

## **RULE 24.11 VALUATION LETTER: ESTIMATE OF VALUE OF UNLISTED CONSIDERATION SHARES**

*The following is the full text of a letter from Morgan Stanley & Co. International plc to the Bidco Directors:*

Directors of Yellow (SPC) Bidco Limited  
64-66 Glenthams Road  
London, SW13 9JJ  
United Kingdom

14 February 2023

### **Recommended Cash Offer for Dignity plc by Yellow (SPC) Bidco Limited Estimate of Value of Valderrama D Shares**

Dear Sirs,

We refer to the recommended cash offer for Dignity plc ("**Dignity**") by Yellow (SPC) Bidco Limited ("**Bidco**"), announced on 23 January 2023 (the "**Acquisition**"). Under the terms of the Acquisition, each Dignity Shareholder is entitled to receive £5.50 in cash for each Dignity Share. As an alternative, Eligible Dignity Shareholders may elect to receive, for each Dignity Share, 5.5 non-voting D shares of £0.00001 each in the capital of Valderrama Limited ("**Valderrama**") (the "**Valderrama D Shares**"), Bidco's indirect parent company.

Pursuant to the requirements of the City Code on Takeovers and Mergers (the "**Takeover Code**"), you have requested our opinion as to the estimated value of the Valderrama D Shares (the "**Estimate of Value**").

The Valderrama D Shares are currently unlisted and therefore do not have a public valuation. It is not proposed that the Valderrama D Shares will be admitted to trading on any recognised stock exchange or other market after the Effective Date, nor is it proposed that any alternative trading facilities will be made available. The Valderrama D Shares are described in Appendix G to the offer document dated 14 February 2023 in relation to the Acquisition (the "**Offer Document**").

Capitalised terms used in this letter will, unless otherwise stated, have the same meaning given to them in the Offer Document of which this letter forms part.

#### **Purpose**

This Estimate of Value has been provided to the directors of Bidco solely for the purposes of Rule 24.11 of the Takeover Code and should not be used or relied upon for any other purpose whatsoever. In particular, the Estimate of Value is not a valuation that has been prepared as a result of the requirements of, or in accordance with, nor has Morgan Stanley had any regard to, the terms of any applicable law or regulations in any jurisdiction other than England and Wales. It is not addressed to, and may not be relied upon by, any third party (including any creditor, employee or shareholder of Dignity) for any purpose whatsoever and Morgan Stanley & Co. International plc ("**Morgan Stanley**") expressly disclaims any duty, liability or responsibility (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any third party with respect to the contents of this letter.

This letter sets out our Estimate of Value, which is an estimate of the net present value of the Valderrama D Shares, assuming the Valderrama D Shares had been in issue as at the Latest Practicable Date and assuming a willing buyer and seller with equal bargaining power, neither being under any compulsion to buy or sell, dealing on an arm's length basis, each having equal knowledge of all relevant facts. We have assumed for this purpose that, as at the date of the Estimate of Value, the Offer had become Effective, and that Bidco had full control of Dignity, and that the Valderrama D Shares had been validly issued.

This Estimate of Value does not represent the value that a holder of the Valderrama D Shares may realise on any future sale or redemption of the shares; such a value may be higher or lower than the range set out in this letter. Except as required by the Takeover Code, Morgan Stanley assumes no obligation to update or revise this Estimate of Value based upon circumstances or events occurring after the date hereof.

### **Information**

In arriving at the Estimate of Value, we have, among other things:

- (1) reviewed certain publicly available financial statements and other business and financial information relating to Dignity, including Dignity's trading update released on 23 January 2023;
- (2) reviewed certain information provided by Valderrama relating to the operations, financial condition and prospects of Dignity;
- (3) reviewed certain financial projections relating to Dignity contained within the business plan prepared by Valderrama;
- (4) taken account of the commercial assessments of the Valderrama Directors;
- (5) reviewed the Valderrama Articles and the rights and restrictions attached to the Valderrama D Shares;
- (6) considered such other factors and performed such other analyses as we considered appropriate for the purposes of this letter.

We have relied on, and assumed, without independent verification (nor have we assumed responsibility or liability for independently verifying), the accuracy and completeness of the information reviewed by us for the purposes of this Estimate of Value. With respect to the financial projections contained within the business plan prepared by Valderrama, we have assumed that they have been reasonably and properly prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of Dignity, under the ownership of Bidco and, ultimately, Valderrama. We have not made any independent valuation or appraisal of the assets and liabilities of Dignity, nor have we sought or been provided with any such valuation or appraisal. Our Estimate of Value is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. We express no view as to such analyses, projections or forecasts or the assumptions on which they were based.

### **Methodology**

In performing this analysis, Morgan Stanley has relied upon certain assumptions provided by Valderrama and made certain assumptions of its own with respect to industry performance and general business, economic and market conditions, many of which are beyond the control of Valderrama. Consequently, the view expressed in this letter is not necessarily indicative of the amount which might be realised upon a sale of the Valderrama D Shares to a third party, nor is there any certainty such realisation will occur. This Estimate of Value may differ substantially from estimates available from other sources. In addition, our view would be expected to fluctuate with changes in prevailing market and industry conditions, the financial conditions and prospects of Valderrama and other factors after the date of this letter which generally influence the valuation of companies and securities.

The valuation of non-publicly traded securities is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. As it relates to the Valderrama D Shares, the reasons for this inherent uncertainty include, but are not limited to, the following factors:

1. The Valderrama D Shares:

- a. will not be admitted to trading on any stock exchange, nor is there any current intention or expectation for them to be listed or admitted on any exchange or trading facility and they will therefore be illiquid; and
  - b. will also be subject to transfer restrictions, pursuant to which they can be transferred only with the prior written consent of SPWOne and Castelnau or in certain other limited circumstances which may reduce the likelihood of a third party offering to purchase Valderrama D Shares and therefore holders of Valderrama D Shares may not be able to recover the value of their original investment or readily crystallise any increase in the value of their investment;
2. The Valderrama D Shares will be of uncertain value and there can be no assurance that they will be capable of being sold in the future;
  3. As the Valderrama D Shares do not have voting rights, their holders will have no influence over decisions made by Valderrama in relation to its investment in Dignity or in any other business decision made by Valderrama;
  4. If Valderrama C Shares are issued, holders of all other Valderrama Shares (except the holders of Valderrama E Shares, being Castelnau and those PAMP Affiliates who have agreed to receive Valderrama E Shares under the Consortium Rollover SPA) will see their economic returns diluted proportionately, albeit that the holders of Valderrama C Shares will not be entitled to any return of proceeds until the holders of Valderrama A Shares, Valderrama B Shares, Valderrama D Shares and Valderrama E Shares have received proceeds equal to their invested capital. The Valderrama E Shares are not subject to this dilution because (i) the PAMP Affiliates already pay PAMP investment management fees under existing arrangements with PAMP and (ii) Castelnau pays a performance fee to PAMP under its investment management agreement;
  5. Dignity Shares are currently listed on the Premium Segment of the Official List. Certain standards and protections afforded to shareholders in a premium listed company are substantially different to those which apply to a shareholding in an unlisted company, such as that which an Eligible Dignity Shareholder would receive as a result of validly electing for the Unlisted Share Alternative; and
  6. Dignity Shareholders will have no certainty as to the number of Valderrama D Shares they would receive because:
    - a. the Alternative Offers will be limited to the Alternative Offers Maximum; and
    - b. to the extent that elections for the Alternative Offers cannot be satisfied in full, the number of Valderrama D Shares and/or New Castelnau Consideration Shares (as applicable) will be scaled back on a pro rata basis (as between validly electing Dignity Shareholders and as between the Alternative Offers), and the balance of the consideration for each relevant Dignity Shareholder will be paid in cash in accordance with the terms of the Cash Offer.

Morgan Stanley has made an assessment of the relevant cost of capital and discount rate when calculating the net present value of the Valderrama D Shares, including, where appropriate, the impact of paragraphs (1) to (6) immediately above. As such, we have not considered it appropriate to make an additional adjustment for the illiquidity/non-transferability of the Valderrama D Shares beyond what is already included in the assessment of the appropriate cost of capital and discount rate. Morgan Stanley has used sum of the parts analysis based on forecasted cash flows contained within the business plan prepared by Valderrama and reflecting the proposed financing structure.

In addition, Morgan Stanley has considered the valuation impact of the envisaged follow-on capital raise to be undertaken by Valderrama to fund the Valderrama business plan and the associated dilutive impact on the Valderrama D Shares.

We have produced the Estimate of Value using this methodology and taken into account the information, factors, assumptions and limitations set out in this letter.

The taxation position of individual Dignity Shareholders will vary and so we have not taken account of the effects of any taxation exemptions, allowances or reliefs available for the purposes of income, capital gains, inheritance or any other applicable tax, duty or levy, notwithstanding that these may be significant in the case of some Dignity Shareholders.

No account has been taken of any potential transaction costs that a holder of Valderrama D Shares may incur, including any associated dealing costs, or any potential costs that may be associated with a sale of Valderrama to a third party or a liquidation of Valderrama and which might be expected to reduce any return to a holder of a Valderrama D Share upon the occurrence of such an event. In addition, no account has been taken of any minority shareholder issues arising from the existence of a controlling shareholder in Valderrama.

### **Estimate of Value**

On the basis of and subject to the matters described in sections headed "Information" and "Methodology", if the Valderrama D Shares had been in issue as at the Latest Practicable Date, the Estimate of Value (being the estimated value of the Valderrama D Shares receivable in respect of each Dignity Share) would be in the range of 660 to 990 pence per Dignity Share. As noted above, when calculating the Estimate of Value, Morgan Stanley applied a range of discount rates reflecting an assessment of the appropriate cost of capital for Valderrama, based on the cost of equity using the Capital Asset Pricing Model and equity returns typically achieved by private equity.

This Estimate of Value implies an equity value of £338 million to £507 million at the bottom and top of the range, respectively. The implied enterprise value is in the range of £846 million and £1,015 million on pre-IFRS basis (including £508 million of net debt). Eligible Dignity Shareholders should note that, due to the high leverage of Dignity relative to the overall enterprise value, the Estimate of Value is highly sensitive to changes in Valderrama's assumptions about the future financial performance of Dignity.

### **General**

Morgan Stanley is acting exclusively for the board of directors of Valderrama and Bidco and no one else in connection with the Acquisition for the purposes of providing this letter. Morgan Stanley will receive fees from Valderrama in respect of these services. Morgan Stanley will not be responsible to anyone other than Valderrama for providing the protections afforded to clients of Morgan Stanley, nor for providing advice in connection with the Acquisition, the content of the Offer Document or any matter referred to herein.

Morgan Stanley will receive a fee for our services, which is contingent upon the closing of the Acquisition. Morgan Stanley may also seek to provide services to Valderrama and Dignity in the future and expects to receive fees for the rendering of these services. Furthermore, Morgan Stanley, its affiliates, directors or officers, including individuals working with Valderrama in connection with this transaction, may have committed and may commit in the future to invest in private equity funds managed by the shareholders in Valderrama. Please note that Morgan Stanley is a global financial services firm engaged in the securities, investment management and individual wealth management businesses. Our securities business is engaged in securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trading, prime brokerage, as well as providing investment management, banking, financing and financial advisory services. Morgan Stanley, its affiliates, directors and officers may at any time invest on a principal basis or manage funds that invest, hold long or short positions, finance positions, and may trade or otherwise structure and effect transactions, for their own account or the accounts of its customers, in debt or equity securities or loans of Dignity or any other company or any currency or commodity that may be involved in this transaction or any related derivative instrument.

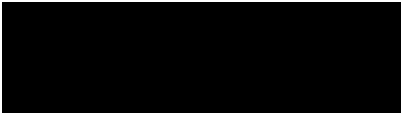
Eligible Dignity Shareholders who may be considering a continuing investment in the future of Dignity through the Valderrama D Shares are urged to read carefully all the information contained in the Offer

Document, including the risk factors set out in paragraph 19 of Appendix C and the Castelnau Prospectus.

This letter is not addressed to, or provided on behalf of, nor shall it confer any rights or remedies upon, any shareholder, creditor or any other person other than the Bidco Directors for the aforesaid purpose. In providing this Estimate of Value, Morgan Stanley expresses no opinion or recommendation to any person as to whether they should accept the Offer or whether they should make an election for the Unlisted Share Alternative. Dignity shareholders are recommended to seek their own independent financial advice. Morgan Stanley expresses no opinion as to the fairness of the financial terms of the Acquisition or the Unlisted Share Alternative.

This letter may be reproduced in full in the Offer Document to be sent to Dignity Shareholders on the basis that no duties or responsibilities are accepted by Morgan Stanley to any person, individually or collectively, but this letter may not otherwise be published or reproduced publicly in any manner without our prior written approval.

Yours faithfully,



**Laurence Hopkins**

*Managing Director*

For and on behalf of

Morgan Stanley & Co. International plc