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Dignity (2002) Limited

Unaudited Investor Report

for the 52 week period ended 30 December 2022

To:	BNY Mellon Corporate Trustees Services Limited
	Fitch Ratings Limited
	Standard & Poor's
	Bloomberg
From:	Dignity (2002) Limited (as Borrower)

Terms defined in the Issuer / Borrower Loan Agreement ('IBLA') shall have the same meaning herein.

NOTICE TO THE READER

The information contained in this report represents information on Dignity (2002) Limited and its subsidiaries (the 'Dignity (2002) Group'), a sub-group of the Dignity plc group ('Group').

The information set out herein is not necessarily representative of the performance of the Group as a whole and should not be relied upon in this respect. For example it does not include profits and losses generated by certain companies held outside the Dignity (2002) Group or any dividends declared to shareholders of Dignity plc.

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Dignity (2002) Limited

Unaudited Investor Report
for the 52 week period ended 30 December 2022

Pages

Dignity (2002) Limited

Financial Overview

Review of operations

- Unaudited EBITDA for the 52 week period ended 30 December 2022 was £32.3 million compared to £72.4 million for the audited 53 week period ended 31 December 2021.

- *Consent solicitation with bondholders – temporary covenant waiver*

  On 17 February 2022, Dignity Finance Plc, a fellow subsidiary of the Group, announced the launch of a consent solicitation period with its Class A Bondholders in relation to a proposed temporary covenant waiver for the Dignity (2002) Limited Securitised Group. As stated in the Group's 2021 Annual Report on 29 April 2022, the directors of Dignity plc continue to work on its plans to improve the Group's capital structure in the pursuit of the best long-term value for shareholders.

  Whilst the Dignity (2002) Group's financial performance has delivered headroom in relation to financial covenants throughout the last 12 months, given the distorting impact of the pandemic on the timing of deaths, there remains significant uncertainty around the UK death rate in the near term. Therefore, the Board of Dignity plc has taken the prudent decision to seek a temporary waiver of the abovementioned financial covenant on a precautionary basis in relation to the Dignity Finance Plc debt obligations.

  Following a meeting of the Class A Bondholders on 11 March 2022, the necessary quorum was achieved (with 99.58 per cent of the aggregate principal amount of the Notes for the time being outstanding being represented) and the Extraordinary Resolution was duly passed (with 95.19 per cent of the votes being cast in favour).

  This waiver allows for an equity cure should there be a shortfall in EBITDA of the Securitisation Group at any covenant measurement point up to and including 31 December 2022. Any cash transferred into the Securitisation Group during the waiver period (to 31 March 2023) will be included within the EBITDA for the purpose of the DSCR for the following 12 months.

- There was a cash transfer made of £34.3 million in the Relevant Period ending 31 December 2022. £18.6 million was required to ensure the DSCR ratio was 1.5 and the remaining £15.7 million was an additional cash transfer of which £11.9 million was required to fund the spend that was more than the £12.7 million Minimum Capex Maintenance Amount. The remainder has been used for other costs such as professional fees relating to the capital restructuring project.

- *Consent solicitation with bondholders – partial redemption of the Class A Notes*

  On 7 September 2022 a consent solicitation with approximately 61 per cent support from its class A Noteholders was launched. This sought certain consents from Noteholders for a potential transaction involving the realisation of value from selected crematoria assets, with the proceeds of such a transaction being applied in a partial redemption of the Class A Notes, as required by the current documentation. The necessary quorum was achieved on 29 September 2022 (with 99.92 per cent of the aggregate principal amount of the Notes for the time being outstanding being represented and the Extraordinary Resolution being passed with 94.42 per cent of the votes being cast in favour) and the consents referred to above apply for 12 month period to 29 September 2023.

  Dignity will be required to inject a minimum of £70 million into the Securitisation Group to partially repay some of the Class A Notes outstanding in consideration for assets leaving the Securitisation Group. If the transaction completes in Q2 2023 and £70m is the net realisation then this will result in a deleveraging of the Group and a positive impact of £5.7 million on the DSCR covenant calculations, i.e., a reduction of the DSCR from c.£51 million to c.£45.3 million in 2023. If the transaction takes longer to complete and is completed in Q3 2023 there will be no positive impact in 2023 as the first possible date for repayment will be 29 December 2023. It would have a full year impact of £11.7 million on the DSCR covenant calculations, i.e., a reduction of the DSCR from c.£51 million to c.£39.3 million in 2024.

  In addition, upon completion of the proposed transaction within the timeframe permitted by the noteholder consent, there are amendments to the documents that will allow further equity cures, with restrictions, to be made going forward should they be required. This can be used to supplement any EBITDA shortfall at 31 December 2023.

- *Recommended cash offer for Dignity plc*

  As announced on 23 January 2023, the board of Dignity has reached agreement on the terms of a recommended cash offer by Yellow (SPC) BidCo Limited ("BidCo"), a newly formed indirect wholly-owned subsidiary of Valderrama Limited ("Valderrama"), a joint venture between SPWOne V Limited ("SPWOne") and Castelnau Group Limited ("Castelnau", whose discretionary investment manager is Phoenix Asset Management Partners Limited ("PAMP")) (together, the "Consortium"). In addition to the cash offer which the Board is unanimously recommending to Dignity shareholders, Bidco has also offered shareholders the opportunity to elect to receive alternative offers, which would enable them to rollover part of their current investment in Dignity.

Review of operations (continued)

Trading locations

- The number of funeral locations within the Dignity (2002) Group at the period end was 725 which compares to 776 at 31 December 2021. The movement in the portfolio is shown below:

	Dignity (2002) Group
Number of locations at 31 December 2021[§1]	776
Branch closure – freehold	(10)
Branch closure – leasehold	(44)
Branch opening – leasehold	3
Number of locations at 30 December 2022[§1]	**725**

- There are no other funeral locations outside of the Dignity (2002) Group.
- The Dignity (2002) Group operates from 44 crematoria (Dec 2021: 44). Non-Obligors operate from an additional 2 crematoria (Dec 2021: 2).

[§1] Excludes 10 (2021: 10) telephone branches within the Dignity (2002) Group.

Dignity (2002) Limited

Consolidated EBITDA and capital expenditure

for the 52 week period ended 30 December 2022

	Note	*Funeral services*	*Crematoria*	*Pre-arranged funeral plans*	*Portfolio*	*Central overheads*	***52 week period ending 30 Dec 2022***	*53 week period ending 31 Dec 2021*
		£m	*£m*	*£m*	*£m*	*£m*	***£m***	*£m*
Net revenue		176.3	77.8	12.2	266.3	-	**266.3**	307.5
Operating expenses		(155.7)	(35.9)	(12.2)	(203.8)	(30.2)	**(234.0)**	(235.1)
EBITDA	1	**20.6**	**41.9**	**-**	**62.5**	**(30.2)**	**32.3**	72.4
Movement in provisions		n/a	n/a	n/a	n/a	n/a	**-**	-
Taxation	2	n/a	n/a	n/a	n/a	n/a	**(0.1)**	(1.2)
Minimum Capex Maintenance Amount	3	n/a	n/a	n/a	n/a	n/a	**(12.7)**	(11.5)
Free Cashflow		**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**19.5**	59.7
Actual Capital Maintenance Expenditure – ***calendar YTD***		12.0	5.5	-	17.5	7.1	**24.6**	17.6
Expenditure on Permitted Crematorium – Developments by Obligors – ***52 week period***		-	0.3	-	0.3	-	**0.3**	0.2

Dignity (2002) Limited

Consolidated Net Assets, Cash balances, Financial Indebtedness, Permitted Obligor Acquisitions and Permitted Disposals

as at 30 December 2022

	Note	***30 Dec 2022***	*31 Dec 2021*
Consolidated Net Assets:	4	***£m***	*£m*
Fixed assets		**1,445.0**	1,712.5
Other current assets		**58.5**	76.6
Total current assets	5	**58.5**	76.6
Other creditors: amounts falling due within one year		**(462.3)**	(429.8)
Creditors: amounts falling due within one year		**(462.3)**	(429.8)
Net current assets / (liabilities)		**(403.8)**	(353.2)
Total assets less current liabilities		**1,041.2**	1,359.3
Creditors: amounts falling due after more than one year		**(1,814.1)**	(1,850.1)
Provisions for liabilities		**(25.2)**	(11.5)
Pension liability		**(10.8)**	(19.7)
Net liabilities		**(808.9)**	(522.0)
Cash balances – amounts standing to the credit of:			
Capex Reserve Account		**-**	-
Funeral Home Reserve Account		**-**	-
Loan Payments Account	6	**0.2**	5.2
Issuer Transaction Account		**-**	-
Latent Tax Reserve Account	6	**0.4**	0.4
Crematorium Reserve Account		**-**	-
Principal Reserve Account		**-**	-
Elective Capex Account		**0.2**	0.2
Special Capex Account	6	**-**	-
Restricted Payments Account		**-**	-
Upgrade Reserve Account		**-**	-
Permitted Obligor Acquisitions and Permitted Disposals:			
Permitted Obligor Acquisitions (gross) in the Relevant Period	7	**0.3**	0.1
Permitted Disposals (gross) in the Relevant Period (where Net Sale Proceeds exceeds £75,000 x CPI)	8	**0.1**	0.2
Financial Indebtedness	10	**806.5**	783.8

Dignity (2002) Limited

Coverages and covenants (without equity cure)

for the 52 week period ended 30 December 2022

	Note	***52 week period ending*** ***30 Dec 2022*** ***£m***	*53 week period ending* *31 Dec 2021* *£m*
EBITDA for the Relevant Period		**32.3**	72.4
Free Cashflow for the Relevant Period		**19.5**	59.7
Debt Service for the Relevant Period	9	**33.9**	34.0
Financial Covenant			
EBITDA DSCR (‘Debt Service cover ratio’) :			
Target		**>= 1.5 : 1**	>= 1.5 : 1
Actual		**0.95 :1**	2.13 :1
Restricted Payment Condition			
Free Cashflow DSCR :			
Target		**>= 1.4 : 1**	>= 1.4 : 1
Actual		**0.58 :1**	1.76 :1
EBITDA DSCR :			
Target		**>=1.85:1**	>=1.85 : 1
Actual		**0.95 :1**	2.13 :1

Confirmations

The Dignity (2002) Group confirms that the Financial Covenant has not been observed for the Relevant Period ending 31 December 2022 and an amount of £34.3 million has been brought into the Securitisation group as part of the waiver arrangement.

The Restricted Payment Condition in relation to each Restricted Payment above have not been satisfied for the Relevant Period ending 31 December 2022 and subsequently no Restricted Payments have been made.

Dignity (2002) Limited

Coverages and covenants (with equity cure)

for the 52 week period ended 30 December 2022

	Note	***52 week period ending*** ***30 Dec 2022*** ***£m***	*53 week period ending* *31 Dec 2021* *£m*
EBITDA for the Relevant Period		**32.3**	72.4
Equity cure for the Relevant Period	16, 17	**34.3**	n/a
Free Cashflow for the Relevant Period		**19.5**	59.7
Debt Service for the Relevant Period	9	**33.9**	34.0
Financial Covenant			
EBITDA + equity cure DSCR ('Debt Service cover ratio') :			
Target		**>= 1.5 : 1**	>= 1.5 : 1
Actual		**1.96 :1**	2.13 :1
Restricted Payment Condition			
Free Cashflow DSCR :			
Target		**>= 1.4 : 1**	>= 1.4 : 1
Actual		**0.58 :1**	1.76 :1
EBITDA + equity cure DSCR :			
Target		**>=1.85:1**	>=1.85 : 1
Actual		**1.96 :1**	2.13 :1

Confirmations

There was a cash transfer made of £34.3 million in the Relevant Period ending 31 December 2022. £18.6 million was required to ensure the DSCR ratio was 1.5 and the remaining £15.7 million was an additional cash transfer.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2022

1 EBITDA

EBITDA has been calculated in accordance with the definition in the IBLA. Pension costs are stated on a cash basis and have been allocated on a divisional basis.

For the benefit of users of this report, divisional EBITDA for the Relevant Periods was as follows:

52 week period ended 30 Dec 2022	***Funeral services £m***	***Crematoria £m***	***Pre-arranged funeral plans £m***	***Central overheads £m***	***Group £m***
Net revenue	176.3	77.8	12.2	-	**266.3**
Operating expenses	(155.7)	(35.9)	(12.2)	(30.2)	**(234.0)**
EBITDA	**20.6**	**41.9**	**-**	**(30.2)**	**32.3**
53 week period ended 31 Dec 2021					
Net revenue	201.8	81.1	24.6	-	307.5
Operating expenses	(142.9)	(32.3)	(24.6)	(35.3)	(235.1)
EBITDA	58.9	48.8	-	(35.3)	72.4

2 Taxation

Taxation represents amounts paid in cash or falling due in respect of Tax during the Relevant Period.

3 Minimum Capex Maintenance Amount

The IBLA requires the Minimum Capex Maintenance Amount rather than actual spend to be deducted in arriving at Free Cashflow.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2022

4 Consolidated Net Assets

The consolidated net assets as at 31 December 2021 as disclosed in this Investor Report represent the final audited figures as per the 2021 statutory accounts.

Following the issuance of the Investor Report for the period ended 31 December 2021 on 23 March 2022, adjustments have been made to the balance sheet of the Dignity (2002) Group, which impaired Fixed assets by £20.1 million, reduced Other current assets by £0.2 million, reduced Total current assets by £0.2million, reduced Other creditors: amounts falling due within one year by £0.4 million, reduced Total current liabilities by £0.4 million, reduced Net current liabilities by £0.2 million, reduced Total assets less current liabilities by £19.9 million, reduced Provisions for liabilities by £0.1 million and increased Net liabilities by £19.8 million.

These changes to the consolidated net assets did not result in any changes to the Financial Covenants for the 53 week period ended 31 December 2021.

The Group has been proactively offering Dignity's new funeral plan product to customers of other providers who did not achieve FCA authorisation. The accounting treatment for these plans is still subject to finalisation and audit which will be conducted as part of the 30 December 2022 year end external audit process.

5 Total current assets

Total current assets include cash at bank and in hand of £14.0 million (Dec 2021: £30.4 million) of which £3.2 million (Dec 2021: £4.3 million) is cash held for operations.

6 Reserve account balances

Loan Payments Account

The balance in this account represents cash set aside to pay the future tax payments of the Dignity (2002) Group.

Latent Tax Reserve Account

The balance in this account represents cash set aside pursuant to clause 17.6.6 (b) of the IBLA.

Special Reserve Account

On 9 February 2022, £3.1 million was transferred from Loan Payments Account to the Special Capex Account pursuant to clause 15.5 of the IBLA. On 8 July 2022 £3.1 million was transferred from Special Capex Account to operating cash to fund capital expenditure under the Minimum Capex Maintenance rules.

7 Permitted Obligor Acquisitions

The expenditure in the Relevant Period relates to the acquisition of businesses and properties other than crematoria properties and Funeral Home Start-Ups.

8 Permitted Disposals

There was one asset disposal by Obligors in the Relevant Period, where the market value exceeded £75,000 x CPI, comprised of freehold properties that were not directly EBITDA generating.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2022

9 Debt Service and Financial Covenant

The Dignity (2002) Group confirms that none of the following occurred in the Relevant Period ending 31 December 2022:

- Loan Event of Default
- Potential Loan Event of Default
- Financial Adviser Appointment Event

The Dignity (2002) Group made the following debt repayments to Bondholders during the Relevant Period (paid on 30 June 2022 and 30 December 2022):

	Interest	***Principal***
	£'000	***£'000***
Class A Secured 3.5456% Notes due 2034	5,958	10,538
Class B Secured 4.6956% Notes due 2049	16,735	-
	22,693	10,538

Debt Service for the Relevant Period ending 31 December 2022 has been calculated as follows:

		Principal	***Annual rate***	***Interest***
Senior Interest accruing in the period	**Note**	***£'000***	***%***	***£'000***
Class A Notes		160,118	3.5556%	5,975
Class B Notes		356,402	4.7056%	16,771
Liquidity facility		55,000	1.10%	604
Senior Interest accrued in the period				**23,350**
Finance leases				52
Interest received in the period		Variable	Variable	(17)
Scheduled repayments of principal in the period			n/a	10,538
Debt Service for the Relevant Period				**33,923**

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2022

10 Financial Indebtedness

"Financial Indebtedness" means any indebtedness for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease, credit sale, conditional sale agreement or hire purchase contract which would, in accordance with Accounting Policies, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

(i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2022

11 Dignity plc

For the avoidance of doubt, the financial information contained elsewhere in this report relates to the unaudited consolidated results and financial position of Dignity (2002) Limited and its subsidiaries ('the Dignity (2002) Group') as required under the IBLA. The ultimate parent undertaking of Dignity (2002) Limited is Dignity plc.

Consequently, the financial information set out elsewhere in this report does not include the results of either the ultimate or intermediate parent undertakings of Dignity (2002) Limited, nor any adjustments necessary as to present the consolidated results and financial position of the combined groups.

Specifically, the financial information set out elsewhere in this report does not include certain adjustments, including, but not limited to, the following:

- Certain administrative expenses accruing to the parent undertakings of the Dignity (2002) Group;
- Interest payable and receivable on borrowings or loans between the Dignity (2002) Group and its parent undertakings;
- Interest payable or receivable on borrowings or loans held by either the ultimate or intermediate parent undertakings of Dignity (2002) Limited;
- Dividends declared or receivable by either the ultimate or intermediate parent undertakings of Dignity (2002) Limited;
- The non-cash effects of IAS 19 in the Relevant Period;
- The net assets of either the ultimate or intermediate parent undertakings of Dignity (2002) Limited; and
- Any adjustments necessary in order to present the combined results and financial position of any entity outside the control of the Dignity (2002) Group.

This report has been prepared under EU adopted International Financial Reporting Standards (IFRS).

Notes to the Investor Report

for the 52 week period ended 30 December 2022

12 Terminology

The following capitalised terms and phrases used in this report are defined in the Issuer / Borrower Loan Agreement ('IBLA') and have the same meanings in this report as defined in the IBLA:

Accounting Standards Change	Additional Obligor	Annual Upgrade Update	Borrower	Capital Maintenance Expenditure	Change of Basis Election
Debt Service	Dignity Group	EBITDA	Financial Adviser Appointment Event	Financial Covenant	Financial Indebtedness
Free Cashflow	Funeral Home Start-Up	Issuer	Loan Event of Default	Minimum Capex Maintenance Amount	Non-Obligor
Non-Obligor Investment	Note Trustee	Obligor Transaction Documents	Permitted Crematorium Development	Permitted Disposal	Permitted Obligor Acquisition
Portfolio	Potential Loan Event of Default	Relevant Period	Restricted Payment	Restricted Payment Condition	Senior Interest
Secured Notes	Securitisation Group	Security Trustee	Tax	Tax Deed of Covenant	

13 Investor Report Information to Bloomberg

The Dignity (2002) Group is a sub-group of the Dignity plc Group, which is listed on the London Stock Exchange. As a result, this Investor Report is publicly available on the Group's Investor website www.dignityfunerals.co.uk/corporate. The Dignity (2002) Group has therefore published this entire Investor Report on Bloomberg, rather than restricting the information provided as permitted by the IBLA.

14 Quarterly reference dates

The Dignity (2002) Group prepares accounts drawn up to the nearest Friday before the Quarter End Date each quarter. As a result the combined and consolidated information reflects the 52 week period ending 30 December 2022 and 53 week period ending 31 December 2021.

15 Ancillary Facilities

The Dignity (2002) Group's £55 million Liquidity Facility remains available.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2022

16 Consent solicitation with bondholders

Consent solicitation with bondholders – temporary covenant waiver

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Dignity will be required to inject a minimum of £70 million into the Securitisation Group to partially repay some of the Class A Notes outstanding in consideration for assets leaving the Securitisation Group. If the transaction completes in Q2 2023 and £70m is the net realisation then this will result in a deleveraging of the Group and a positive impact of £5.7 million on the DSCR covenant calculations, i.e., a reduction of the DSCR from c.£51 million to c.£45.3 million in 2023. If the transaction takes longer to complete and is completed in Q3 2023 there will be no positive impact in 2023 as the first possible date for repayment will be 29 December 2023. It would have a full year impact of £11.7 million on the DSCR covenant calculations, i.e., a reduction of the DSCR from c.£51 million to c.£39.3 million in 2024.

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17 Equity cure

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