of joint because of Vistry’s growth, and some such attacks may be more motivated by envy and competition than by reality.” This observer has decades of experience working with local councils and registered providers on partnership schemes. He is confident that Vistry’s reputation with partners is undamaged by recent events.

More bluntly, a former Homes England executive told me: “house builders are a bitchy bunch. At the first sign of weakness they will slag-off the competition. With Vistry taking the top spot from Barratt, expect criticism.” He believes that Homes England’s relationship with Vistry is undamaged, echoing recent comments made by the CEO of Homes England that suggest Vistry is the most important builder of affordable housing in the UK. It’s important to emphasize that none of Vistry’s partners were negatively affected by the profit warning. They continue to receive houses on time and on-budget from Vistry.

As Vistry re-establishes its operational capabilities I expect investor confidence in the model to rebuild. My estimate of intrinsic value has been reduced and the timeline extended, but the share price decline more than compensates for these headwinds. Vistry today has one of the highest expected IRRs in the portfolio.

Valuation

I underwrite an equity value of £16.37 per share. This is 11x estimated 2028 earnings.

While Vistry’s share price has declined 60% over the last three months, my estimate of intrinsic value has only declined by 30%. At current levels the equity offers compelling risk-adjusted returns, backstopped by the fact that shares currently trade at 0.70x TNAV and 0.77x liquidation valuation. Housebuilders rarely trade below 1.0x TNAV and the sector has averaged 1.6x over the last decade.

Tangible Net Asset Value

<i>£mn</i>	1H24
Work in Progress	1,366.4
Land	1,845.6
Land Creditors	(605.4)
Net investment in inventories	2,606.6
Investment in joint ventures	612.2
Other net working capital	(486.8)
Current and deferred tax	(40.8)
Capital Employed	2,691.2
Fire safety provision	(280.7)
Retirement benefit asset	34.7
Tangible net assets	2,445.2
Goodwill	827.6
Intangible assets	389.8
FY24 year-end net (debt)/cash	(200.0)
Net assets	3,462.6

Share Price:	£	5.20
Shares Outstanding:		331.24
Market Capitalization:	£	1,722
TNAV:	£	2,445
Equity/TNAV:		0.70x
TNAV less net debt:	£	2,245
Equity/Liquidation Value:		0.77x

Trading below liquidation value doesn't guarantee that equity values are protected, but it's a strong starting point. Strategic and financial bidders have a long history of opportunistically acquiring distressed housebuilders for their landbanks. Vistry's board would likely reject such an offer today, however a deterioration in circumstances could make this a viable exit option.

Vistry's low P/TNAV provides downside protection, but as a business transitioning to an asset-light model it seems more appropriate to value the business on a multiple of earnings rather than TNAV. Vistry currently trades at 6.0x trailing earnings and 7.1x forward (2025) consensus earnings, with a double-digit free cash flow yield that management have earmarked for share repurchases. I apply an 11x earnings multiple to bottom-up estimates that are materially below guidance to derive an intrinsic value of over £16/share.

These estimates assumes that Vistry grows materially slower than its mid-term guidance implies. It assumes that annual deliveries grow at a 6.0% rate and that operating margins remain flat at 12%. I underwrite that by 2028 Vistry will achieve £650m of operating profit and 148p of EPS. See the end of this appendix for a financial summary.

I also project that the company will retire just 13% of its equity over the next three years by spending £400m on repurchases at a weighted average price of £9.00/share, far above the current £5.20 share price.

Valuing the business at 11x earnings equates to a 7.0% levered free cash flow yield and 9x EV/NOPAT. These figures are arguably too low for a company generating ~30% ROCE margins with high single-digit revenue growth and an EPS that is compounding at over 20%. The fact that Vistry is a housebuilder, however, with all the cyclical baggage that industry brings, is likely to prevent valuation multiples from rising to levels these raw metrics might warrant.

Indeed, macro considerations are unavoidable here. While less cyclical than traditional housebuilding peers, a majority of Vistry's operating profits still come from open-market home sales. Shares of UK housebuilders advanced strongly in 2023 thanks to investor expectations of aggressive rate cuts. When those cuts disappointed in 2024 and housing completions remained near historic lows, the shares of UK housebuilders declined 15%-25%, most aggressively in the fourth quarter. On a two-year stacked basis UK housebuilder shares are flat as a cohort, including Vistry, which declined -11% across 2023-2024 and was not the worst performer.

Finally, what if this "differentiated business model" thesis is entirely incorrect? What if Vistry is just another cyclical and asset-intensive homebuilder? Even in this scenario shares today trade at a discount to fair value. In 2023 Vistry delivered 16.1k homes (versus a likely 17k in 2024). It generated £4.0bn in sales, £488m in adjusted operating profit, £419m in profit before tax and 88p in EPS. Shares trade at 6.0x trailing earnings, a cyclically low valuation even for a traditional housebuilder. If Vistry is "just" a slow/no growth housebuilder it should still trade at 10x normalized earnings through the cycle (an ~8% FCF yield), suggesting 70% upside to today's equity price.

Vistry is often compared to NVR, an asset-light US housebuilder. While I don't think the comparison is entirely accurate, given that NVR is a traditional builder utilizing land options, I do think the low capital intensity and buyback culture are fair comparisons. NVR trades at 18x earnings.

Why does this opportunity exist

Markets are generally efficient, and it’s always important to understand why someone else is selling shares when we are buying (and vice versa). In the case of Vistry I believe the steep share price decline following the profit warning was irrational for three basic reasons:

1. Toxic asset: Accounting-related profit warnings are often un-investable for institutional funds
2. High relative valuation: Pre-warning, on a P/TNAV basis Vistry looked expensive relative to peers
3. Business model doubts: the market has yet to recognize the partnership model as superior

Toxic asset

Many institutional investors have policies against owning shares in businesses suspected of accounting irregularities. Following Vistry’s initial profit warning on October 8th many funds sold their shares: 29 million shares traded across October 8-10th, versus the prior average volume of <1m shares/day.

It’s worth noting that the company’s initial press release (RNS [here](#)) was extremely light due to (1) a 24-hour regulatory deadline to disclose and (2) an open HR investigation. This brevity undoubtedly led to market confusion and panic. The company still can’t plainly state that localized fraud was the issue due to the ongoing HR proceedings, and the public releases have done a poor job explaining the nuances of the expense (i.e. that it is a non-cash multi-period correction, with no need for prior period restatements).

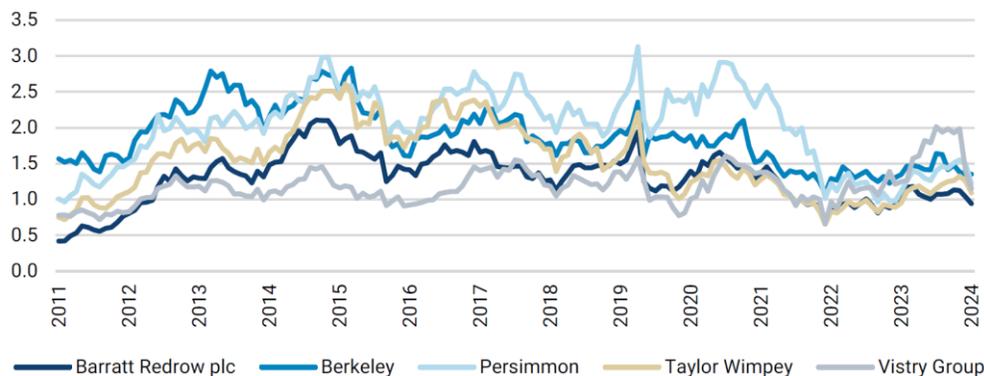
Avoiding fraud is obviously a good policy. I would never own a business with opaque accounting practices or the potential for widespread deception. Following the October 8th profit warning I sprinted to confirm the seriousness of this situation. I spoke with CEO Greg Fitzgerald and CFO Tim Lawlor the same day and engaged bank analysts and accounting experts to review project accounting norms and understand what exactly had gone wrong. I was fully prepared to conclude that Vistry was un-investable.

Instead, as previously outlined, I became comfortable that this was an isolated instance of fraud and not reflective of the broader business. The independent auditor confirmed this view on November 8th. The audit is an important de-risking event that was overshadowed by the concurrent disclosures of (a) the increased £165m adjustment figure and (b) Vistry’s pending review of the timeline needed to hit mid-term targets.

High relative valuation

Prior to the profit warning, Vistry’s shares were +57% in 2024. As recently as September the equity traded at 1.9x P/TNAV, making it the most expensive UK housebuilder when valued on this metric:

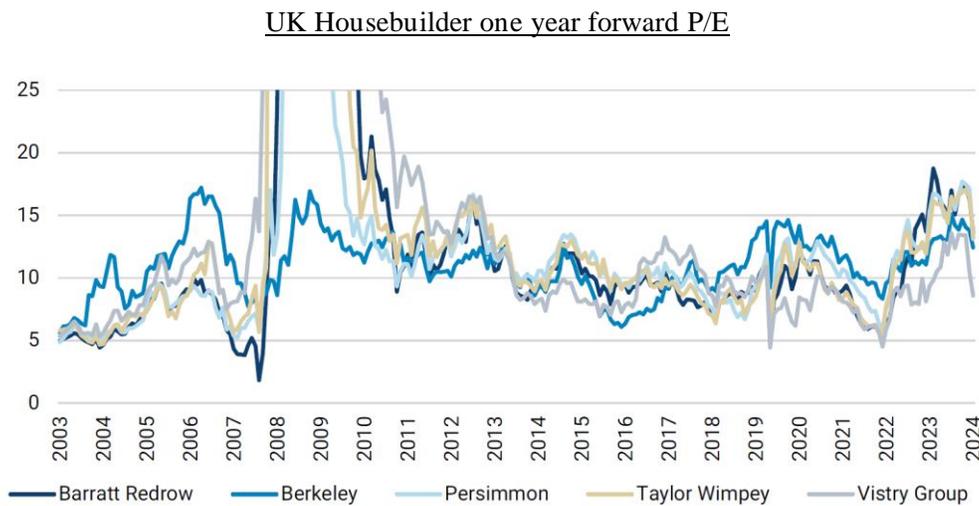
UK Housebuilder one year forward P/TNAV



Vistry's partnerships model, which leverages the landbanks and balance sheets of partners, should not be valued against tangible net assets (TNAV). Doing so makes no sense. But this is the shorthand with which most street analysts still value Vistry.

As I've discussed previously, using an earnings multiple makes more sense. Given Vistry's high returns on invested capital one could argue that a market multiple ~15x P/E ratio is appropriate. In my valuation I apply 11x earnings on below-guidance estimates. As the market regains confidence in the model it is plausible that Vistry will trade above 11x earnings.

Vistry today trades at 7x forward earnings, down from 14x pre-profit warning. Traditional housebuilders currently trade at 11x-13x forward earnings in a depressed housing environment:



Business model doubts

Vistry's current discount to traditional peers is partially due to the fallout from its recent profit warning, but also reflects a fundamental misunderstanding of Vistry's differentiated business model.

I've debated with analysts for years on the merits of Vistry's (and formerly Countryside's) asset-light partnerships model. In many cases analysts simply hadn't done the work, or considered partnerships a non-core sideshow to the traditional housebuilding operation. Vistry only announced its shift to 100% partnerships in November of 2023, forcing analysts to acknowledge the nuances of this model. As recently as September I had analysts explaining how they needed to use a consistent valuation framework across their coverage universe, even as they agreed that P/TNAV was the wrong yardstick for Vistry. At nearly 2.0x P/TNAV versus 1.5x for best-in-class peers like Berkeley Group, analysts struggled to claim that Vistry was cheap without also admitting their valuation approach was wrong.

The timing of the profit warnings was unfortunate, as Vistry had just begun to prove itself and the street was shifting away from P/TNAV towards P/E. Following the warnings, attention has returned to tangible assets, with critics suggesting that the partnerships model might not be as attractive as everyone thought. This claim is flawed. The fraud occurred exclusively on traditional housebuilding sites, executed by traditional housebuilding executives. This could have occurred at any housebuilder and had nothing to do

with the partnership model. What's more, the fraud was uncovered during the transition to partnerships, thanks to the fact that partnerships sites undergo more rigorous Cost-Value-Reconciliation reviews.

As Vistry re-establishes its operational capabilities I expect confidence in the model to rebuild. The business was trading at 14x earnings earlier this year, and while I don't underwrite it, a return to this level is possible.

Risks

Below are the core conceptual risks, ranked roughly from highest to lowest:

- Build quality issues
 - Currently not an issue, but a major conceptual risk for any homebuilder.
 - For five years running Vistry has received a 5-star rating from the Home Builders Federation (HBF), the industry standard customer satisfaction rating body.
 - Vistry's rapid pace of growth makes quality control issues particularly noteworthy.
 - Greg grew up in this business and is obsessed with build quality and standardization. I observed this firsthand when touring sites with him in August. Build quality was his #1 focus, not speed or cost.
- Reputational damage leading to a loss of future partnership wins
 - This would take time to materialize given the long lead times of partnership projects.
 - Following the profit warning I have spoken with numerous industry participants, including current and former executives at registered providers (partners) and Homes England. None have expressed concern that partners will shy away from Vistry due to these issues. Partners want quality homes delivered on time, which Vistry continues to do at scale.
- Greg Fitzgerald leaving
 - Low probability, but noteworthy keyman risk. I have built enough of a relationship with Greg over the years to believe him when he assures me that he will see this through. He is motivated by reputation and, in my opinion, an underdog's drive to prove his critics wrong.
 - There is a material risk that Greg fails to win sufficient votes to be re-elected as Executive Chairman in 2025. Even if re-elected, the vote may be contentious given the UK's disdain for dual Chairman/CEO roles.
- Recession in the UK further depressing the housing market
 - If rates rise, home affordability declines while build-cost inflation increases. Vistry would be hurt in this situation, along with all housebuilders. Vistry's lower proportion of open-market sales is a relative advantage, but its higher average debt balance makes it more sensitive to interest rates.
- Largest shareholder Browning West resigning from the board and sloppily exiting its 10% holding
 - Vistry is a longstanding core investment for Browning West, which was founded in 2019.
- Relatively high financial leverage
 - There is no default risk for Vistry. The company will end 2024 with circa £200m of net financial debt and ~£2.5bn of tangible assets (land and WIP). However, its daily average debt throughout the year is closer to £700m due to the seasonality of the business and high working capital needs of the open market deliveries carried on its balance sheet. There is also £600m of land creditors, a future liability that is >3x covered by the £1.8bn landbank.
 - There are scenarios where shareholder returns would need to be paused to service debt obligations. If the UK housing market shut down – as it briefly did during March 2020 - Vistry would need to divert cash flows from buybacks to debt repayments. All housebuilders would suffer in this scenario.
- Financial shenanigans
 - Following the independent audit of the entire business, the risk of material fraud is small.

- Business combination accounting under IFRS 3 (for the Countryside and Linden acquisitions) has created adjusted earnings tailwinds that roll off over the next several years. Vistry must prove its ability to organically generate sustainable 12% operating margins.

In closing

Our investment thesis in Vistry rests on five key assertions:

1. The UK faces a structural housing shortage, particularly in affordable housing.
2. Vistry is the leading provider of affordable housing in the UK, leveraging a capital-light partnership model with public and private sector institutions to deliver large-scale development projects.
3. Vistry's leadership is executing a differentiated strategy that drives unit volume growth while reducing capital intensity, with excess capital being returned to shareholders.
4. The equity trades below liquidation value and at trough multiples of depressed earnings, cheaper than traditional peers despite its superior business model and scale advantages.
5. The company's mid-term earnings potential implies a historically low valuation of <4x earnings.

Of these five points only #5 is impaired by recent events, yet the share price correction more than compensates for any reduction in future earnings. Vistry is unlikely to achieve its £800m operating profit goal this decade. This target was aspirational and should never have been introduced. Management have acknowledged this and will introduce revised mid-term targets early this year. While painful in the short term, this reset is an opportunity for Vistry to recalibrate expectations and lay the groundwork for consistent outperformance against achievable goals. The equity valuation is highly attractive even on materially lower operating profit estimates.

Although Vistry does not qualify as an "all-time great" business, it presents a compelling risk/reward profile for investors with a sufficient time horizon, justifying its core position within our portfolio. The timing of my earliest purchases was a mistake, but I remain confident that Vistry's intrinsic value is above our cost basis. 2025 will be a year of rebuilding.

I will keep you updated. Meanwhile, please reach out with any questions on Vistry or anything else.

Summary Financials

Vistry Group

Share Price (10-Jan-2025)	£	5.20	Target Price 2028	£	16.46
Diluted Shares Outstanding		331.8 million	3.97 Year IRR		34%
Diluted Current Market Cap	£	1,726 million	Target Metric: P/E		11.0 x
Net Debt / Other (2024E)	£	196 million	Implied EV / EBITDA		6.3 x
Current Enterprise Value	£	1,922 million	Implied EV / EBIT		6.6 x
			Implied EV / NOPAT		9.3 x
			Implied FCF Yield		7.0%

<i>in mn GBP, Dec year-end</i>	2022	2023	2024E	2025E	2026E	2027E	2028E	CAGR
Total revenue (including JVs)	3,115	4,042	4,117	4,533	4,869	5,213	5,566	7.8%
Adj. EBITDA (including JVs)	449	508	430	509	570	630	678	12.0%
<i>% of revenues</i>	14.4%	12.6%	10.4%	11.2%	11.7%	12.1%	12.2%	
D&A	(35)	(74)	(74)	(74)	(74)	(74)	(74)	
Adj. EBIT	431	480	402	481	542	602	650	
<i>% of revenues</i>	13.8%	11.9%	9.8%	10.6%	11.1%	11.6%	11.7%	
Net Interest	(12)	(63)	(60)	(66)	(63)	(58)	(52)	
Tax rate	35.4%	32.4%	29.0%	29.0%	29.0%	29.0%	29.0%	
Net Profit, adj.	171	237	173	261	340	386	425	25.2%
NOPAT	278	324	286	342	385	428	461	
Change in Working Capital	(249)	(388)	(65)	(32)	(63)	(59)	(51)	
Net Capex	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Free Cash Flow	(34)	(48)	67	187	234	284	330	
Mgmt's ROCE (EBIT / TNAV)	23%	22%	18%	20%	22%	24%	27%	
Net Debt / adj. EBITDA	-0.5x	0.2x	0.7x	0.3x	0.1x	-0.2x	-0.7x	
EPS, adj.	0.72	0.68	0.51	0.81	1.11	1.32	1.49	31.0%
DPS	0.55	-	-	-	-	-	0.75	
YE share price	£ 6.26	£ 9.18	£ 5.20	£ 5.20	£ 5.20	£ 5.20	£ 5.20	
Diluted shares outstanding	236.7	350.6	331.8	316.2	299.6	284.6	284.6	-3.8%
Market Cap	1,481	3,217	1,726	1,644	1,558	1,480	1,480	
Net Cash (Debt)	118	(89)	(196)	(135)	(50)	84	413	
EV	1,362	3,306	1,922	1,779	1,608	1,396	1,067	
EV / Revenues	0.4 x	0.8 x	0.5 x	0.4 x	0.3 x	0.3 x	0.2 x	
EV / EBITDA	3.0 x	6.5 x	4.5 x	3.5 x	2.8 x	2.2 x	1.6 x	
EV / EBIT	3.2 x	6.9 x	4.8 x	3.7 x	3.0 x	2.3 x	1.6 x	
EV / NOPAT	4.9 x	10.2 x	6.7 x	5.2 x	4.2 x	3.3 x	2.3 x	
Price / Earnings	8.7 x	13.5 x	10.0 x	6.3 x	4.6 x	3.8 x	3.5 x	
Dividend Yield	8.8%	0.0%	0.0%	0.0%	0.0%	0.0%	14.3%	
FCF Yield	-2.3%	-1.5%	3.9%	11.4%	15.0%	19.2%	22.3%	

DISCLAIMERS

These materials are being furnished by Aventine Capital Management LLC (the “Investment Manager”) on a confidential basis to investors in Aventine Capital Partners LP (the “Fund”) and do not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services. Any such offer or solicitation may be made only by means of the delivery of the Fund’s Confidential Private Offering Memorandum (the “CPOM”), partnership agreement or other equivalent document(s) of the Fund and subscription agreement, which will contain material information not included herein regarding, among other things, information with respect to risks and potential conflicts of interest. These materials should not be used as the sole basis for making a decision to invest in the Fund or any other fund or account managed by the Investment Manager. In making an investment decision, you must rely on your own examination of the Fund and the terms of any offering.

These materials are being provided for general informational purposes only, and may not be disseminated, communicated or otherwise disclosed by the recipient to any third party without the prior written consent of the Investment Manager.

An investment in the Fund will involve a significant degree of risk, and there can be no assurance that its investment objectives will be achieved or that an investment therein will be profitable. Past performance (including past performance of the portfolio manager and his affiliates) is not necessarily indicative of the future performance of the Fund or the profitability of an investment in the Fund. Any references to portfolio composition or strategies are guidelines and not restrictions and are subject to change without notice to investors. An investment in the Fund will be subject to a wide variety of risks and considerations as summarized in the CPOM. The information set forth herein is qualified in its entirety by the information set forth in the CPOM; in the case of any inconsistency between the information or terms set forth herein and in the CPOM, the CPOM will control.

The references to specific investments are included merely to illustrate the Investment Manager’s due diligence and investment process and the types of investments and strategies that may be pursued by the Investment Manager. The information included on these investments should not be considered a recommendation to purchase or sell any particular security. Unless otherwise indicated, information with respect to the companies included herein has been obtained from the relevant company and, while such information is believed to be accurate, the Investment Manager makes no express warranties as to its completeness or accuracy and is not responsible for errors. In addition, the Investment Manager has no obligation to update the information presented herein.

References to the indices in these materials are included merely to show the general trend in the equity market in the periods indicated. References to the indices are included for informational purposes only and no suggestion is intended that any of the indices fully reflect the portfolio of any account managed by the Investment Manager. The investment strategies of accounts managed by the Investment Manager are not restricted to the securities and instruments comprising of any one benchmark or financial index. Moreover, the indices are not subject to any of the management fees or expenses that the Investment Manager may receive. It should not be assumed that any accounts managed by the Investment Manager will invest in any specific securities that comprise the indices. Comparisons to indices and other benchmarks are inherently unreliable indicators of future performance. Additional information is available upon request.

These materials contain certain opinions, projections, market outlooks and other “forward-looking statements,” which may be identified by the use of such words as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated,” “potential,” “outlook,” “forecast,” “plan” and other similar terms. All such opinions and forward-looking statements are conditional and are subject to various factors, including, without limitation, general and local economic conditions, changing levels of competition within certain industries and markets, changes in legislation or regulation, and other economic, competitive, governmental, regulatory and technological factors, any or all of which could cause actual results to differ materially from projected results. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements are not a promise or guaranty about future events.

The information in these materials is not intended to provide and should not be relied upon for accounting, legal, or tax advice or investment recommendations. Each recipient should consult its own tax, legal, accounting, financial, or other advisors about the issues discussed herein.