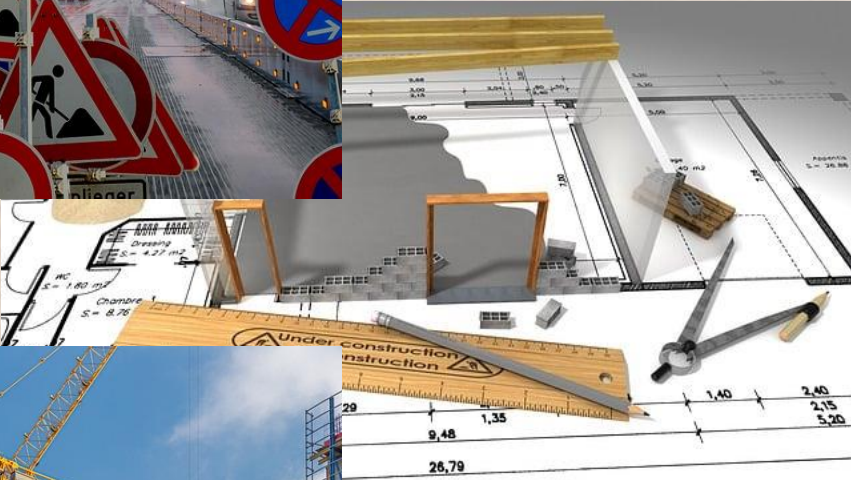


UK CONSTRUCTION INDUSTRY REVIEW Q2'23



PMI – Rise to 51.1 vs 50.7 Mar/23

- House-Building at 43.0 = rate of decline for total residential work steepest since May/20
- Commercial at 53.9 = rate of expansion 2nd-strongest since Oct/22
- Civil Engineering at 52.0 = rising infrastructure work contributing to best phase of expansion since H1'22

CONTRACTOR	NUMBER OF AWARDS IN MONTH	TOTAL (£M)
BOWMER & KIRKLAND	6	311.8
SIR ROBERT McALPINE	9	300.3
VINCI	7	253.7
GLENCAR	2	250.0
McLAREN	3	201.7

BARBOUR ABI DATA

Data from Creditsafe shows 28x construction companies filed for administration in April

April proved a very active month within the Modern Methods of Construction (MMC) sector:

- 2x notable transactions saw Manchester based Spatial Initiative which is part of ESS Grp buy fellow MMC rival Eco Modular Buildings from Hull out of administration whilst York Headquartered Portakabin purchased leading healthcare modular specialist Darwin Grp based in Shrewsbury
- Another MMC operator which has made several acquisitions in recent-years is Wernick Grp which announced it was set to pump at least £30m in its hire fleet during 2023 – this will continue a programme which over the last 5yrs has seen £200m invested into company products + acquisitions
- And TopHat raised £70m from new & existing shareholders as it prepares to open Europe's largest modular housing factory which will manufacture up to 4,000 ultra low-carbon homes-a-yr. Volumetric housebuilder Persimmon + institutional investor Aviva where amongst those firms supporting the cash-raise

But large upfront costs associated with MMC require robust pipelines & demand to meet sustainable operations. As welcoming this TopHat cash generation is, the Grp has been trading since 2016 but still operating at loss according to last filed numbers

The residential sector remained in weak performance – as illustrated by the PMI sector split with combination of headwinds impacting operations. Key developments in the month were:

- Housing association Catalyst dissolved as separate entity when becoming embedded into Peabody and completing the mega-merger
- 38yr veteran of Health & Safety Executive Peter Baker retired as head of Building Safety Regulator
- Landmark moment as Birmingham City planners approved the world's first mixed-use net zero carbon development at £360m Curzon Wharf scheme - will include residential Build-To-Rent apartment block standing 53-storeys high making it the city's tallest building
- The recently adopted 2nd staircase rule for London developments continued to cause issues with Ealing Council + Vistry Partnerships scrapping their Perceval House scheme - latest in growing list linked to the new requirement

Rising costs were also seen influencing key infrastructure projects:

- UK-Government finally abandoned their Smart Motorway programme after 16-month review with Dept of Transport
- HS2 said construction of 7.2km tunnel between stations Euston - Old Oak Common would not start 2024 as initially planned following UK-Government's recent HS2 decisions in Mar/23 linked to costs (see Q1'23 Review)
- Cost of London's super-sewer Tideway increased to £4.5bn – a level noted 10-months earlier as “severe” worst-case scenario = latest price now almost 30% above initial estimate £3.5bn

And finally, focus on sustainable energy remained strong with the latest ambitious scheme revealed as new power line called LionLink between UK + Netherlands proposed would deliver enough electricity to power 1.8-million-homes by connecting the two countries alongside offshore wind farms in the North Sea

PMI – Rise to 51.6 vs 51.1 Apr/23

- House-Building at 42.7 = discounting pandemic-era downturn would mean lowest reading for just over 14yrs
- Commercial at 54.2 = client confidence returning + faster decision-making
- Civil Engineering at 53.9 = growth hitting 11-month high

CONTRACTOR	NUMBER OF AWARDS IN MONTH	TOTAL (£M)
GALLIFORD TRY	13	427.1
MACE	2	408.9
MULALLEY & COMPANY	2	143.1
TANRO	2	110.0
KNIGHT BUILD	1	100.0

BARBOUR ABI DATA

Data from Creditsafe shows 42x construction companies filed for administration in April

Much like the opening month of Q2 – MMC sector grabbed the attention in May:

- Department for Levelling Up, Housing & Communities released plans of its project called “MMC Standardisation Research + Kit of Parts” with key aim being to engage the Construction Industry to review ways in making MMC more accessible through a standardised platform
- Within the UK-Government’s announced reboot of its New Hospital Programme – Dept of Health said it will use modular design approach dubbed ‘Hospital 2.0’ to finish the planned projects 25% faster
- L&G said it was to stop production at its timber-frame modular housing factory after setting up 2016 + during which time experiencing at least -£174m losses. Having promised to build 3,500x homes-a-yr from its 550k-sq-ft plant in Sherburn-in-Elmet the Grp now admitted being unable to secure “necessary scale of pipeline” meaning redundancy consultation with whole workforce had begun

The concern around the sector’s viability was only getting stronger following L&G’s decision to exit

During May we saw key developments for the project overseeing Museum of London’s new home at West Smithfield where Sir Robert McAlpine now signed contracts confirming its role as construction manager – with build starting 2020 & due to open 2026, construction work on the section which be housed in General Market was still on plan but Poultry Market expected to now finish 2027/28. Alongside the delays – project costs have been impacted by inflation:

- From the outset this project came with price tag £150m
- Budget already more than doubled by time the architectural competition concluded 2016
- Jan/20 saw project heads announce cost rise again to £337m
- Official reports May/23 confirmed delays + inflation increased cost of building the new site by £100m to £437m. Project leads also said talks were ongoing with London Mayor Sadiq Khan + City of London Corporation to address efforts in filling this £100m funding gap

Over time – project scopes can also change influenced by factors outside of cost & unexpected when schemes commence. The situation with Manchester Piccadilly Station’s new platform 15 + 16 a good example:

- Original proposal submitted 2014 for Manchester’s busiest train station
- This month Network Rail confirmed withdrawn planning application & plans replaced with different approach seeing £72m invested in rail upgrades across the region instead
- Reasons for revision based around use of public-money vs passenger usage which changed from 2014 due to COVID. Also recognised new platforms “not addressing problems of today which evolved from 2014”

And finally – the UK electric vehicle sector made the headlines:

- When announcing how public money would be spent post the decision to scrap smart motorways programme - National Highways said focus switching likely to maintenance & improvements to existing networks including availability of electric vehicle charging points
- Jaguar Land Rover was reportedly set to confirm plans it will build a gigafactory in Somerset through a UK-Government deal with owner Tata for reported £1bn development progressing + beating Spain in project’s location

PMI – Drop to 48.9 vs 51.6 May/23

- House-Building at 39.6 = aside from lockdown-related fall the rate of contraction fastest since Apr/09
- Commercial at 53.0 = rate of growth fall to 3-month low
- Civil Engineering at 53.1 = business activity rise at 2nd-fastest pace since Jun/22

June completed a Quarter with consecutive months showing MMC make strong news presence:

- US-based Volumetric Building Companies expanded its UK management team to support growth plans. Tim Uttley joined as commercial director for UK & Special Markets with a portfolio including 7yrs as commercial director for Caledonian Modular which collapsed Mar/22 = another reminder of the sector’s challenges
- Tophat formally entered Europe through a partnership created with French house-builder Nexity to drive forward off-site construction in France
- Supported by extensive pipeline of Government work, Reds10 revealed FYE'03/23 would show turnover now increased from below £20m to +£80m in just 3yrs as pre-tax profits also rose
- Berkeley-Grp announced applying brakes to producing modular homes from its new factory at Northfleet, Kent
- Ilke Homes initially said seeking additional funding before auditors were happy to sign FYE'03/22 with clean going concern statement. Grp-CFO added that despite Grp revenue to +£100m, FYE'22 was still loss-making. Shortly after this – Grp stated board + investors were fighting to save business by putting it up for sale as operations stopped. As deadline for securing funding approached – administration notice was filed. On the final day of Q2'23 – administration was confirmed

Residential sector struggles continued but there were some key positives still seen across UK:

- L&G completed its first Build-to-Rent investment in Northern Ireland for The Loft Lines – this also marked the largest real estate investment in the region for 20yrs at Belfast’s Titanic Quarter site
- Construction at flagship £1.3bn Granton Waterfront in Edinburgh moved forward by reaching next stage in planning process for the city’s largest brownfield site = proposal of application notice (PAN)
- Cardiff Council approved plans for 35-storey residential building tower set to be built on Wood Street within Central-Square = would become Wales’ tallest tower block developed by Rightacres

With various reports of material prices easing – the labour situation was becoming more influential on costs + announcements such as National College for Advanced Transport & Infrastructure (NCATI) that it would close by end-Jul/23 did not help. Launched by UK-Government 2017 to deliver skills needed for constructing HS2 megaproject – lack of enrolment & funding issues plagued its success. More positively however, groundworks begun for new £12m engineering training centre at Middlesbrough College + Willmott Dixon created its 4th drylining academy inside a prison to support more ex-offenders in learning skills to find Industry jobs when released

Inflation was still impacting projects however with the roads sector especially seeing a number delays & cancellations. Other notable mentions linked to cost increase issues were:

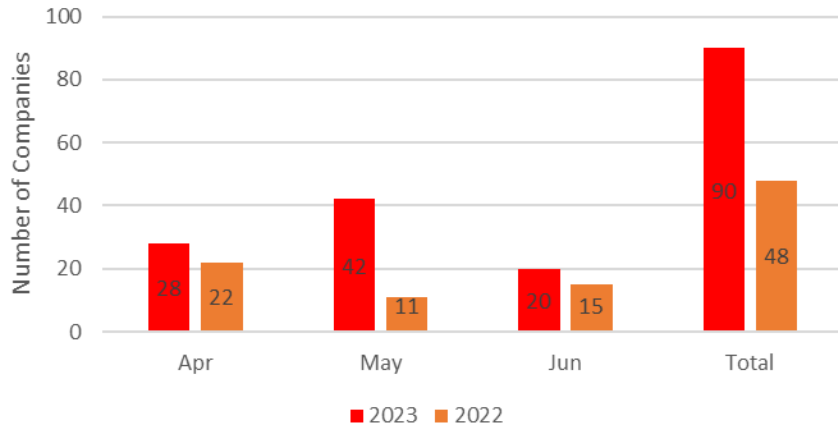
- Rising costs said to cause Bouygues-led consortium to scale back work to extend West Midlands Metro line as report was highlighting despite additional £60m injection from Dept for Levelling Up, Housing & Communities - planned 11km extension “not considered affordable” with new proposal stopping one station short of original
- Client EDF reported higher chance Hinkley Point C could take longer & cost more to complete vs planned

CONTRACTOR	NUMBER OF AWARDS IN MONTH	TOTAL (£M)
J MURPHY	1	200.0
MULTIPLEX CONSTRUCTION	1	200.0
RG GROUP	2	194.0
WILLMOTT DIXON	3	187.5
MORGAN SINDALL	8	150.0
BARBOUR ABI DATA		

Data from Creditsafe shows 20x construction companies filed for administration in April

Q2'23 SUMMARY

Q2 Construction Company Administration Filings



Given build cost + supply chain pressures being experienced, coupled with the drive for a “greener” industry operating model – there is a position for Modern Methods of Construction & its adoption within the industry. Despite the positives outlined in this report – the decision to step back from L&G along with the failure of Ilke make the overall MMC sector view challenging

Before collapsing Ilke said it’s £1bn order book was predominantly made up of affordable homes – meaning another hit to the residential sector whose performance has suffered throughout Q2 as shown by the PMI breakdown graph (bottom-left). Despite sizeable schemes still being signed-off + works continuing at sites around UK – general worries around the sector’s performance & its impact on affordable/social housing have been clear. Concerns for this segment were further fuelled by plans in England to combine current Section 106 + CIL funding into one source - meaning less funding for affordable/social homes. But there are less traditional entrants now looking to support the situation:

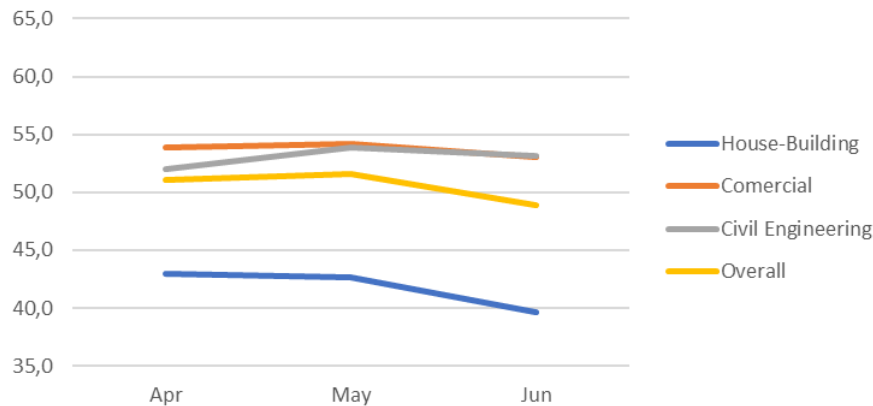
- Jun/23 - Church of England secured planning permission for 1,087-home development in Lincoln = falls within plans to develop 9k affordable homes on church land after saying 2022 it plans to become national social housing provider
- Jun/23 - Prince William released plans of building social housing at his 130k-acr Duchy of Cornwall estate – part of 5yr plan to “end homelessness” through a project from the Royal Foundation he runs with his wife

Rising borrowing costs are one of the key reasons for the UK house-building situation and focus on debt structures are expected to rise when assessing health of UK Industry companies. Despite seeing through the Quarter - it was reported UK Government started making contingency plans for Britain’s biggest water company Thames Water given its fight intensifying to service the £14bn debt levels held. Overall Q2'23 failure numbers vs Q2'22 show a rising pattern (top-left) but more concerning was the whole supply chain feeling the pressures as we saw clients, main contractors + subcontractors all suffer. Key mentions unfortunately to fall during the three-month period:

- Woking Council became the latest name on growing list of local authorities to file Section 114 Notice meaning effectively bankrupt as large debt levels taken to support overly ambitious schemes in recent years impacted their financial position. Spotlight especially focused on issues around Council’s Victoria-Square development with Northern-Ireland developer Moyallen. The notice also meant concern for various projects overseen by ThamesWey – Council’s dedicated vehicle to work with private partners to meet the authorities self-set climate change targets
- Most high-profile name seen was Henry Construction Projects which became the largest revenue generating collapse since NMCN in Oct/21. Weeks leading to official announcement 8/Jun saw subcontractors claiming monies owed on jobs, winding-up petitions filed, specialists removing workers from sites + alongside all this the Grp reportedly struggling to progress major projects leading to huge Liquidated Ascertained Damages

Despite Jun/23 level of administrations falling – it is recognised that supply chain impacts following Henry’s failure may play a key role in coming quarters volume of casualties + with a believed £150m of bonds “live” at the time of demise, demand for construction surety/bonds rising as insurance market conditions become tighter

Q2'23 PMI Breakdown
Score >50 = growth since previous month



Flagship infrastructure schemes have been impacted further during Q2 due to inflation + build schemes by changing requirements. Jun/23’s PMI showed optimism fall to its lowest since Jan/23 & drop in employment growth. This needs to be recognised as ensuring confidence to the supply chain with project progression is key – from which investment can take place including making the workforce available to meet ambitious targets moving forwards

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