Vistry Group PLC

The following is an excerpt from Asheville Capital's 2024 Annual Letter. It is not investment advice.

We initiated a new investment in Vistry Group in December and have since increased our position in early January, with a current cost basis below £6.00. Vistry is a UK-based homebuilder that is nearing the completion of a transformation from a traditional – buy, build, sell – homebuilding model to a capital-light partnerships model. By partnering with local housing authorities, housing associations, and institutional investors, Vistry is eliminating the need for costly land acquisition and speculative development, focusing instead on building pre-sold, affordable homes.

This structure is inherently capital efficient and dramatically accelerates the cash conversion cycles compared to traditional housebuilders. With up to 50% of homes pre-sold and additional units targeted at institutional buyers, Vistry achieves rapid turnover on its deployed capital. As the transition progresses, the company projects ROIC to exceed 40%, compared to the 15-20% that is typical of traditional homebuilders.

Moreover, Vistry's partnerships model benefits from strong structural tailwinds. The UK faces an estimated shortfall of over four million homes, with demand concentrated in affordable housing – a market segment that is less sensitive to economic cycles and interest rates. Vistry is uniquely positioned to meet this demand, leveraging its scale, relationships with over 60 local housing authorities, and modular construction capabilities. These factors not only enhance its ability to execute efficiently but also create durable competitive advantages, giving Vistry higher win rates for incremental new projects. Importantly, Vistry's margins are built into the contracts of its agreements, ensuring that Vistry can meet its ROIC target.

Finally, by repurposing resources from its legacy homebuilding business into partnerships, the company is in the process of freeing up over £1 billion which it plans to return to shareholders via share buybacks by the end of 2026, an incredible sum considering that Vistry's current market capitalization is only £2 billion.

Vistry is led by Greg Fitzgerald, a seasoned leader in UK homebuilding who has successfully orchestrated turnarounds and acquisitions at Galliford Try and Bovis Homes. Fitzgerald is largely responsible for the deal-making that occurred to create Vistry and he now owns 10% of the company. He is known for his hands-on approach and intense work ethic and has made it clear that Vistry is committed to excellence. Additionally, I find that he has been highly transparent in his communications with shareholders to-date.

I consider us very fortunate to have been able to acquire shares at our current cost basis. Vistry's shares are down 57% from its 52-week high in September after the company reported multiple profit warnings during the second-half of 2024. These profit warnings were primarily due to an understatement of build costs in Vistry's South Division, totaling £105 million for 2024 and then reducing to £50 million in 2025 and to be fully resolved by 2026. Additionally, there were delays in expected year-end transactions and completions which have further impacted profits. Instead of the anticipated £430 million in profits, Vistry is now expected to produce only £250 million in 2024. While delays in project completions are an ongoing risk to this business model, the understated build costs are a product of the traditional home-building model which is soon to be extinct. Furthermore, while the management team's credibility has certainly been damaged, I consider this to be further evidence for why the partnerships model is attractive.

Vistry still expects to achieve £800 million of operating profits in the "medium term" – presumably 3-5 years – and despite the profit warnings, I believe that they can achieve this. Project delays that hurt

Vistry in 2024 could likely be a boon for profits in 2025, but regardless of that, normalized earnings power are appreciating considerably. Trading at less than tangible book value today, Vistry is objectively cheap. Moreover, if operating profits achieve anywhere in the ballpark of £800 million and trade between the 12-20x range of profits that I believe to be reasonable, Vistry's market capitalization could reach between £10-16 billion or £30-48 per share ***before*** accounting for the ongoing £1 billion in share repurchases. All of this to say; shares reflect deep pessimism in Vistry's prospects and trade with significant margin of safety. Vistry is just the sort of asymmetric return profile that we look for.