

PRIVATE EQUITY CHALLENGE | PRESENTATION

Dignity Caring Funeral Services

Group 1

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PRESENTATION AGENDA

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Growth & Profitability Drivers
Historic Financials

● **Market Overview**

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Key Players & Competitive Dynamics

● **Investment Thesis & Value Creation Strategy**

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Operational Improvements
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Exit Options
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● **Closing Notes**

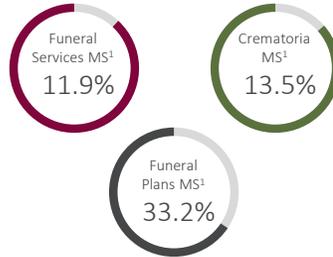
● **Annexes**

● **Bibliography**

EXECUTIVE SUMMARY

Company Overview

- Founded in 1812, Dignity plc is currently a leading funeral-related services provider in the UK, operating through a network of 826 funeral locations, 19 cemeteries and 46 crematoria.
- In 2017, the company has performed **68 800 funerals** and **63 400 cremations**, having c. **450 000 pre-arranged funerals outstanding**, corresponding to a market share per segment of 11.90%, 13.53% and 33.2%, respectively



Industry Overview

- Being a very **cycle-proof industry**, the Funeral Industry has been evolving on one hand with the technological development, which 'delayed' customers' needs in the past, but also with clients needs, exhibiting a **shift from the traditional funeral to more unconventional or cheaper options**.
- In 2017, **605 443 deaths occurred** in the UK, more than **77% of them resulting in a cremation**, with more than 1.3M plans outstanding.

Main Players

Funeral Services



Crematoria



Pre-Arranged Funerals




Investment Rationale²

- Take advantage of the foreseeable **market growth** in the segments where the company is stronger (crematoria and pre-arranged funerals) £ 19.8M

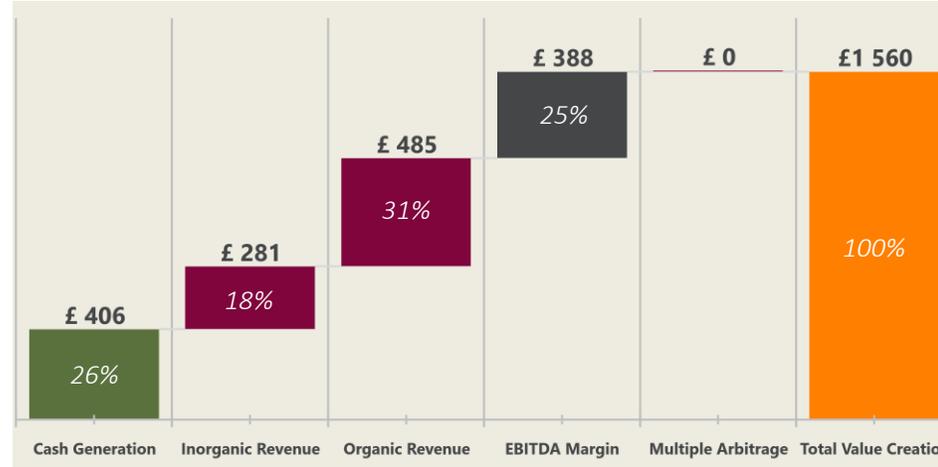
- Operational Turnaround**, cutting unnecessary costs, closing inefficient branches centralizing operations and better implementing a digital BM. £ 33.3M

- Buy-and-Build**, increasing its market share through the acquisition of branches and crematoria where reasonable, expanding its network £ 33.4M

Acquisition

- The present report intends to **recommend Dignity plc for a further investment** in Due Diligence.
- The acquisition financing structure proposed is composed by 50.1% Debt and 49.9% Equity at an industry based EV/EBITDA multiple of 11.5x which gives a **total offer of £ 1 501M**.
 - The management team will have a total stake of 20% which corresponds to an investment of £ 9.2M.
- Given the company debt structure, it is not expected to refinance the company entirely, but rather **roll over the existing securities** and **issue further junior debt**.

Value Creation (in £ M)

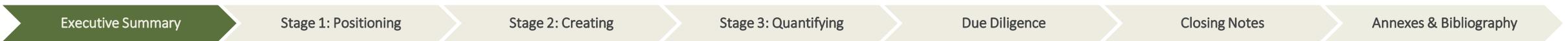


Exit Strategy

- Given the company profile, this report suggests that a **Secondary Sale is the most recommended exit option** as it will allow a smooth and quick exit from the fund investment.
- This kind of assets can be specially attractive for investment funds such as pension funds, looking for investments with **strong and stable cash flows and a low-risk profile**.

Sources of Funds	Entry	Exit
Lifecycle	2019	2023
EV / EBITDA Multiple	11.5x	11.5x
Fund Investment	£ 764.7M	
Fund Stake	80%	
Money Multiple	2.73x	
IRR	22.26%	

Notes: 1. Market Share; 2. All values presented represent EBITDA creation through the investment lifecycle



COMPANY OVERVIEW



COMPANY OVERVIEW | BUSINESS ANALYSIS

Dignity possesses a leading position as a funeral-related services provider that operates solely in the UK since 1994. Its wide network aligned with a strong and experienced management team make Dignity a reference player in the industry.

Company Overview

- Dignity (or “the Company”) is one of the **main providers of funeral-related services in the UK** with strong market-leading positions. The Company incorporates three distinctive segments:
- Dignity’s **funeral services** relate to the provision of funerals and ancillary items, such as memorials and floral tributes.
- The **crematoria services** relate to cremation services and the sale of memorials and burial plots at the Company operated crematoria and cemeteries.
- And finally the **pre-arranged funeral plans** include the sale of funerals in advance, to customers wishing to make their own funeral arrangements.
- Currently the Company counts with more than 3 000 professionals, lead by a strong and experienced Management Team, aligned with the company’s strategic objectives, with a unique knowledge of the death industry in the UK.

Geographic Presence



- Dignity plc operates a network of **826 funeral locations** throughout the United Kingdom trading under established local names.
- As of 2018 Dignity owns **19 cemeteries** in the UK.
- The Company operates **46 crematoria** both in England and Scotland.
- Currently Dignity does not possess any infrastructure or maintains any type of business outside of the United Kingdom, being their Headquarters in Birmingham.

Company History



Sources: Company's Website, Company's Reports & Presentations

Executive Summary

Stage 1: Positioning

Stage 2: Creating

Stage 3: Quantifying

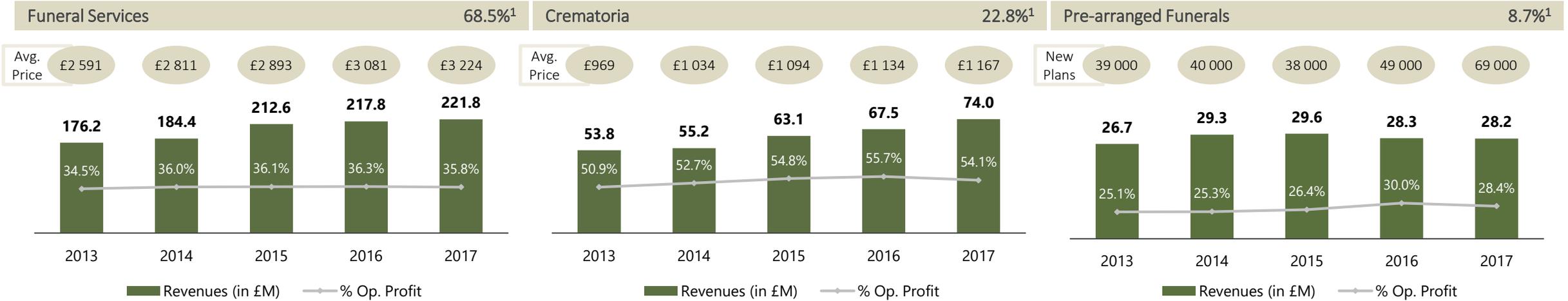
Due Diligence

Closing Notes

Annexes & Bibliography

COMPANY OVERVIEW | GROWTH & PROFITABILITY DRIVERS

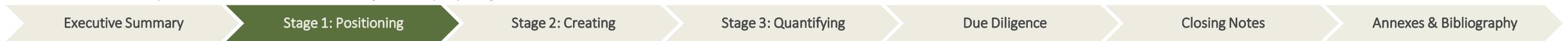
Crematoria line of business is the fastest growing division within the group, with a CAGR₂₀₁₃₋₂₀₁₇ of 8.30%. Also presenting a substantially higher operating profit than the rest of the company c. 54.1% (being the overall 39.4%).



Revenues CAGR ₂₀₁₃₋₂₀₁₇	5.92%	Revenues CAGR ₂₀₁₃₋₂₀₁₇	8.30%	Revenues CAGR ₂₀₁₃₋₂₀₁₇	1.38%
<ul style="list-style-type: none"> Funeral Services revenues have been presenting a relatively stable growth, followed by a stable profit margin. Average price charged per funeral has also been increasing substantially, not being reflected in an increase of the corresponding operating profit. Meaning that the associated costs to provide the service have also been increasing. 		<ul style="list-style-type: none"> Cremation services presenting a significant growth, with an increasing profitability. The relevance and focus have given by the Company to this service has been increasing and will certainly continue to. Relatively stable average prices, that will probably initiate a diminishing trend due to the launch of the new Simplicity brand. 		<ul style="list-style-type: none"> Despite the significant increase in the number of new plans per year, pre-arranged funeral revenues have not been increasing accordingly. It may have two possible explanations, as revenue recognition only occurs when the actual plan is used. Cancellation of the plan (linked with the nature of the plan if it is trust based or insurance plan) and the age of the client when signing the pre-arranged plan. 	

Sources: Company's Reports

Notes: 1. The values represent the Revenues Breakdown of the Company as of 2017



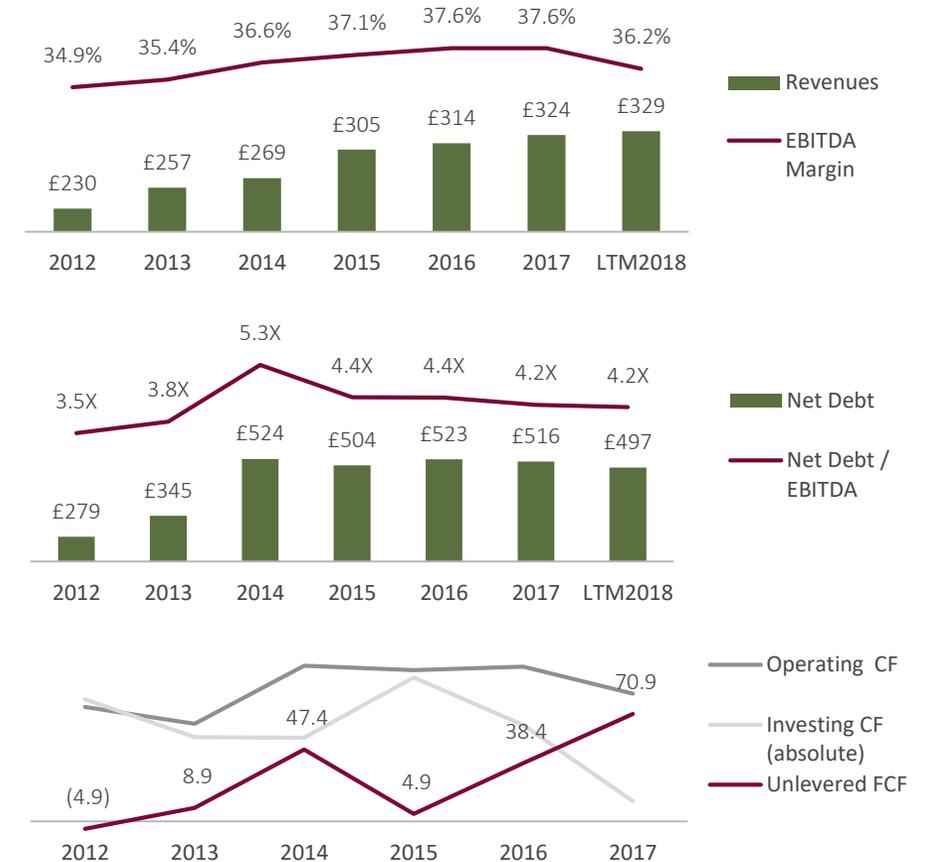
COMPANY OVERVIEW | HISTORICAL FINANCIALS

Dignity's sales have been constantly increasing, being also accompanied by a healthy EBITDA Margin that sits around 36%. This allows the Company to define a more aggressive Net Debt / EBITDA ratio which consequently enables the fast-growing strategy that has been able to produce strong Cash Flows throughout the past years.

Historical Financials	2012	2013	2014	2015	2016	2017	LTM1H2018
Income Statement							
Revenues	229.6	256.7	268.9	305.3	313.6	324.0	328.9
EBITDA	80.1	90.9	98.4	113.3	117.8	121.7	118.9
% Margin	35%	35%	37%	37%	38%	38%	36%
EBIT	68.7	75.1	82.9	95.5	97.7	98.0	90.8
% Margin	30%	29%	31%	31%	31%	30%	28%
Net Income	35.7	40.4	(55.0)	56.9	57.2	57.8	52.4
% Margin	16%	16%	-20%	19%	18%	18%	16%
Balance Sheet							
Net PP&E	157.1	183.6	192.3	200.6	235.4	248.0	248.3
Intangible Assets & Goodwill	204.5	250.4	276.5	328.2	358.1	385.5	388.8
Invested Capital	361.6	434.0	468.8	528.8	593.5	633.5	637.1
CAPEX	-	84.9	48.3	74.6	80.8	57.1	12.8
NWC	(15.7)	(20.3)	(10.7)	(30.0)	(16.9)	(13.4)	(14.0)
Short-term Debt obligations	24.5	83.8	8.0	8.3	8.8	4.5	9.3
Long-term Debt obligations	310.1	403.1	602.9	594.6	581.5	561.2	551.9
Total Debt	334.6	486.9	610.9	602.9	590.3	565.7	561.2
Total Cash and Cash equivalents	55.6	142.3	86.5	98.8	67.1	49.3	64.0
Net Debt	279.0	344.6	524.4	504.1	523.2	516.4	497.2
Net Debt / EBITDA	3.5x	3.8x	5.3x	4.4x	4.4x	4.2x	4.2x
Cash Flow							
Operating CF		75.6	64.4	102.6	99.8	102.0	84.3
Investing CF		(80.4)	(55.5)	(55.2)	(94.9)	(63.6)	(13.4)
Unlevered FCF		(4.9)	8.9	47.4	4.9	38.4	70.9

Sources: Company's Reports

Key Figures (£M)



Executive Summary

Stage 1: Positioning

Stage 2: Creating

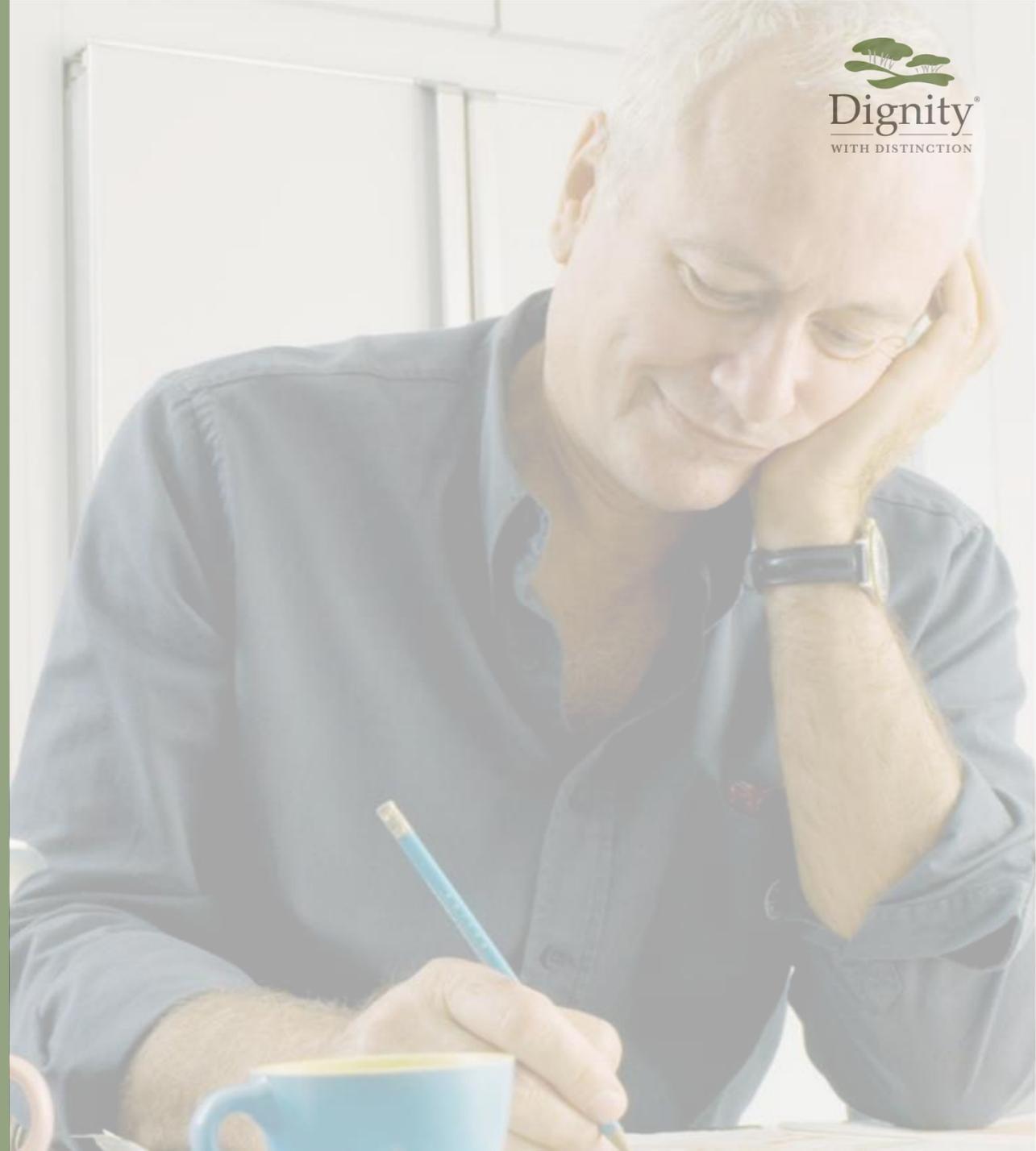
Stage 3: Quantifying

Due Diligence

Closing Notes

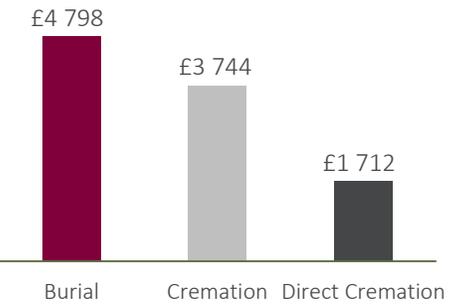
Annexes & Bibliography

MARKET OVERVIEW



MARKET OVERVIEW | SIZING THE INDUSTRY

There are few industries with a steady income as strong as the funeral sector - In the UK, funerals market is valued at c.£ 2Bn a year, having grown at an annual rate of 4.5% over the past 5 years. Regarding its segments, the industry may be divided in terms of service - funerals, cremations and plans - or operators - services, cemeteries, manufacturers and others.

The Rising Cost of a Funeral in the UK	How the Industry is Divided?									
<ul style="list-style-type: none"> Funeral costs have seen a 3.4% y-o-y increase, rising by 57.1% in the past decade, which compared to weekly wages evolution (+20%)¹, electricity (+42.2%)¹ or gas prices (+19.6%)¹ turns out to be a stark evolution. For this reason, Direct Cremation is rising in popularity, as it is the most affordable option since there is no service, enabling also to be performed in less social schedules, which are cheaper. 	Funeral Services <ul style="list-style-type: none"> Relates to the provision of funerals and ancillary items, such as memorials and floral tributes. It is the most expensive service in terms of the basic expenses. 	Funeral Service Operators <ul style="list-style-type: none"> Most diverse subsector, typically owned by Small Regional and Local Operators and Local Authorities but granted to Private Operators. Revenues can be at-need or pre-need. 								
Average Cost per Basic Funeral (2018)  <table border="1" data-bbox="78 672 529 978"> <thead> <tr> <th>Service</th> <th>Average Cost</th> </tr> </thead> <tbody> <tr> <td>Burial</td> <td>£4 798</td> </tr> <tr> <td>Cremation</td> <td>£3 744</td> </tr> <tr> <td>Direct Cremation</td> <td>£1 712</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Funeral Director's Fees: £ 2 595 <ul style="list-style-type: none"> Include: Cost of the Coffin, Hearse, Collection and Care of the Deceased, Funeral Director's Professional Guidance Cremation and Burial Fees: £ 832 (Cremation); £ 2 174 (Burial) Doctor's Fees: £ 164 (£0 in Scotland) Clergy or Officiate Fees: £ 159 	Service	Average Cost	Burial	£4 798	Cremation	£3 744	Direct Cremation	£1 712	Crematoria Services <ul style="list-style-type: none"> Relates to cremation and the sale of memorials and burial plots at crematoria and cemeteries. Can be religious, non religious or direct (without service). 	Cemetery / Crematoria Operators <ul style="list-style-type: none"> Cemetery operations include sales of interment rights and maintenance Owned majorly by Local Authorities and country-wide operators.
Service	Average Cost									
Burial	£4 798									
Cremation	£3 744									
Direct Cremation	£1 712									
Growth Drivers  <ul style="list-style-type: none"> Demographic Factors: # Deaths (Short-Term), # Births (Long-Term). Economic Factors: Time of the Expenses (Strong Economic Cycles -> more pre-need expenses), Type of the Expenses (Strong Economic Cycles -> higher expenses in discretionary items and high-end funerals). Political Factors: Strict Regulations lead to more compliance costs 	Pre-Arranged Funeral Plans <ul style="list-style-type: none"> Represents the sale, at today's price, of funerals to customers wishing to make their own funeral arrangements in advance. The paid money is used either into a trust fund or in insurance. 	Others <ul style="list-style-type: none"> Include Manufacturers, Municipalities, Clergy, Doctors, Insurance Companies and Other Financial Institutions being, typically, independent from the remaining operators. 								
	Horizontal Offer (Send-Off) <ul style="list-style-type: none"> Products common to all the different services provided Memorials, catering, limo and venue hire, flowers, notices... 	Changing Trends  <ul style="list-style-type: none"> Decreasing Geographic & Demographic Influence: People are becoming more price sensitive as, mainly due to the power of the digital, they are now able to shop around and compare prices. Less Tradition: New services are arising (Green Funerals, Direct Cremations, pre-arrangements,...) which go "against" tradition. Marketing death is not an issue any more which, together with internet, allow people to be more creative in the last hours (themed celebrations, video memorials,...) 								

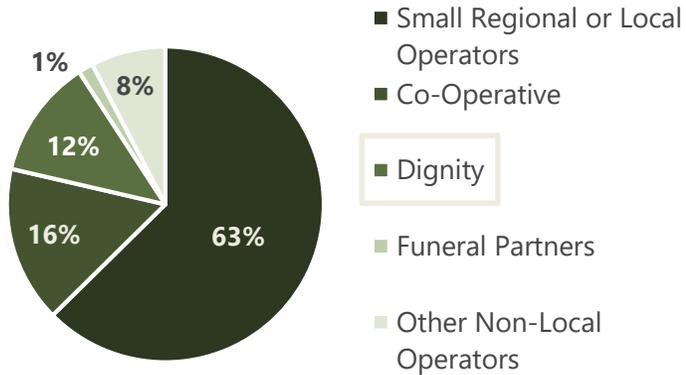
Sources: Company's Reports; Market Research
Notes: 1. Evolution until 2017



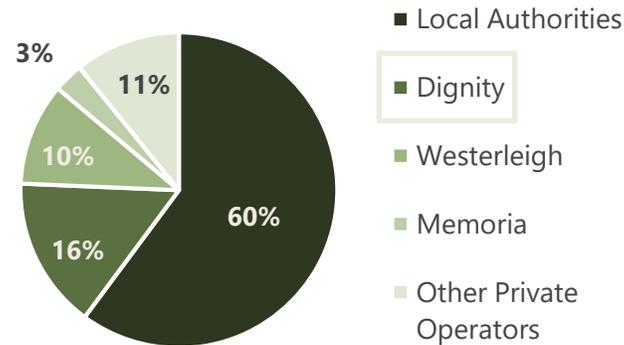
MARKET OVERVIEW | KEY PLAYERS & COMPETITIVE DYNAMICS

Dignity is a dominant player in the three segments where it operates. Although Funeral Plans may result in lower margins, they are important to secure future services in the other two segments.

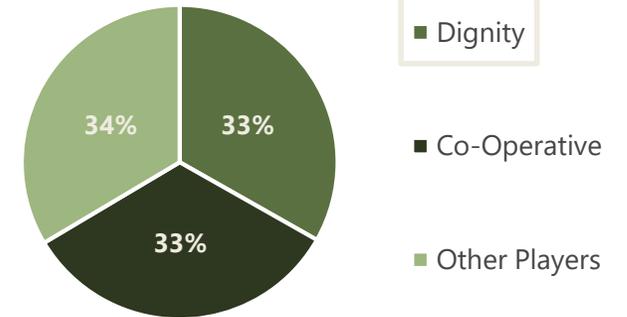
Funeral Services



Crematoria



Pre-arranged Funerals



- The funeral market has a variety of businesses, some of them vertically integrated. The market remains highly fragmented. out of c.5 000 funeral branches, 3 000 still being operated by small and regional businesses.
- Dignity is the only funeral UK-based company listed. In 2017 had **826 funeral branches and performed c. 69 000 funerals**. The largest player in the market is **Co-op** which owns around **1 100 funeral branches and performed in 2017 c. 100 000 funerals**.

- Local authorities have an important share of the market. Of the 290 crematorium in the UK, around two thirds are owned by local authorities which operate most of the cemeteries as well.
- Dignity is the largest private player, owning 46 crematoria** across the UK (c. 63 000 cremations performed in 2017). Cremations may arise from third party funeral providers.
- Second largest player is Westerleigh owning 31 locations.

- Around 210 000 funeral plans are sold per year the UK. Being the **total of plans outstanding c.1.2M**.
- As expected, the two largest players in the funeral services segment are the main providers of plans.
- The share of plans sold in 2017 by each player was approximately the same. **c. 69 000 plans sold**.
- Funds are kept outside respective balance sheets**, being Trust Funds or Whole of Life funds the responsible for its management.

Sources: Company's Reports; Market Research

Executive Summary

Stage 1: Positioning

Stage 2: Creating

Stage 3: Quantifying

Due Diligence

Closing Notes

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INVESTMENT THESIS & VALUE CREATION STRATEGY

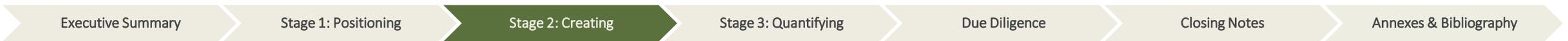


INVESTMENT THESIS

After a careful study of the more common investment thesis, we believe that the focus of the investment shouldn't be on a single strategy; the market trends of consolidation, some growing products (crematoria and funeral plans) and the inefficient operations of the company must be where an entering shareholder look when deciding how to take the best out of it.

Strong/Accelerating Market Growth	Operational Improvements		Buy-and-Build
<ul style="list-style-type: none"> In the upcoming years, the number of deaths in the UK is expected to increase considerably, reaching approximately 700k by 2040. Throughout history, the funeral services industry was remarkably impacted by religious and familiar traditions. However, the lack of space of the existing cemeteries and the increasing prices of traditional funerals over the last years are increasing the demand for crematoria and pre-arranged funerals. Pre-arranged funerals is the funeral sector with the highest market growth potential, there is an increasing number of adults that finds inevitable to prepare their own funeral, trying to avoid price increases and relive their family. By taking a strong early adopters' strategy and entering a market during a high growth phase such as the pre-paid funeral market, Dignity can increase its market share and take advantage of its Brand Recognition, Strong Network, Experience and Trustworthy. 	<p>Pricing</p> <ul style="list-style-type: none"> Already being implemented through the launch of Simplicity brand and Simple funerals, a latent concern due to the price pressure from Co-op. 		<ul style="list-style-type: none"> The Funeral Services market is highly fragmented, translating an opportunity for large players to consolidate. The Funeral sector has more than 5 000 players, while only Dignity and Co-op have relevant positions. The remaining players in the market operate at a local level being those, in fact, good acquisition targets. Analyzing the two main services offered by Dignity, funerals and cremations, one may see that Dignity has growth opportunities in both. M&A is already a known strategy for the company and it is the safest path to expand its position. In the cremation sector Dignity is the leading player and 2/3 of the market are controlled by local authorities, being 15% of the market controlled by small players. There is a favorable environment for acquisitions, both in funerals and cremations.
<p>Opportunity</p> <ul style="list-style-type: none"> Take advantage of the strong existing crematoria network, betting in a product with higher margins such as the Crematoria Services. Ensure clients for the upcoming years, by strongly invest in the pre-arranged funerals service early in the process. Successfully increase the company's market share. 	<p>Opportunity</p> <ul style="list-style-type: none"> Increase the company's cost effectiveness. Reinforcement of barriers to entry in the market. Take advantage of Dignity wide network to leverage negotiations. Digitalize the business, allowing on medium-term cost reductions and brand awareness. 		<p>Opportunity</p> <ul style="list-style-type: none"> Highly fragmented market, keen to acquisitions by larger players. Poor conditions in some smaller players, increases the added value of a proper management post acquisition. Invest in key territories, spreading Dignity's network and capturing market share where it was not present yet.

Sources: Company's Reports & Presentations



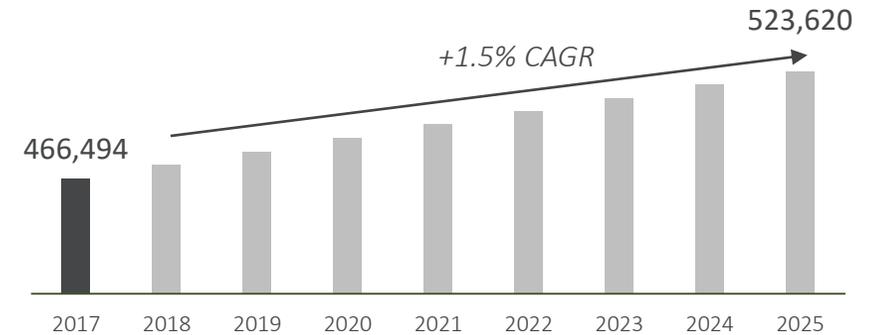
VALUE CREATION STRATEGY | STRONG / ACCELERATING MARKET GROWTH

In the upcoming years, the number of deaths in the UK is expected to increase considerably, to approximately 700k by 2040. Pre-arranged funerals is the funeral sector with the highest market growth potential, as there is an increasing number of adults that finds inevitable to prepare their own funeral in advance.

Crematoria Market Growth

- In 2017, Dignity had a crematoria market share of 13.5%, conducting c. 63 400 cremations. Both number of deaths and cremation rates are expected to increase significantly in the upcoming years.
- Currently, cremation rate in the UK is 77.6%. **Considering the cremation rate's evolution since 2010, this is expected to increase to 81.4% by 2025**, corresponding to an increase of total cremations of 466 494 in 2017 to 523 620 in 2025.
- Assuming a constant market share over the next years, the number of cremations performed by the company is expected to reach, 71 164 by 2025, *ceteris paribus*.
- Simplicity low cost direct cremations will most likely contribute to the crematoria market growth. Simplicity Cremations, launched in November 2016 are currently averaging a run rate of 1 000 direct cremations per year.
- **Dignity may use its current positioning in the sector to be a pioneer**, anticipating the increased demand for simpler services, with lower margins and prepare its infrastructure to be as efficient as possible.

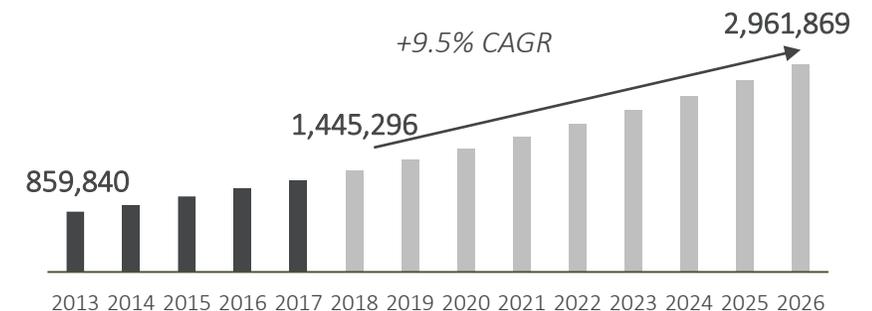
UK Number of Cremations year



Pre-arranged Market Growth

- Around 96% of people in the UK still do not have a funeral plan yet, however, some people use Over 50s insurance plans as a way to plan their funeral expenses, which are most of the time incorrectly marketed as funeral plans.
- According to the Funeral Planning Authority, in 2017 there were 1.31M funeral plans outstanding. Having in consideration the last 5 years, **funeral plans are expected to grow at a 9.5% CAGR, reaching 2.96M by 2026**.
- In order to capture most of the market growth, Dignity may focus more on creating partnerships with insurance companies rather than focus on trust based plans sales, so that they can attract all those clients who try to use over 50s insurance plans as a way to plan for their funeral expenses. By doing so, they would significantly **decrease the acquisition cost of each pre-arranged funeral plan client, but would also reduce the margin of each plan sold**.
- At the end of 2017, Dignity had around 450k active funeral plans, considering Dignity's market share to be constant, the Company is expected to have approximately 1.02M undrawn funeral plans by 2026.

Active Funeral Plans of FPA's Members



Sources: The Cremation Society of Great Britain; Funeral Planning Authority

Executive Summary

Stage 1: Positioning

Stage 2: Creating

Stage 3: Quantifying

Due Diligence

Closing Notes

Annexes & Bibliography

VALUE CREATION STRATEGY | OPERATIONAL IMPROVEMENTS (I/II)

Although not commonly adopted in this industry, but a more digital-centric model is essential, as clients want choice, flexibility and high levels of service, all providable through a simplified digital process. Dignity must also be able to centralize operations, increasing bargaining power and enabling scale gains, compensating the needed price decrease.

Pricing	Digitalization / Modernization	Centralization
<ul style="list-style-type: none"> As a result of the perfect established network of Co-op, Dignity has been hurt on the media, in the last twelve months and specially due to the Fair Funerals Campaign, as its competitor is able to provide Simple Funerals at a lower and transparent price. As a response, Dignity redefined its pricing policy. Nevertheless, this decision is yet to attain the desired results, as Co-Op, in the beginning of 2018, reduced their Simple Funerals service by £ 100. Henceforth, a further reduction, in 30%, is expected to occur throughout the upcoming years which, together with the signature of the FFC should increase transparency and reposition Dignity. 		<p>Per Location:</p> <ul style="list-style-type: none"> Front of House: Client-facing staff; Client meetings and funeral arrangement. Back of House: Collection and ongoing care of the deceased; Delivery of the funeral. <p>Regionally:</p> <ul style="list-style-type: none"> Satellite Locations: Primary focus on arrangement of meetings and capture clients Full Service: Facilities with both front of house and back of house <p>In the UK: By redefining its positioning as a single brand per segment, Dignity must be able to streamline operations, especially in areas where centralization is possible:</p> <ul style="list-style-type: none"> Automate and centralize supplier / client payments and standardize and automate reporting across branches. Centralize HR at a Regional Level, having central training resources and focusing the management on core ops. Realize savings in key procurement categories (e.g., mortuary equipment, funeral stationery) by creating a central procurement team and negotiate as a whole. Centralize other support areas, such common marketing.
<p>At 2017:</p> <p>By 2020F:</p>	<ul style="list-style-type: none"> Increase price transparency. Apply a digital-centric model, simplifying processes in a funeral arrangement, upgrading tools, raising mobility and, hereafter, reducing administrative costs Possibility to arrange services remotely, taking advantage of the increasing willingness to shop around. Take advantage of this channel as a way to give discounts for its services, specially betting on pre-arranged funerals. Some examples to be used: Family Discounts, Lower Cancellation Fees, Shortfall insurance for unfinished installment payments¹, re-bundle discount. 	

Sources: Fair Funerals Campaign, Beyond, The Reaper Calls for Dignity, Company's Reports & Presentations

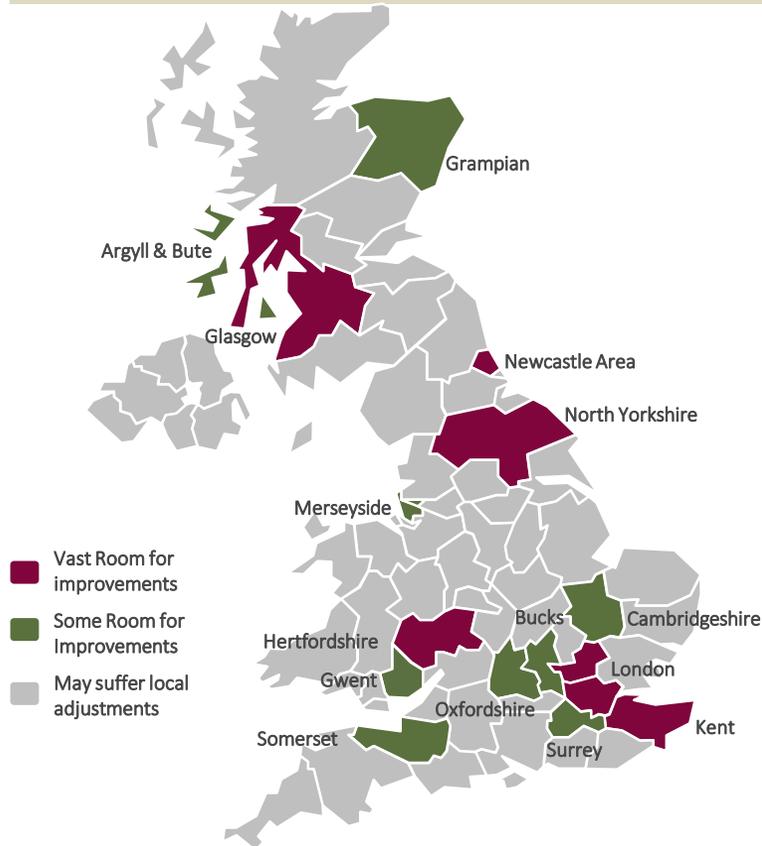
Notes: 1. If dying after the first year of installments



VALUE CREATION STRATEGY | OPERATIONAL IMPROVEMENTS (II/II)

Network optimization got to be achieved to a critically analysis of the more than 800 branches of the group. Branches with no competitive advantage, lack of funeral services and lack of prospects should be analyzed and, if suspicions confirmed, closed.

Network



- Rationalize locations with low performance or highly overlapping catchments, looking analytically to those who provide less than 50 funerals a year (c.40%) and the reasoning behind their existence.
- Seek acquisitions or, ultimately, greenfield expansions to increase geographic coverage, mainly by better proliferate the main line of business (Cremations).
- Take advantage of centralized operations at a regional level when appropriate, sharing services and resources as fleet or mortuary.

Factors to consider when optimizing the network:

- # of Estimated Funerals per Branch
- + 65 Old Population of the Location
- Area of the Location
- Special Events' Bias¹

- Applying the before mentioned model, one can divide into three main categories:
 - **The Plum:** Counties where there is a clear imbalance in the number of branches; this may be due to a direct excess in locations per km² or a low level of estimated funerals per branch. As an example, the model estimates that in the Newcastle Area alone, 7 branches should be shut down.
 - **The Olive Green:** Counties where there is still room to improve, locally and regionally, prioritizing scale gains that may arise in places with too small areas for the number of existing branches or areas where there is lower population density.
 - **The Grey:** Counties that although presenting a division within the "accepted terms", may suffer local adjustments, enhancing the development of the already described shared services, specializing key branches and centralizing common departments.

Closed Branches **68**

Key Takeaways

- A successful implementation of such strategy should not harm Dignity's market share as the existing branches are able to capture the same set of clients than before, due to the overlapping of branches.
- An implementation of this strategy should, however, be done in a very critically way, as factors that are not clear may explain this sort of distribution. Examples as London (most competitive market) or Blaenau Gwent, a town in Wales known as being the one where people are more depressed-pills addicted² confirm this approach.

Sources: Office for National Statistics; Group's Model developed to compute efficiency of branches. Notes: 1. Flexible component of the model, which accounts factors as Natural disasters. For more information see Annex 9. 2. Daily Mail, Town where one in six are hooked on happy pills: Prescriptions up 8% as campaigners focus on high numbers of anti-depressants being handed out in deprived areas

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Due Diligence

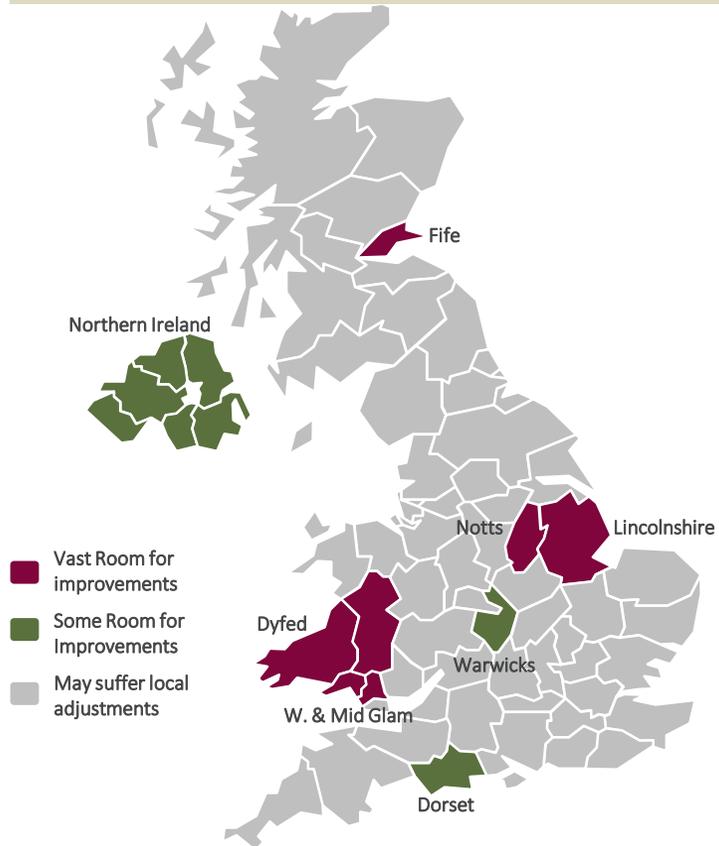
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VALUE CREATION STRATEGY | BUY-AND-BUILD (I/II)

Network optimization also has an impact in the buy-and-build strategy. There are several regions within the UK where Dignity is poorly or not represented at all. In order to maximize Dignity's exposure, to increase its market share, the Company should open 37 funeral branches in specific locations defined by the model.

Funeral Services



- As one may infer that Dignity has overlapping branches, it is also a fact that **Dignity has, in some regions, a lack of supply**. This factor was mainly controlled by the average number of deaths per branch and the area of the region in matter.
- A large amount of deaths per branch may suggest that Dignity is not being able of capturing its market share on that region and a large area may also suggest that Dignity needs more locations to fully implement its services in a specific region.

- Applying the before mentioned model, one can divide in three main categories:
 - **The Plum:** Aggregates two sub-categories where there is substantial margin for improvement: Counties **where Dignity is not present** and **where there is a relevant market**; Counties where Dignity already **has some exposure but there is a lot of room for more** (both on the number of deaths and area factors)
 - **The Olive Green:** Dignity could make **some improvements** in the number of branches it has in those specific Counties.
 - **The Grey:** **Locally adjustments may occur**, but overall Dignity already presents a quite balance network.

New Branches

37

Key Takeaways

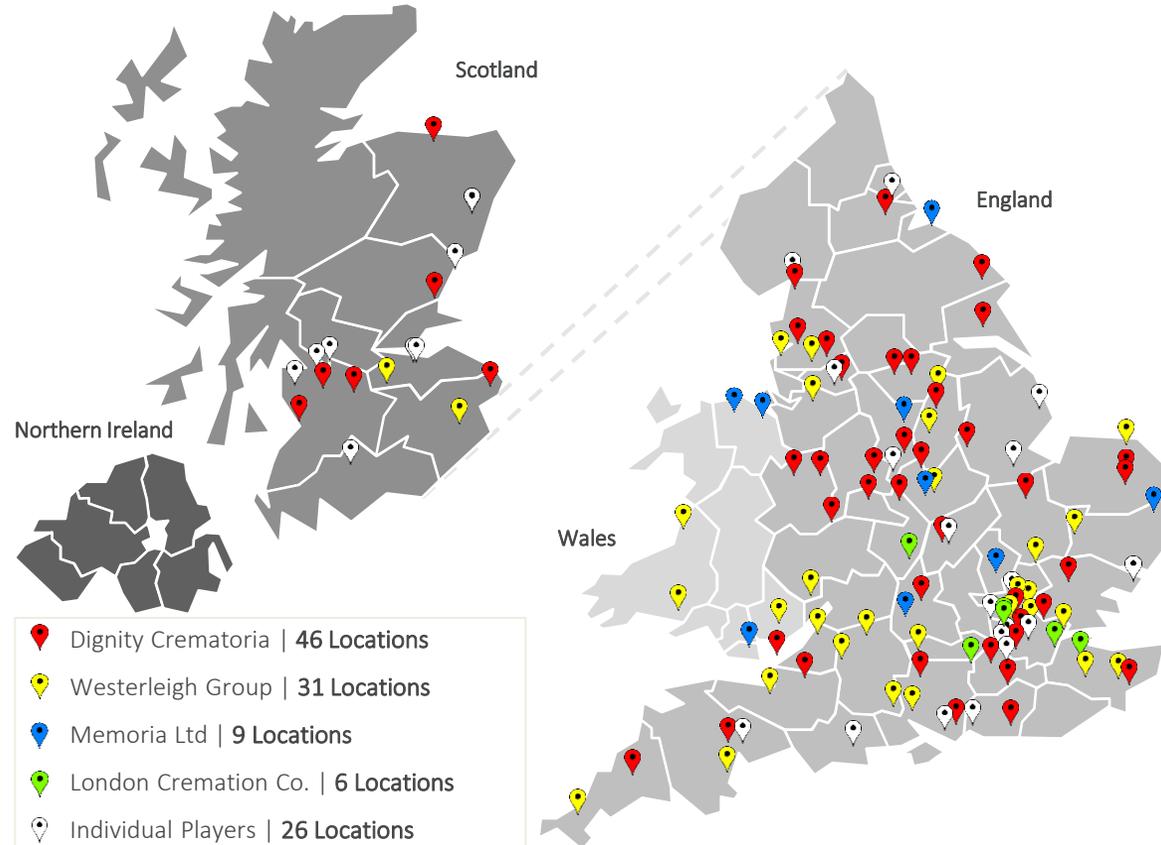
- A successful implementation of such strategy **may eventually result in an increase of Dignity's market share**. The exposure to new markets where the Company wasn't yet exploring to its full potential, will open the doors for new clients.
- An implementation of this magnitude could be put in place following Dignity known M&A strategy of **acquiring smaller players, ensuring the profitability of the selected locations**.

Sources: Office for National Statistics; Group's Model developed to compute efficiency of branches

VALUE CREATION STRATEGY | BUY-AND-BUILD (II/II)

The fastest growing division within Dignity's portfolio has also several opportunities to grow inorganically. The market is in its majority controlled by local authorities but there is room for growth through smaller competitors, such as Memoria Ltd. Expansion CAPEX is expected to be c.£ 108M, including revamping cost of the 19 facilities to be acquired.

Crematoria Locations



Competitive Landscape

- Crematoria market is in its majority controlled by the local authorities that own 60% of the locations (c.180 out of 300).
- The four main private players are represented in the map and have a joint market share of 31% (92 locations).
- The remaining players are individual cremation companies, the majority being family businesses that have one or two locations.

Westerleigh Group

Westerleigh Group is not a good target for two main reasons. Its size has an impact on the multiple to be paid and it is specialized in construction/ transformation of facilities.



Memoria Ltd

It is the third largest player, owning 9 locations (+1 under construction). Memoria locations have a good complementary fit to the ones Dignity already owns, being a successful acquisition positive for the portfolio.



London Cremation Co.

London Cremation is mainly located in London, region where Dignity already has enough coverage. An acquisition of such company wouldn't result in a positive NPV for Dignity.



Individual Players

Individual players are mainly in locations where Dignity is already present. Nevertheless, 9 of them might be interesting targets in regions where Dignity isn't yet operating.



Sources: Directory of Crematoria in England, Wales, Scotland and Northern & Republic of Ireland

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FORECASTING FINANCIALS



FORECASTING FINANCIALS | QUANTIFYING REVENUES & EXPENDITURES

The results of new branch openings and market share increase are expected to outperform the decrease in revenues caused by price drops and network optimization. Regarding operational improvements, these are expected to lower both variable and fixed costs but will arise One-off expenditures to implement the investment strategy.

Price



Following the **bet in new and simpler services**, the Average Price is expected to decrease, moving from a 2018 value of £ 3 225 to £ 2 970 in 2019, £ 2 875 in the following year due to the decrease in price of more competitive simple services. The average price is expected to continue its downward trend due to the increase in weight of Funeral Plans.

Fixed Costs



Fixed Costs will change for two main reasons:

1. Δ in number of employees; Average of (£ 4.8M)/year
2. Δ in usage of shared services; Average of (£ 3.8M)/year.

Volume



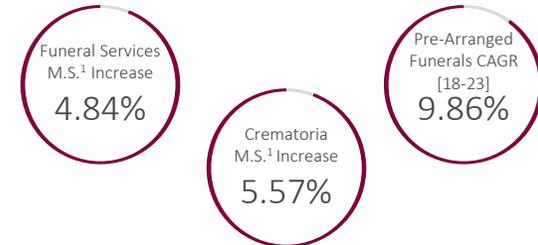
Although a marginal reduction, there is an expectation than in the 2 to 3 years after a branch closure, the remaining **Dignity operators will not be able to capture all the business the closed branches performed**, expecting a reduction in that period. After a 0-Revenue period, the revenues will be captured by 33% in the following year, 66% in the year after, being finally 100% captured afterwards.

Variable Costs



A more efficient allocation of resources will allow to provide, ceteris paribus, **the same volume at a lower Cost of Goods Sold**. In this case, a Gross Margin increase of 5.1pp is expected to be achieved, from 2018 to 2023. Mostly due to operational efficiencies, such as centralization of procurement processes.

The strategy in place is expected to achieve, in the upcoming five years:



These results will derive from both the **strategic openings and strong bet on the new marketing and selling channels**.

Pre-arranged Market share is assumed to remain constant on the current 33% level, although the market is expected to grow significantly in the forcoming years.

Sources: Company's Reports; Operating Model

Notes: 1. Market Share

One-off Expenses + Expansion CapEx



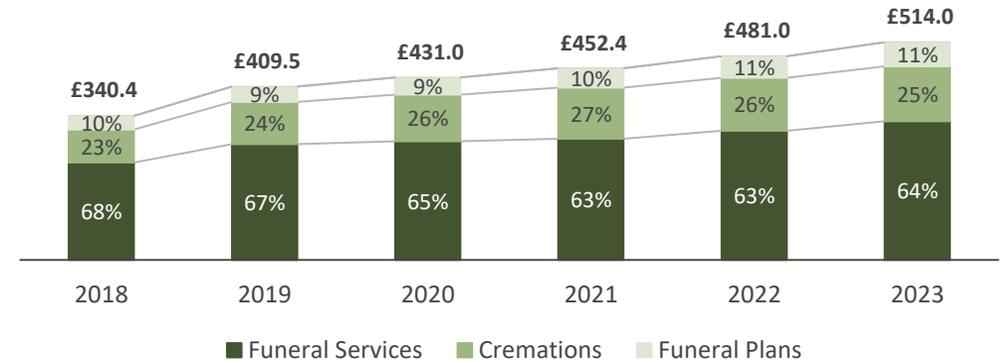
One-off Costs will arise mostly from the Network Optimization strategy. On one hand, the closing of branches will lead to Compensations to the Dismissed employees, which are estimated to be 850k, whereas the opening of new ones may, most likely, require a revamping of the existing facilities, plus the acquisition CapEx, which will represent £ 35.0M and £ 113.4M, respectively.

FORECASTING FINANCIALS | HOW TO GET THE BUSINESS GROWING

Revenues are expected to have a CAGR of 8.6% mainly due to Cremations and Funeral Plans CAGR, of 10.9% and 11.7% respectively. At the same time, a more efficient cost structure will cause the EBITDA margin to increase from 38.3% to 45.5%, resulting on a £ 100.3M.

CFs (M £)	2018	2019	2020	2021	2022	2023	5y CAGR
Revenues	340.4	409.5	431.0	452.4	481.0	514.0	8.6%
% growth	5.1%	20.3%	5.3%	4.9%	6.3%	6.9%	
Funeral Services	230.5	273.5	280.0	286.0	305.1	327.9	7.3%
% growth	3.9%	18.6%	2.4%	2.2%	6.7%	7.5%	
Cremations	77.2	99.4	110.2	120.8	125.0	129.4	10.9%
% growth	4.3%	28.8%	10.9%	9.6%	3.5%	3.5%	
Funeral Plans	32.7	36.5	40.8	45.5	50.8	56.8	11.7%
% growth	15.8%	11.9%	11.6%	11.6%	11.6%	11.6%	
Gross Profit	169.9	192.1	199.8	208.1	218.2	230.2	10.7%
% margin	50.1%	53.1%	53.6%	54.0%	54.6%	55.2%	
Central Overheads	40.0	50.9	48.1	45.1	45.9	48.2	
Extras Δ Via Wage Changes	-	1.6	2.3	5.7	5.8	5.9	
Extras Δ Via Rents Changes	-	0.4	0.1	(0.2)	(1.0)	(1.0)	
EBITDA	130.5	164.5	180.7	193.7	212.0	230.8	10.7%
% margin	38.3%	40.2%	41.9%	42.8%	44.1%	45.5%	
EBIT	113.2	147.7	163.7	176.6	194.9	213.6	13.5%
%margin	33.3%	36.1%	38.0%	39.0%	40.5%	41.6%	
EBIT(1-T)	91.5	119.4	132.3	142.7	157.5	172.7	
Depreciations	17.3	16.8	17.0	17.1	17.1	17.1	
OCF	108.8	136.2	149.3	159.9	174.7	189.8	11.8%
CapEx	17.7	94.5	55.7	54.7	19.0	19.0	
Funerals	13.4	26.4	27.4	26.1	12.9	12.9	
Cremations	4.2	68.1	28.3	28.7	6.1	6.1	
ΔNWC	(7.1)	(4.7)	(1.7)	(1.5)	(2.1)	(2.3)	
ICF	10.6	89.9	54.0	53.2	16.9	16.7	
Unlevered FCF	98.2	46.4	95.3	106.7	157.8	173.1	12.0%

Revenues Increase (£M)



Capital Expenditures (£M)

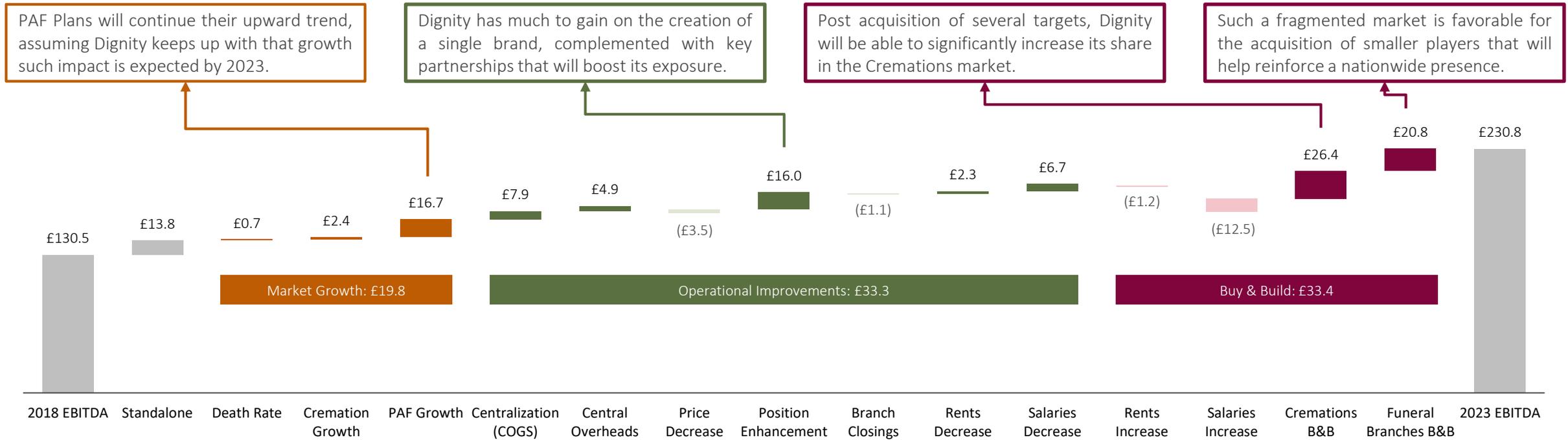


FORECASTING FINANCIALS | EBITDA BRIDGE

EBITDA in 2023, when compared to 2018, is expected to be 1.77x higher, the actions with the most relevant impact are B&B both on the cremations' side and funeral services' side, Growth of the Pre-arranged Funerals and Position Enhancement.

EBITDA Bridge (£M)

- Pipelined investments and market conditions are external to the business plan put in place, EBITDA growth is mainly strategy-driven, taking of course advantage and "surfing the wave" of cremations and pre-arranged funerals, but also centralizing costs centers and changing the network in a sensitive way.
- Splitting EBITDA growth in the three strategies to be applied to Dignity, one may observe that the impact is quite spread between them. Market Growth is responsible for 19.7% of the overall EBITDA growth, Operational Improvements for 33.2% and Buy & Build for 33.3%.



VALUATION



VALUATION | METHODOLOGY

To evaluate how Dignity should be valued according to the market current conditions, relative and precedent valuations were performed. To account the forecasted potential of the company both LBO and DCF were performed. The average of all valuations resulted in a 11.9x multiple.

Valuation Methodology

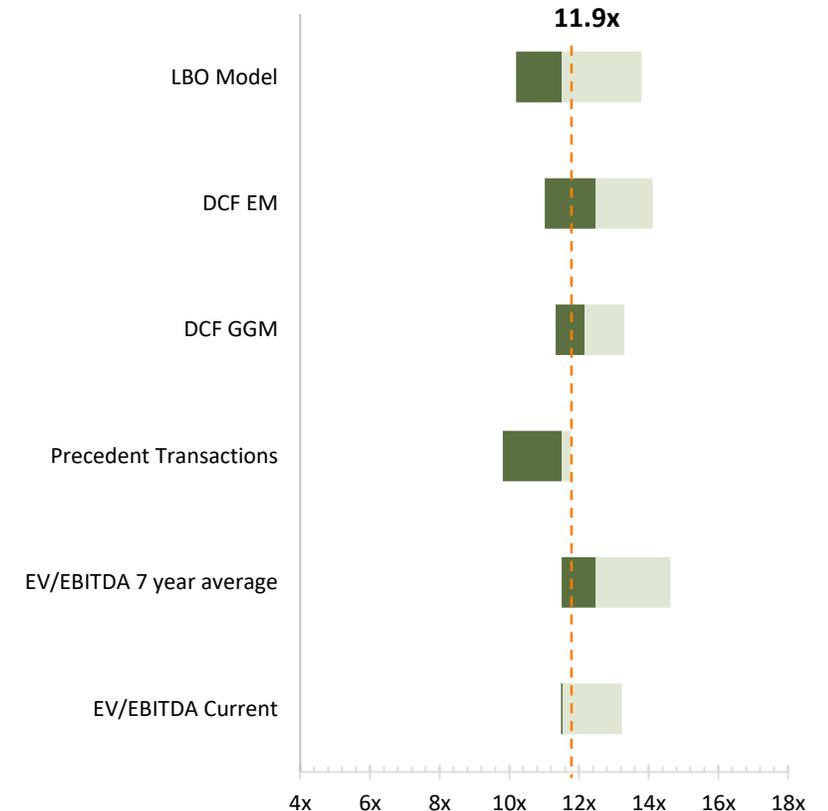
- To better understand the actual value of the Company and to have a more informed opinion on how the market is being valued several types of valuations were performed.
- The valuation itself had three wide spectrums. The first focused on the industry peers and how Dignity should be valued according to the comparable firms. The second focused on previous transactions and on how much was actually paid for similar deals to the one in question. Finally, an intrinsic valuation comprising both DCF and the LBO model.

Current EV/EBITDA Peers	Five companies were selected, according to the industry, size, product offering, business model and financials. Limitations due to the number of public funeral services' companies were found. Funeral companies are very specific to the market where they operate in, limiting the comparability across countries.	DCF GGM	A DCF Valuation was performed using the Gordon Growth Model. Inputs were the forecasted cash flows; discount rate was computed using Dignity's available information on Bloomberg, resulting in a WACC of 11.4%; Exit assumed to be within 5 years in 2023. Terminal growth aligned with inflation estimates of 1.95% a year.
Historical EV/EBITDA Peers (7y)	The EV/EBITDA of the same five companies during the past 7y was used to compute a valuation through the cycle, minimizing any bias from current valuations.	DCF Exit Multiple	Instead of assuming a terminal growth, the same valuation was performed but assuming the sale of Dignity at the end of the 5 th year. Exit Multiple assumed to be 8.42x, Dignity's current valuation.
Precedent Transactions	Recent precedent transactions within the sector were selected. 9 deals since 2006 were taken into consideration.	LBO Model	Valuation was performed to optimize the fund's return, ensuring sustainable cash flows and healthy credit statistics.

Sources: Bloomberg

Notes: 1. Scenarios in DCF valuations were assumed as follows: DCF GGM, perpetual growth rate 1%-3%. DCF EM, exit multiple 7x -10x

Football Field¹



VALUATION | RELATIVE AND PRECEDENT VALUATION

Even though some limitations regarding availability of information were found, the Trading Comparables analysis yielded an EV/EBITDA multiple of 11.5x which corresponds to a valuation of £ 1 501M. EV/EBITDA considering the last 7y is slightly higher, 12.5x, corresponding to a valuation of £ 1 629M. On the other hand, Precedent Transactions also yielded a valuation of 11.5x.

Trading Comparables Methodology¹

- The average EV/EBITDA multiple of these peers has been floating since 2012 and in order to take into account the economic cycle, the median EV/EBITDA multiple of the past 7 years was used for each one of the comparables.
- Through this method an **EV/EBITDA multiple of 12.5x** was obtained. **Current EV/EBITDA levels are at 11.5x.**



EV to EBITDA (per year)

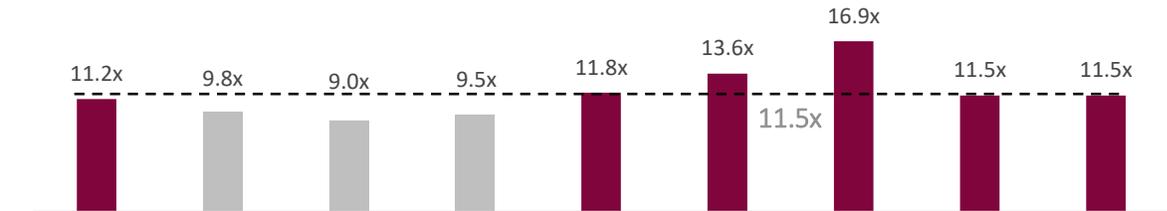
Year	Multiples per year			
	EV/EBITDA			
	Min	Median	Max	Average
2012	8.1x	11.4x	13.7x	11.1x
2013	12.1x	13.0x	15.4x	13.2x
2014	8.9x	13.2x	14.1x	12.9x
2015	10.3x	12.3x	16.9x	13.5x
2016	11.2x	14.0x	21.4x	15.2x
2017	10.3x	12.1x	18.7x	13.1x
Current	11.5x	12.4x	15.3x	12.0x

Sources: Bloomberg

Notes: 1. Company and Deals in grey were given less weight due to their circumstances: developing country and deals that occurred during crisis periods

Precedent Transactions Methodology¹

- The Precedent transaction analysis relies on publicly available information to create a reasonable estimate of multiples that others have paid for a publicly traded company. This analysis looks at the type of investors that have purchased similar companies to Dignity, under similar circumstances in the past.
- Precedent Transactions result in a 11.5x valuation.**



Precedent Transactions

Year	Target Name	Acquirer Name	Country	Total Value (\$M)	TV/EBITDA
2006	Alderwoods Group Inc	SCI	US	987	11,2X
2009	Keystone North America Inc	SCI	US	175	9,8X
2010	Bledisloe Group	InvoCare Ltd	NZ	114	9,0X
2012	Arbor Memorial Services	Fairfax/JC Clark/Scanfield	CA	N/A	9,5X
2013	Stewart Enterprises Inc	SCI	US	1066	11,8X
2014	Schawk Inc	Matthews International Corp	US	421	13,6X
2016	Nirvana Asia Ltd	CVC Capital Partners	MY	1100	16,9X
2017	OGF	OTPP	FR	N/A	11,5X
2017	Grupo Memora	OTPP	ES	117	11,5X

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CAPITAL STRUCTURE



CAPITAL STRUCTURE | DEBT CAPITAL MARKET ANALYSIS

The Group had the opportunity to discuss the financing opportunities for the deal with two experienced players, BNP Paribas and Invesco. The final debt structure for the deal contemplates the current debt topped up with junior debt to reach an optimal leverage level.

Dignity Debt Structure		
Debt Instruments	Secured A Notes	Secured B Notes
Total new issuance at par	£ 204.8M	£ 356.4M
Legal Maturity	31 Dec. 2034	31. Dec 2049
Coupon	3.5456%	4.6956%
Rating by Fitch and S&P	A	BBB
Securitization structure was restructured in 2014 and 2 types of secured notes were issued, totaling an issuance of £ 561.2M.		Secured Notes A amortized until 2034. Secured Notes B amortization Schedule from 2034 to 2049.

Possible Structures		
Scenario I		Scenario II
Holdco 1	• Equity from sponsor and management.	Holdco 1 • Equity from sponsor and management.
Holdco 2	• Junior debt, with PIK interest of 8.5% + LIBOR.	Holdco 2 ¹ • Junior debt, with PIK interest of 8.5% + LIBOR.
Target	• Current debt structure, Secured Notes A and B.	Target • New Senior Debt, dependent on issuance conditions.

Dignity's Leverage to EBITDA₂₀₁₈ is c.4.65x, but the Company can sustain a higher leverage ratio, maintaining healthy debt service ratios and strong CFs.

BNP and Invesco Main Inputs

- Suggested to weight the cost of refinancing the entire structure or not, comparing what would yield better returns.
- Currently the UK market is facing an uncertainty period, issuing conditions on new debt will be impacted by the market conditions.
- Issuing a Loan or a Bond in terms of conditions is very similar, *ceteris paribus*. However, issuing a loan is preferable to maintain the Company's privacy and resist possible market fluctuations creating a less volatile structure.

- Maintaining Secured Notes conditions.
- Assuming the Issuance Cost to be 3% of the amount issued. Expenses are expected to be around £ 6.3M.
- Interest Cover Ratio in 2019 c.4.5x, a comfortable level for Dignity.
- Senior Debt at 5.0% + LIBOR, adjusted to current market conditions.
- Issuance Costs of the entire debt structure, assuming the same 3% level, would be £22.3M.
- Interest Cover Ratio in 2019 is c.4.0x.

Scenario I yields a better outcome for the Company, given the lower issuance costs and the conditions settled in the existing debt package. Such would not be possible in the current economic state.

Sources: Annual Reports; Call with BNP Paribas (on the 12-14-2018) and with Invesco (on the 12-17-2018)

Notes: 1. Holdco 2 is expendable if an agreement between debtholders is signed, ensuring the seniority of each instrument



CAPITAL STRUCTURE | PROPOSAL

Considering the inputs of the two experienced advisors, BNP and Invesco, the proposed capital structure for the deal will be 50/50 debt and equity. Existing debt will be maintained, and an additional tranche will be added to a Holdco to maximize investors return.

Sources & Uses

Sources of Funds	£ M	x EBITDA	%	Uses	£ M
<u>Senior debt</u>				EBITDA 2018	130
• Secured Note A	204.8	1.57x	13.2%	Multiple	11.50x
• Secured Note B	356.4	2.73x	23.0%	Enterprise Value	1 501
<u>Subordinated debt</u>				Fees	3.3%
Mezzanine	215.3	1.65x	13.9%	• DD	1.5%
Total debt	756.9	5.95x	50.1%	• Bank	0.7%
<u>Fixed Return Instrument</u>				• Sponsor	0.7%
Fixed Return Instrument	727.8	5.58x	46.9%	• New Debt	0.4%
<u>Ordinary Equity</u>					
• Institutional Investor	37.0			Total Uses	1 550
• Sweet Equity (20%)	9.2				
Total Equity	793.0	5.93x	49.9%		
Total sources	1 550	11.88x	100%		

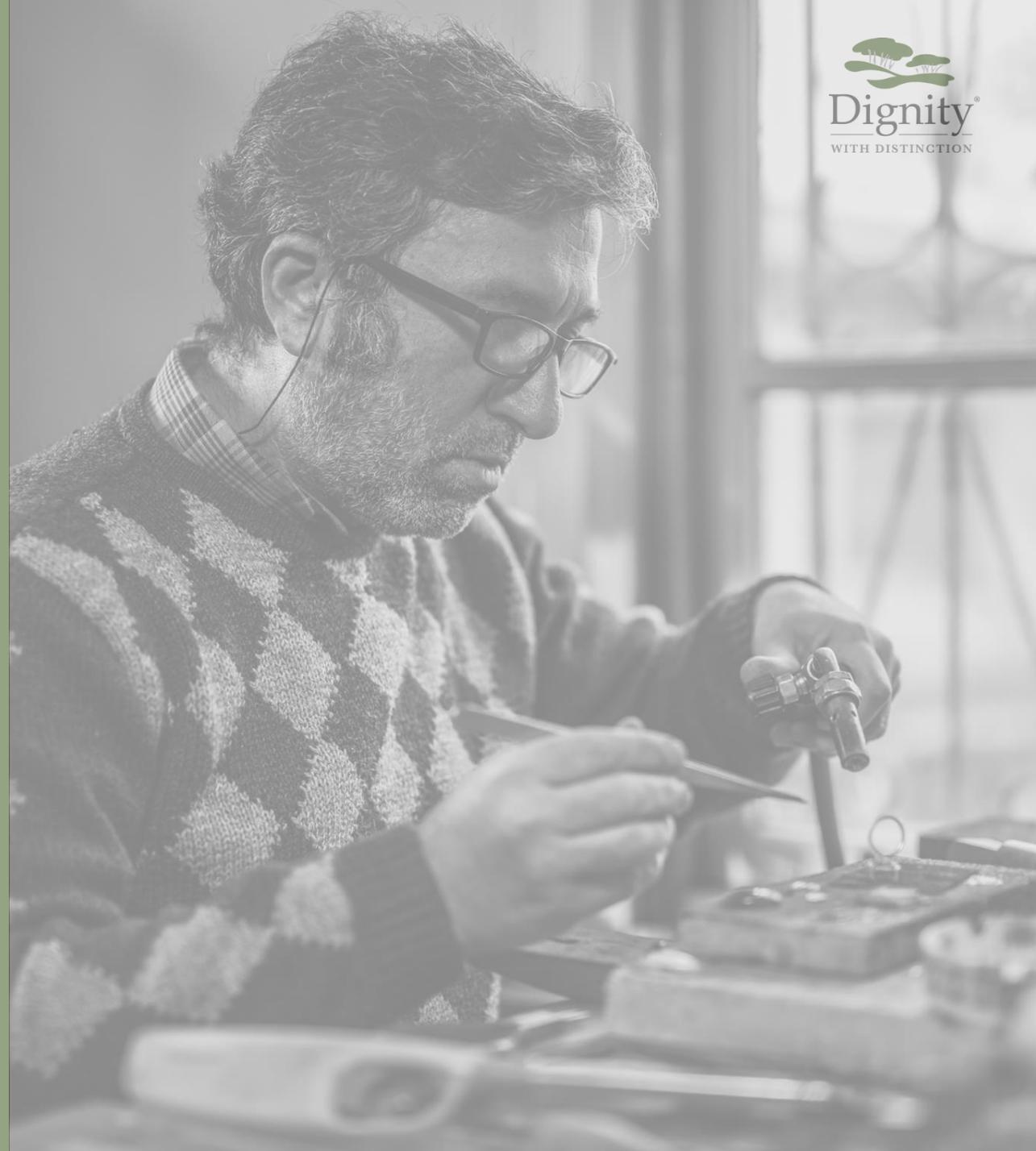
Additional Information

Sources	Debt	<ul style="list-style-type: none"> • Secure Note A: Existing and portable (17y) • Secure Note B: Existing and portable (32y) • Mezzanine: Through Holdco (7y) • Revolving Credit Facility: £ 50M (undrawn) • Liquidity facility of £ 55M available until the term of Secured Notes, for debt repayments (in case of lack of funds)
	Equity	<ul style="list-style-type: none"> • Fixed Return Instrument (10y) • Ordinary Equity • Management Proceeds from the sale of shares previously owned won't justify Management Rollover (proceeds from sale c. 6M).
Interest and repayment details		<ul style="list-style-type: none"> • Secured Note A: 3.55% + LIBOR, principal payments until 2034. • Secured Note B: 4.70% + LIBOR, principal payments from 2034 until 2049. • Mezzanine: PIK (Paid In Kind), 8.50% accruing rate, call protection details¹. • RCF: 2.25% + LIBOR, drawn in the first 3y and re-paid in the next 3y. • FRI: PIK, 12.5% accruing rate.
	Covenants	<ul style="list-style-type: none"> • Secured Notes: EBITDA/Debt Service >1.5x • Mezzanine: Covenant Lite

Notes: 1. The loan is non-callable in the first year, callable at 102 in the second, at the 101 in the third, and callable without penalties from then on



LBO MODEL



LBO MODEL & RETURNS | RETURNS

According to the capital structure and business model defined, an IRR and Money Multiple of 22.3% and 2.7x were respectively attained for an exit in 2023. Envy Ratio between Management and Fund returns is c.10.3x.

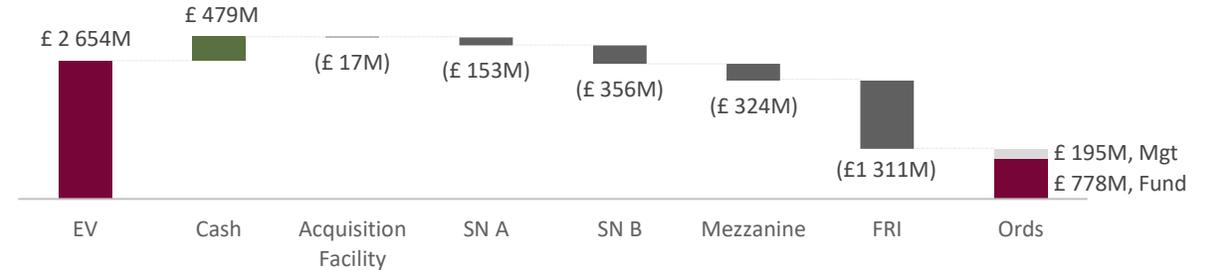
Institutional & Management Returns

- Management:** by entering with £ 9.24M for 20% of Ordinary Shares, after 5 years, they will be entitled to £ 195M. These values yield an IRR of 84% and a MM of 21.0x.
- Institutional:** by entering with £ 606M, they'll be able to see its equity stake on Dignity plc grow until £ 2 089M, with £ 1 311M coming from the Sub Loan and £ 778M from Institutional Ords. This corresponds to an IRR of 22.3% and a MM of 2.7x.

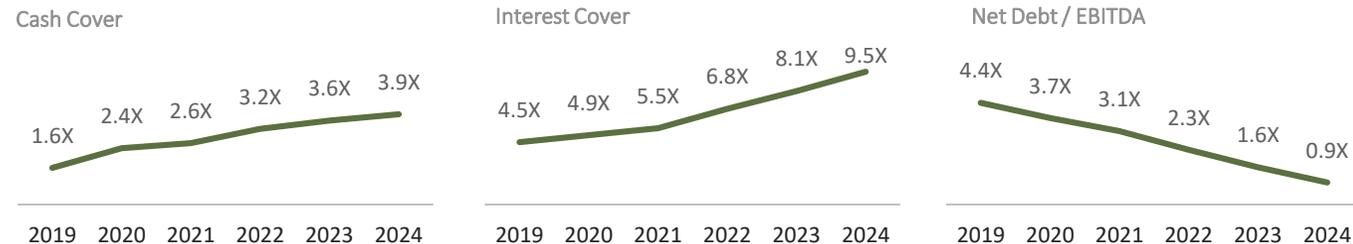
		IRR					Money Multiple		
		2022	2023	2024			2022	2023	2024
Exit Multiple	11.0x	22.12%	21.16%	19.74%	Exit Multiple	11.0x	2.2x	2.6x	2.9x
	11.5x	23.62%	22.26%	20.58%		11.5x	2.3x	2.7x	3.1x
	12.0x	25.06%	23.33%	21.40%		12.0x	2.4x	2.9x	3.2x

Exit Waterfall (£M)

- Entry:** With an EBITDA of approximately £ 130M in 2018 and an entry multiple of 11.5x EBITDA, Dignity Plc is expected to be acquired at an EV of £ 1 501M. By adding 3.3% of this value, accounting this way for entry fees, the total uses for this transaction equal £ 1 550M.
- Exit:** Assuming no multiple arbitrage in this transaction, the company will be sold at £ 2 654M plus £ 27M of exit fees. These figures imply an exit in 2023, with an EBITDA corresponding to £ 231M.



Credit Stats

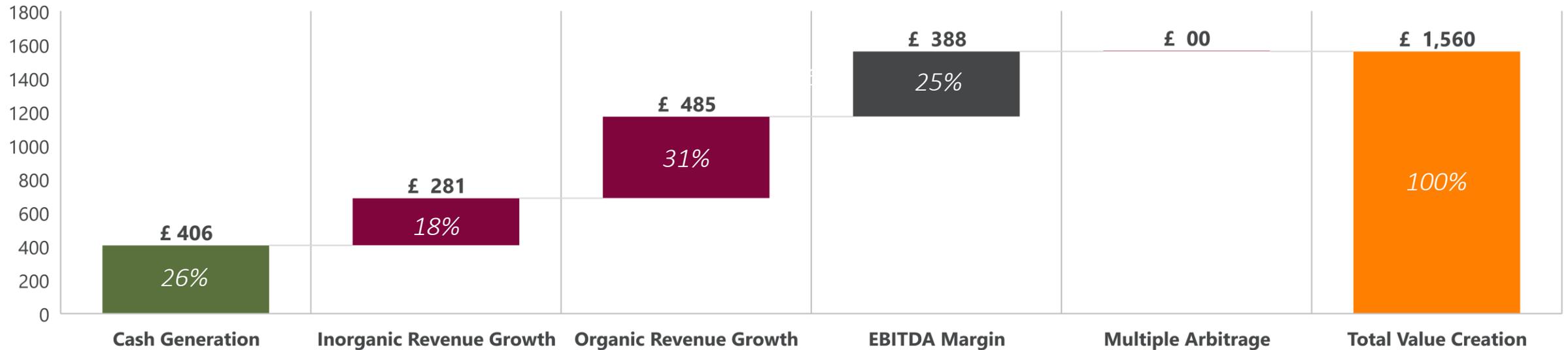


- Throughout the whole investment period, Cash Cover remains at safe levels mainly due to strong expected operational cash-flows and the impact of the acquisition facility.
- A strong Interest Cover Ratio, which increases gradually during the 5 years is observable.
- Net Debt to EBITDA ratio keeps decreasing over the investment life as it was expected due to the repayment structure.

LBO MODEL & RETURNS | VALUE CREATION BREAKDOWN

Value creation is mainly driven by Revenue Growth, which are expected to generate £ 766M, representing 49% of the total value creation.

Value Creation Breakdown (£M)

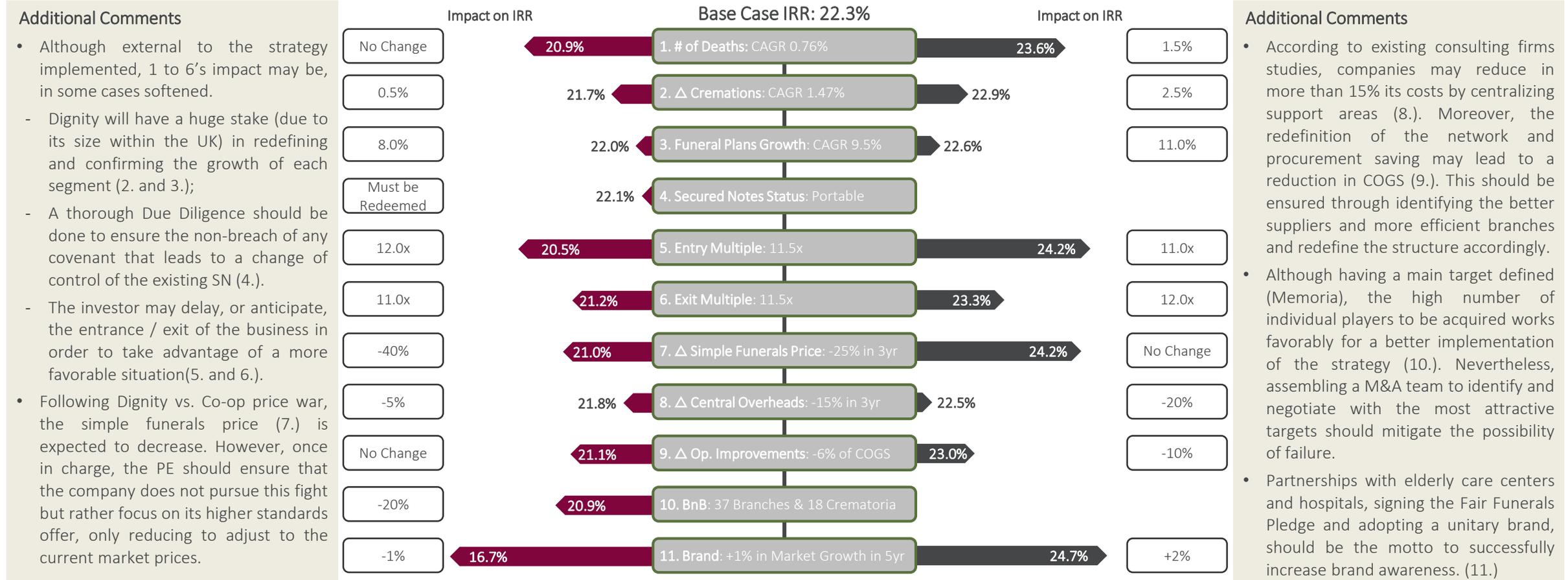


- The **Total Value Creation** during the investment period is £ 1 560M, distributed by the following categories:
- **Cash Generation** accounts for 26% of the total value creation. The value created results from debt repayments during the investment period by using cashflows generated by the business. As result, during the investment period, entry net debt is expected to decrease from (£ 712M) to (£ 370M).
- **Revenue Growth** represents a big part of the total value creation, 49%. Revenues are expected to increase from £ 340M in 2018 to £ 514M in 2023.
- During the investment period, **EBITDA Margin** is expected to increase from 38% to 45%. This change is expected to represent 25% of the value creation.
- **Multiple Arbitrage**: Since we are assuming no multiple arbitrage, the entry multiple and the exit multiple are expected to be the same. Resulting in no value creation.

LBO MODEL & RETURNS | SENSITIVITY ANALYSIS



A sensitivity analysis was performed on the main factors affecting the strategy, in which both internal and external factors were considered.



LBO MODEL & RETURNS | SCENARIO ANALYSIS

Although an inefficient strategy implementation together with an unexpected market development may jeopardize the fund position, it is not expected, even in the worst scenario, to incur in losses. However, in this scenario, its ability to meet financial obligations is quite compromised, given the lower Cash Cover figures and an Interest Cover close to 3x during the period.

	Assumptions	LBO Model Consequences			
Bad Scenario	<ul style="list-style-type: none"> Higher Entry Multiple Op. Improvements target is not achieved 	Entry Multiple 12.0x	Exit Multiple 11.5x	Cash Cover 1.5X 2.3X 2.5X 3.1X 3.5X 3.7X	Net Debt / EBITDA 4.4X 3.8X 3.3X 2.5X 1.8X 1.1X
		IRR 19.40%	MM 2.43x		
Worse Scenario	<ul style="list-style-type: none"> Higher Entry Multiple and Lower Exit Multiple Secured Notes must be redeemed Pre-Arranged Funerals increase less than forecasted Higher decrease in Simple Funerals Price Op. Improvements target is not achieved 	Entry Multiple 12.0x	Exit Multiple 11.0x	Cash Cover 1.7X 2.6X 2.7X 3.3X 3.7X 4.0X	Net Debt / EBITDA 4.5X 4.0X 3.6X 2.8X 2.1X 1.5X
		IRR 16.18%	MM 2.12x		
Worst Scenario	<ul style="list-style-type: none"> Lower than expected # of Deaths Higher Entry Multiple and Lower Exit Multiple Secured Notes must be redeemed Cremations increase less than forecasted Pre-Arranged Funerals increase less than forecasted Higher decrease in Simple Funerals Price Op. Improvements target is not achieved Buy-and-Build not successfully implemented Brand is unable to compete with Co-op 	Entry Multiple 12.0x	Exit Multiple 11.0x	Cash Cover 1.5X 2.1X 2.0X 2.4X 2.5X 2.7X	Net Debt / EBITDA 5.0X 4.9X 5.0X 4.4X 3.9X 3.3X
		IRR 11.50%	MM 1.72x		

EXIT OPTIONS & TARGET BUYERS



EXIT OPTIONS & TARGET BUYERS | EXIT STRATEGY

Our exit strategy is focused on a Secondary Sale, followed by an IPO. Although a Strategic Sale would be the most advantage exit route, this strategy would be very difficult to execute because of Dignity's size.

IPO

Rationale: Performing an IPO would allow Dignity to have access to a broader market. In case proper market conditions are met, this exit strategy is likely to generate higher returns than any others exit strategies.

Downsides: An IPO is usually a long and expensive process. This exit strategy is highly dependent on market conditions, making it a riskier alternative.

Having in consideration Dignity's enterprise value, it's crucial to have a liquid market and great demand to have a successful IPO. Otherwise, it might be necessary to sell the company in tranches, which can expose investors to market conditions, especially if needed to hold a minority stake during a long period of time.

Secondary Sale

Rationale: A Secondary Sale allows for a smooth and quick exit from the investment. This kind of assets can be specially attractive for investment funds such as pension funds, looking for investments with strong and stable cashflows and a low-risk profile.

If able to find a buyer with other funeral companies on their portfolio, they might be able to benefit from cross-selling opportunities and possibly capture some synergies.

Ontario Teachers' Pension Plan would be an excellent target buyer, since it already has some investments in similar assets: Westerleigh Group; Mémora; and OGF.

The investment thesis remain strong for others PE since Dignity can be used as a market consolidator.

Downsides: The deal size might require multiple funds to invest jointly.

Strategic Sale

Rationale: A Trade Sale is usually the most advantageous exit alternative. Selling Dignity to an existing funeral service provider, would possibly allow the buyer to take advantage of potential synergies and some cross-selling opportunities, meaning that they would be more likely to pay an higher multiple for the company.

This tend to be a quicker and less expensive process, also providing an immediate exit from the investment.

Downsides: The main challenge is to find a strategic buyer with financial resources to acquire a company of Dignity's size. SCI is one of the few market players capable of acquiring Dignity.

Any possible deal will have to be subjected to approval by Competition and Markets Authority.

Moreover, management may be resistant to such transaction as the change of control is likely to result in a management replacement.



London
Stock Exchange



FAIRFAX
FINANCIAL HOLDINGS LIMITED



Sources: Ontario Teachers' Pension Plan; Service Corporation International



EXIT OPTONS & TARGET BUYERS | TARGET BUYERS

Ontario Teachers' Pension Plan is likely to be the best target buyer. The pension fund already have some investments in this industry including in the UK. They might be able to take advantage of some cross-selling opportunities and benefit from possible synergies.



CVC Capital Partners is a world leader in Private Equity and Credit with £ 54Bn of assets under management and £ 91Bn of funds committed.

CVC investment strategy is perfectly aligned towards Dignity's profile. They are looking for solid, well-managed and cash-generative businesses, with an enterprise value ranging between £ 500M - £ 5Bn.

- In 2016, CVC invested in **Nirvana**, the largest integrated funeral services provider in Asia. Nirvana's size is similar to Dignity's size and it is present in six countries across Asia.
- Nirvana has a strong Pre-arranged Funeral plans business model. The big majority of its sale come from the pre-need market
- CVC can take advantage of its expertise in the death industry to further develop Dignity.

Ontario Teachers' Pension Plan is Canada's largest single-profession pension plan with **£ 111.7 Bn** in net assets at December 31, 2017. Its portfolio includes airports, high-speed rail, water and wastewater utilities, electricity and gas distribution, thermal and renewable power generation, toll roads and container terminals. Most recently, Ontario Teachers' started investing in crematoria and funeral services, showing their interest for this industry:

- **Westerleigh Group:** Acquired in 2016 the second largest private crematoria operator in the UK, owning 22 Crematoria.
- **Mémora (Servilusa):** Acquired in 2017 the funeral services Iberian market leader, owning 115 parlours, 24 crematoria, 13 cemeteries in the Iberian Peninsula for £ 117M.
- **OGF:** Became the majority shareholder of France's leading funeral services provider, which have a network of 1 100 branches, 550 funeral homes and 72 crematoria.

Fairfax Financial Holding Limited is a Canadian holding company with a Market Capital of £ 9.1Bn and **JC Clark** is a privately owned hedge fund, which provides services to individuals, institutions, pension plans, endowments, and foundations.

- In 2012 Fairfax and JC Clark together with Scanfield Holdings Ltd acquired **Arbor Memorial Services**, turning the company private. Arbor operates in almost all Canadian provinces, owning 41 cemeteries, 27 crematoria and 83 funeral homes.
- They might be able to create value by applying their current expertise namely in terms of web-based services.

Sources: Ontario Teachers' Pension Plan; CVC Capital Partners; Bloomberg; Reuters



DUE DILIGENCE



DUE DILIGENCE | COMMERCIAL, FINANCIAL AND REGULATORY

Commercial Due Diligence major touching points are how the company's market share fluctuates across regions and how feasible are the targets defined to apply the Buy-and-Build strategy. Financially, it would be important to ensure that none material misstatements are presented. As it is one of the key assets of the business, a thorough Property Management analysis should also be conducted.

	Focus	Possible Red Flags	Importance & Typical Provider		Focus	Possible Red Flags	Importance & Typical Provider		
Commercial	Market Size and Trends	<ul style="list-style-type: none"> Lower than expected number of estimated deaths Too steep decrease in prices 		75 days	Financial	<ul style="list-style-type: none"> Fraud or any material misstatements Overestimation of assets (namely goodwill and trade names) Difficulties to bear high levels of debt Doubtful management of the pre-arranged funeral services Poor cash management policies 	 PWC	60 days	
	Competition	<ul style="list-style-type: none"> Incapacity to capture market share from well-established local players Incapacity to enter a price-war 							 McKinsey & Company
	Business Model	<ul style="list-style-type: none"> High revenues dependence between activities High revenues dependence in on one component or on one supplier 							 BCG
	Acquisitions	<ul style="list-style-type: none"> Under or over estimated efficiency of some branches Slower process of acquisition More than expected Expansion CapEx Slower integration 		 KPMG					
	Sales & Marketing	<ul style="list-style-type: none"> Too high acquisition costs comparing to the industry 		 L.E.K.					
	Customer Satisfaction	<ul style="list-style-type: none"> Low reputation among customers Incapacity to leverage Dignity's brands Inability to sign the Fair Funerals pledge 		 Deloitte.					
					Regulatory	<ul style="list-style-type: none"> Too high level of legal litigations High level of overseas suppliers 	 RBB Economics	15 days	
					Licensing	<ul style="list-style-type: none"> Visible need to adjust its services and workers if licensing become highly likely Incapacity to perform legally abroad 			



DUE DILIGENCE | HUMAN RESOURCES, VALUATION AND OTHERS

A Human Capital intensive business, should imply a Human Resources intensive due diligence. Aligned objectives, an educated workforce and efficient processes would serve the investment purpose and mitigate possible changes in other factors. Other Due Diligence should be conducted to verify if all procedures are in line with expectations.

	Focus	Possible Red Flags	Importance & Typical Provider		Focus	Possible Red Flags	Importance & Typical Provider							
Human Resources	Workforce	<ul style="list-style-type: none"> Lack of alignment with the company's objectives Collective bargaining agreements Potential payments triggered in case of transaction Evident aversion to transformation 		60 days	Human Resources	IT & Tech Develop.	<ul style="list-style-type: none"> Too inefficient servers and platforms Necessity to design platforms from scratch the platforms Difficulties in streamline IT Inadaptability of the demand to use the digital business 							
	Internal Processes	<ul style="list-style-type: none"> Evident inefficient processes Lack of procedure manuals 						Logistics		<ul style="list-style-type: none"> Outdated processes and logistics Poor supplier agreements High shipping costs High dependence on third-parties distribution 				
	Current Management	<ul style="list-style-type: none"> Public scandals or other legal issues Skills below the acceptable Key professionals close to retirement Poor compensation schemes 								Environmental	<ul style="list-style-type: none"> Non-compliance in safety and hygienic practices Inability to adapt to eco-friendly practices 			
	New Hires	<ul style="list-style-type: none"> Lack of alignment with the company's philosophy Incapacity to find suitable candidates 									Insurance		<ul style="list-style-type: none"> Low coverage Insurance costs above market levels 	
Valuation	Valuation	<ul style="list-style-type: none"> Smaller than LBO valuation 		45 days	Full Due Diligence	£ 22 500 000			75 days					
	Exit Strategy	<ul style="list-style-type: none"> Low number of interested parties Low development potential for potential acquirers Unfavourable expected market conditions 												



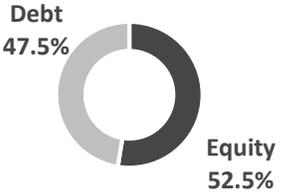
CLOSING NOTES



CLOSING NOTES

Entry

- The deal is set to occur in 2018, while implementation of the restructuring plan is to kick off in 2109.
- Entry Multiple of 11.5x EBITDA.
- Enterprise Value upon entry of £ 1 501M.

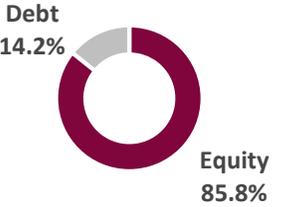


- Value Creation Strategy will be anchored on three main propositions:
- The first based on the market growth and on **Dignity's ability to be a pioneer in the industry development**, mainly in the boosting crematoria and pre-arranged markets, where the Company is already a reference player;
- Secondly and based on **a restructure of Dignity's operations**, an increase in the overall efficiency of the Company, making better use of digital resources and betting on the creation of a powerful national brand, centralize procurement processes and optimize current network structure;
- Lastly, a Buy-and-build strategy, that intends to **create a stronger player with greater influence** over such a fragmented market, that may offer a countrywide coverage.

Exit

- Secondary Sale is the most likely exit strategy, Ontario Teachers' Pension Plan is the main target.
- Exit Multiple of 11.5x EBITDA.
- Enterprise Value upon exit of £ 2 654M.

IRR	22.26%
MM _{Fund}	2.73x
Envy Ratio	10.34x



Main Concerns

- **Market Conditions:** UK is facing a period of uncertainty, due to **Brexit unsolved negotiations**. It is a fact that the number of deaths won't change a lot with it, but the number of immigrants is likely to go down and possible internationalization facing a bigger obstacle.
- **Company's Current Reputation:** The recent developments in the UK funeral market have worked backwards in raising the company's brand awareness. **The lost price war with Co-op and the lack of transparency in Dignity's pricing** policy may have jeopardized the company's position, hindering the position enhancement that should be put in place by the Fund.
- **Increased Scrutiny:** The industry is becoming more digitalized and with prices charged by different players more accessible to the final consumer, Dignity higher fees with an opaque reasoning, might become an issue.
- **Regulation:** Although Dignity proclaims that it is the only player that is fully professionalized and suitable to perform such activity as the funeral services one, the lack of regulation works in a way that may be leading Dignity to loosen up its standards.
- **Alignment of Interests:** The alignment with the Management Team is key to assure the success of the investment, sweet equity and variable salaries are expected to guarantee that coordination.

PRIVATE EQUITY CHALLENGE | PRESENTATION

Thank you!



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- José L. da Costa 3764

MENTORSHIP

- Fábio Soares Santos
- Luís Mota Duarte

Monday, 14th January 2019

ANNEXES



ANNEXES

- 1. Team Presentation
- 2. Brief Summary of the Business
- 3. Recent Acquisitions
- 4. Financial Statements
 - Income Statement
 - Balance Sheet
- 5. SWOT Analysis
- 6. Market
- 7. Management Team
- 8. Investment Thesis Study
- 9. Network Optimization Model
- 10. Forecasting Financials
- 11. Directors' Interest in Shares
- 12. Peers' Overview
- 13. Due Diligences
- 14. Final Acknowledgements

ANNEXES | TEAM PRESENTATION

“4 soon-to-be Private Equity Professionals that combine different backgrounds and different professional experiences with the same motivation and strive for greatness. The sky is the limit for this team.”



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ANNEXES | A BRIEF SUMMARY OF THE BUSINESS

Just to refresh your memory, a brief description of Dignity's Line of Business, some key figures for 2017 and the usual process of the services provided by the Company.

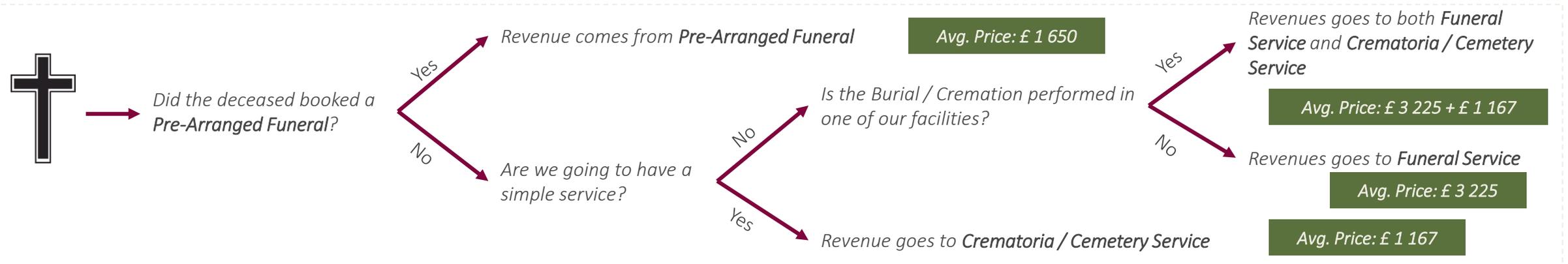
Business Description

- Dignity is a leading operator in the Funeral Industry at UK. It operates in three main sectors:
 - Funeral Services:** Relate to the provision of funerals and ancillary items, such as memorials and floral tributes. Dignity currently has 826 active funeral locations, having performed, in 2017, 68 800 funerals.
 - Crematoria:** Relate to cremation and the sale of memorials and burial plots at crematoria and cemeteries. Dignity currently operates 46 crematoria, having performed, in 2017, 63 400 cremations.
 - Pre-Arranged Funerals:** Represents the sale, at today's price, of funerals to customers wishing to make their own funeral arrangements in advance. Dignity currently has 450 000 outstanding pre-arrangements, having sold an overall amount of 824 000.

Key Figures (2017)

	£ M	CAGR ₂₀₁₂₋₂₀₁₇
Funeral Services Revenues	221.8	7.03%
Crematoria Revenues	74.0	9.69%
Pre-Arranged Funeral Revenues	28.2	2.36%
Adj. EBITDA	121.7	8.73%
Adj. EBIT	104.6	8.55%
Net Income	57.8	10.12%
Unlevered FCF	38.4	0.001%

The Chain of Death



ANNEXES | RECENT ACQUISITIONS

The highly fragmentation of the market led Dignity to adopt a very acquisitive strategy. This was not only an approach to the medium-sized players, but also acquiring local players, even maintaining their inner and outer entities.

Most Relevant Transactions from 2010 to 2017

Target	Description	Date	Deal Value (£)
W James & Son	Funeral Services	2017	n.a.
Co-op Funeralcare	5 Crematoriums	2016	41.1M
Laurel Funerals Ltd	36 Funeral Directors	2015	38.1M
John Garside & Son	Catering services provider Funeral directors services	2015	n.a
Yew Holdings Ltd	Crematoria operator Funeral home operator	2013	58.3M
Bracher Brothers Ltd	Funeral services	2010	n.a

All 2017 Transactions

- A. & G. Huteson Ltd
- Aberdeen Funeral Directors Limited
- Bayley Brothers Hereford Limited
- G & L Evans Ltd
- Graeme Buckle Limited
- H Eaton & Sons Holdings Limited
- H.Eaton & Sons Limited
- Inverclyde Funeral Directors Limited
- J Hylton & Sons Limited
- Jonathan Walker Funeral Directors Limited
- Newco (Crematoria) Limited
- Newco (Crematoria) 2 Limited
- Newco (Crematoria) 3 Limited
- Nicholls Memorials Limited
- Peter Johnson Funerals Ltd.
- Robert Nicholls Funeral Directors Limited
- Spotland Bridge Limited
- Walkers Funeral Directors Limited
- WM. Jordan & Son (Funeral Directors) Limited



Accumulated Acquisitions £ 230.6M

Sources: Company's Reports, Research



ANNEXES | INCOME STATEMENT (I/II)

On the revenues side, all the Lines of Business presented a positive evolution from 2012 to 2017. However, this growth is also due to acquisitions performed by the company and a so far successful implementation of the satellite location programme.

	£ Million	2012	2013	2014	2015	2016	2017	LTM1H2018
Revenues		229.6	256.7	268.9	305.3	313.6	324.0	328.9
	% Revenues Growth	n.a.	11.8%	4.8%	13.5%	2.7%	3.3%	1.5%
Funeral Services		157.9	176.2	184.4	212.6	217.8	221.8	225.2
	% Organic Growth ¹	n.a.	5.3%	4.7%	11.8%	2.4%	1.8%	n.a.
Crematoria		46.6	53.8	55.2	63.1	67.5	74.0	77.7
	% Organic Growth ¹	n.a.	11.8%	2.6%	14.3%	3.2%	9.6%	n.a.
Pre-Arranged Funeral Plans		25.1	26.7	29.3	29.6	28.3	28.2	26.0
	% Organic Growth ¹	n.a.	6.4%	9.7%	1.0%	-4.4%	-0.4%	n.a.
Underlying Operating Profit before D&A Adj. EBITDA		80.1	90.9	98.4	113.3	117.8	121.7	118.9
	% Adj. EBITDA Margin	34.9%	35.4%	36.6%	37.1%	37.6%	37.6%	36.2%
Funeral Services		61.7	69.7	75.9	87.4	90.6	91.7	88.9
	% Adj. EBITDA Margin	39.1%	39.6%	41.2%	41.1%	41.6%	41.3%	39.5%
Crematoria		25.9	30.4	32.3	37.8	41.1	43.9	46.4
	% Adj. EBITDA Margin	55.6%	56.5%	58.5%	59.9%	60.9%	59.3%	59.7%
Pre-Arranged Funeral Plans		6.7	6.8	7.6	8.0	8.7	8.0	5.8
	% Adj. EBITDA Margin	26.7%	25.5%	25.9%	27.0%	30.7%	28.4%	22.3%
Central Overhead		(14.2)	(16.0)	(17.4)	(19.9)	(22.6)	(21.9)	(22.2)
D&A		(10.7)	(12.5)	(13.5)	(14.6)	(16.1)	(17.1)	(17.4)
Underlying Operating Profit Adj. EBIT		69.4	78.4	84.9	98.7	101.7	104.6	101.5
	% Adj. EBIT Margin	30.2%	30.5%	31.6%	32.3%	32.4%	32.3%	30.9%
Non-Underlying Items		(0.7)	(3.3)	(2.0)	(3.2)	(4.0)	(6.6)	(10.7)
Operating Profit EBIT		68.7	75.1	82.9	95.5	97.7	98.0	90.8
	% EBIT Margin	29.9%	29.3%	30.8%	31.3%	31.2%	30.2%	27.6%
Financial Costs		(25.8)	(28.9)	(154.8)	(27.0)	(26.9)	(26.9)	(26.5)
Financial Income		2.5	3.4	4.2	0.5	0.4	0.1	0.1
Profit before Tax		45.4	49.6	(67.7)	69.0	71.2	71.2	64.4
Taxation - before exceptional items		(11.7)	(12.7)	(13.1)	(15.5)	(15.8)	(13.4)	(12.9)
Taxation - exceptional		2.0	3.5	25.8	3.4	1.8	0.0	0.9
Profit attributable to the shareholders		35.7	40.4	(55.0)	56.9	57.2	57.8	52.4

Revenues

- Throughout the previous years, Dignity has been able to **steadily increase its revenues**. To achieve that, two main factors arise:
 - Pricing:** Historical Increase on the average prices of funeral services, together the maintenance of a similar market share.
 - M&A + New Openings:** From 2012 to 1H2018, Dignity has been able to increase by almost 200 the number of funeral locations and adding 8 more crematoria locations to its portfolio, either through successful M&A transactions – as the acquisitions of Laurel Funerals Ltd (36 Funeral Locations) in 2015 or Funeral Services Ltd (5 Crematoria Locations) in 2016 – or investment in the satellite location programme.

# of	2012	2013	2014	2015	2016	2017	1H2018
Funeral Locations	636	690	718	767	792	826	831
Acquired	18	45	30	48	16	24	4
Opened	19	12	4	3	11	14	6
Closed	1	3	6	2	2	4	5
Crematoria Locations	37	39	39	39	44	45	45
Acquired	1	2	0	0	5	0	0
Opened	1	0	0	0	0	1	0

Sources: Company's Reports

Notes: 1. Organic Growth includes all the existing facilities plus new openings (via greenfield) and acquisitions in the portfolio for over a year

Executive Summary

Stage 1: Positioning

Stage 2: Creating

Stage 3: Quantifying

Due Diligence

Closing Notes

Annexes & Bibliography

ANNEXES | INCOME STATEMENT (II/II)

The company has historically been profitable, although being hurt, in non-cash terms, by a refinancing operation in 2014.

£ Million	2012	2013	2014	2015	2016	2017	LTM1H2018
Revenues	229.6	256.7	268.9	305.3	313.6	324.0	328.9
% Revenues Growth	n.a.	11.8%	4.8%	13.5%	2.7%	3.3%	1.5%
Funeral Services	157.9	176.2	184.4	212.6	217.8	221.8	225.2
% Organic Growth	n.a.	5.3%	4.7%	11.8%	2.4%	1.8%	n.a.
Crematoria	46.6	53.8	55.2	63.1	67.5	74.0	77.7
% Organic Growth	n.a.	11.8%	2.6%	14.3%	3.2%	9.6%	n.a.
Pre-Arranged Funeral Plans	25.1	26.7	29.3	29.6	28.3	28.2	26.0
% Organic Growth	n.a.	6.4%	9.7%	1.0%	-4.4%	-0.4%	n.a.
Underlying Operating Profit before D&A Adj. EBITDA	80.1	90.9	98.4	113.3	117.8	121.7	118.9
% Adj. EBITDA Margin	34.9%	35.4%	36.6%	37.1%	37.6%	37.6%	36.2%
Funeral Services	61.7	69.7	75.9	87.4	90.6	91.7	88.9
% Adj. EBITDA Margin	39.1%	39.6%	41.2%	41.1%	41.6%	41.3%	39.5%
Crematoria	25.9	30.4	32.3	37.8	41.1	43.9	46.4
% Adj. EBITDA Margin	55.6%	56.5%	58.5%	59.9%	60.9%	59.3%	59.7%
Pre-Arranged Funeral Plans	6.7	6.8	7.6	8.0	8.7	8.0	5.8
% Adj. EBITDA Margin	26.7%	25.5%	25.9%	27.0%	30.7%	28.4%	22.3%
Central Overhead	(14.2)	(16.0)	(17.4)	(19.9)	(22.6)	(21.9)	(22.2)
D&A	(10.7)	(12.5)	(13.5)	(14.6)	(16.1)	(17.1)	(17.4)
Underlying Operating Profit Adj. EBIT	69.4	78.4	84.9	98.7	101.7	104.6	101.5
% Adj. EBIT Margin	30.2%	30.5%	31.6%	32.3%	32.4%	32.3%	30.9%
Non-Underlying Items	(0.7)	(3.3)	(2.0)	(3.2)	(4.0)	(6.6)	(10.7)
Operating Profit EBIT	68.7	75.1	82.9	95.5	97.7	98.0	90.8
% EBIT Margin	29.9%	29.3%	30.8%	31.3%	31.2%	30.2%	27.6%
Financial Costs	(25.8)	(28.9)	(154.8)	(27.0)	(26.9)	(26.9)	(26.5)
Financial Income	2.5	3.4	4.2	0.5	0.4	0.1	0.1
Profit before Tax	45.4	49.6	(67.7)	69.0	71.2	71.2	64.4
Taxation - before exceptional items	(11.7)	(12.7)	(13.1)	(15.5)	(15.8)	(13.4)	(12.9)
Taxation - exceptional	2.0	3.5	25.8	3.4	1.8	0.0	0.9
Profit attributable to the shareholders	35.7	40.4	(55.0)	56.9	57.2	57.8	52.4

Profitability

- In terms of underlying operating profit, which is deemed to not account the profit or loss on sale of fixed assets, external transaction costs, amortization of acquisition related intangibles and exceptional items in respect of taxation (collectively 'Non-underlying items'), Dignity has **maintained a solid position**, with minor operational improvements (proved by the slight increase in margins) through the period under scope.
- Nevertheless, when it comes to the profit attributable to the shareholders, despite being currently above the 2012 levels, it suffered a significant decrease in 2014. This was due to the refinancing of the Group's securitized debt structure in Oct'14, which aimed to reduce annual cash debt service obligations (principal and interest), but also led to an exceptional charge of of £ 124.2M.
- The majority (£ 117.4M) of this charge were non-cash expenses, reflecting the mark to market of the Old Notes and the write-off of associated unamortized issue costs on the Group's balance sheet in respect of these financial liabilities.

Sources: Company's Reports

Executive Summary

Stage 1: Positioning

Stage 2: Creating

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ANNEXES | BALANCE SHEET

Looking to the Company's Balance Sheet, it's possible to infer that most of them are fall in two categories: Plant, Property and Equipment, that is intrinsic to the business, and Goodwill, that is intrinsic to their acquisition strategy, being also a common practice to maintain the acquired brands.

£ Million	2012	2013	2014	2015	2016	2017	1H2018
Non-Current Assets	374.2	446.7	479.2	539.1	604.8	647.8	652.6
Goodwill	151.1	173.7	182.3	201.5	215.9	226.1	231.5
Intangible Assets	53.4	76.7	94.2	126.7	142.2	159.4	157.3
PPE	157.1	183.6	192.3	200.6	235.4	248.0	248.3
Financial and Other Assets	12.6	12.7	10.4	10.3	11.3	14.3	15.5
Current Assets	87.7	176.7	123.0	137.1	110.2	94.9	104.4
Inventories	6.5	6.6	6.5	6.4	6.1	7.3	7.4
Trade and Other Receivables	25.6	27.8	30.0	31.9	37.0	38.3	33.0
Cash and Cash Equivalents	55.6	142.3	86.5	98.8	67.1	49.3	64.0
Total Assets	461.9	623.4	602.2	676.2	715.0	742.7	757.0
Shareholders' Equity	44.6	42.2	(92.5)	(43.9)	(3.5)	46.4	71.8
Ordinary Share Capital	5.7	6.0	6.1	6.1	6.1	6.2	6.2
Share Premium Account	17.4	20.8	2.8	4.8	8.5	11.1	12.4
Capital Redemption Reserve	99.3	121.6	141.7	141.7	141.7	141.7	141.7
Other Reserves	(7.2)	(6.4)	(5.5)	(4.5)	(3.5)	(4.6)	(5.60)
Retained Earnings	(70.6)	(99.8)	(237.6)	(192.0)	(156.3)	(108.0)	(82.9)
Non-Current Liabilities	340.5	437.6	634.10	637.4	643.4	626.3	614.9
Financial Liabilities	310.1	403.1	602.9	594.6	581.5	561.2	551.9
Deferred Tax Liabilities	24.2	26.9	13.6	21.7	25.7	30.3	31.2
Others Non-current Liabilities	2.8	2.8	2.6	2.3	2.8	2.3	2.2
Provisions for Liabilities	3.4	3.8	4.5	6.3	7.5	8.5	8.9
Retirement Benefit Obligation	-	1.0	10.5	12.5	25.9	24.0	20.7
Current Liabilities	76.9	143.6	60.6	82.7	75.1	70.0	70.3
Financial Liabilities	24.5	83.8	8.0	8.3	8.8	4.5	9.3
Trade and Other Payables	46.2	52.0	51.2	67.5	59.3	57.8	52.2
Current Tax Liabilities	5.1	6.7	-	5.4	5.4	6.2	7.2
Provisions for Liabilities	1.1	1.1	1.4	1.5	1.6	1.5	1.6
Total Shareholders' Equity & Liabilities	462.0	623.4	602.2	676.2	715.0	742.7	757.0

Non Current Assets

- Intangible Assets: mainly composed by trade names, recorded at £ 152.4M. Related with the fair value paid on previous acquisitions by a well-established trade name.
- Property, Plant and Equipment: is mainly composed by:
 - Freehold land and buildings – £ 138.0M
 - Leasehold buildings – £ 36.6M
 - Motor Vehicles – £ 42.4M
- Financial and other assets: are composed by prepayments (£ 7.3M) regarding payments to acquire long leasehold interests in land; Deferred commissions (£ 6.0M); and non-controlling investment in a business (£ 1.0M).

Non Current Liabilities

- Provisions for Liabilities: have in consideration:
 - £ 8.9M of **Dilapidations** to cover the costs of repair to leased premises occupied by the Group;
 - £ 1.0M of cancellation provision of **funeral plans**.
- Retirement Benefit Obligation: In 2017, the fair value of plan assets was £ 111.9M and the present value of funded obligations £ 135.9M, which resulted in a **net obligation of £ 24.0M**.

Sources: Company's Reports

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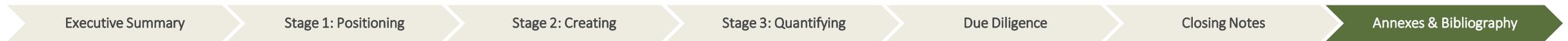
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ANNEXES | SWOT ANALYSIS

The analysis performed over the company and its industry, reveal that the company is in a privileged position to take advantage of the market opportunities and to properly respond to the industry threats

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> Funeral Services have strong a stable and predictable cash-flows. Strong Reputation and High level of customer satisfaction. Dignity benefits from Economies of Scale and though it can more efficiently deliver equivalent quality. Strong distribution network and Geographical presence. Highly skilled workforce, recognized by the client. Able to listen to the needs and wishes and to be compassionate and caring. Know how over the industry, with a great proximity to the local communities. 	<ul style="list-style-type: none"> Highly exposed to geopolitical risk. Relatively low business diversification. Great focus on Christian religious practices (which may compromise the expansion of the business to more diversified geographies). The marketing of the products left a lot to desired. Positioning and unique selling proposition is not clearly defined . Difficulty to tackle new entrants in the segments and to prevent the lost of market share in the niche categories. Highly leveraged when compared to peers.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> Growing demand, death rate in the UK is expected to increase in the up coming years. Increase service offering, expanding the gamma of prices and services offered by the company. Lack of space in cemeteries is increasing the demand for crematoria services (most profitable LoB of the Company). International Expansion, use the know how developed and enter in markets similar to the UK. Green Funerals, develop services that attend to this concern. 	<ul style="list-style-type: none"> Public awareness and focus of the media on the cost of funerals, leading to more price conscious consumers. Ability to shop around through internet not only may affect the market share expose the company to risks such as cyber risk. The increased focus on the whole sector may increase the likelihood of regulation of funerals in the UK. Technological development arise that directly impact the death rates, it may, in the short-term, lead to a decrease in revenue. High dependence in external suppliers (e.g. wood, stone).

Sources: The Guardian, The new death industry: funeral businesses that won't exploit grief; Company's Reports



COST EVOLUTION

Cost of a Basic Funeral Evolution



SEND-OFF EXPENSES

Horizontal Products' Offer

- Several products are common to all the different services provided. This offering, commonly known as send-off costs, are basically those added extras that turn a basic funeral into a send-off.
- Although fluctuating throughout the past decade, the Average Cost of this add-ons remained around £ 2 000 per funeral, a value that represents, as of 2018, more than 22% of the overall funeral value.

Average Send-Off Expenses



- The cost of a send-off may include¹:

- Memorial: £ 824
- Catering: £ 362
- Limo hire: £ 264
- Venue hire: £ 210
- Flowers: £ 171
- Order Sheets/Service Card: £ 82
- Funeral Notice: £ 76
- Death Notice: £ 73

£ 2 061

CHANGING TRENDS

Personalization

- It has become quite normal to have 'tailor-made' funerals to fulfill the deceased's desire. This may include **Green Funerals** (small gathering in a natural setting, use of only recycled paper products, locally-grown organic flowers, for example), **Simple Funerals**, **Cremations** (either Direct or Full-Service) or even odder wishes (special clothes or addresses worn by the defunct).

Power of Internet & Digital Era

- The digital era is also influencing the send-off costs, as people start to diversify the ways to honor the loved ones, such as memorial videos or even live online broadcasts of the funeral services.

Pre-Arranged Funerals

- There is an increasing number of adults that finds inevitable to prepare their own funeral. This option allows to choose more wisely a funeral home, avoiding that the family's emotional upheaval influence their choice. Moreover, the possibility to alleviate the financial burden for the families is still one of the key reasons for choosing this option.

Marketing is Now a Thing

- As the pre-need market is expanding, Funeral Providers are now betting on marketing. Things like promotions, family packages and direct advertising through mail, internet or even "cold calling" are now common practices in the industry.

Sources: SunLife (2018), Cost of Dying Report; SunLife (2017), Cost of Dying Report; Value Line, Industry Overview: Funeral Services

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ANNEXES | MARKET OVERVIEW – GROWTH DRIVERS

The demand for funeral services may be mainly explained by a major demographic factor, the death rate, but others must be considered, as the birth rate. On the other hand, a higher life expectancy will only push the need for services further in the upcoming years.

Demographic Factors

- Demand for funeral services is directly correlated to the number of deaths per year.
- The mortality rate in the UK has been decreasing considerably over the last 20 years, decreasing from 10.9% in 1996 to 9.1% in 2016.
- However, in 2016, there were 597 208 deaths in the UK, representing an increase in the national death rate. This increase is believed to be linked to the jump in dementia and Alzheimer's related deaths.
- As baby-boomers hit old age, in the coming decades the annual death rate is expected to increase, **increasing the demand for funeral services** in the coming decades.
- If death rate is an impact today, one may not forget that birth rate would also drive our market growth, but on a long-term perspective. Hence, a **higher birth rate will increase the number of users for these services in the future.**

Economic Factors

- Apart from the natural increase in pre-paid funerals, the economic outlook influences the number of pre-paid funerals.
- During **strong economic cycles the number of pre-paid funerals increase** because the disposable income of the households is usually higher. In contrast, during a weak economic cycle the number of at-need revenues increase comparing to pre-need revenues because household disposable income is considerably lower, spending only money on things they need at the moment.
- Many people perceive a funeral as something that reflects their level of respect for the deceased, meaning that improvements on the economic outlook make people to be willing to spend more money on discretionary items, such as flowers, limousine, and a memorial or headstone.

Political Factors

- The process of arranging and carrying out a funeral is subject to many rules and regulations, however, there are no licensing regimes or restrictions on who can operate as funeral directors.
- Recent rising funeral costs have generated a significant amount of attention generating a growing pressure to greater regulation to drive unethical practice out of the market.
- Most recently, the Scottish Government recruited an Inspector of Funerals. The increased focus on the whole sector may increase the likelihood of regulation of funerals in the UK as a whole and not just in Scotland.
- Regulation of the funeral industry will likely create restrictions and an **increased compliance costs** for the industry as a whole. Furthermore, the regulation of the funeral industry would most likely benefit big providers such as Dignity and Co-Operative Group's funerals business, increasing the barriers to entry.

Sources: Dignity Report 2017; gov.scot; PORDATA

ANNEXES | MARKET OVERVIEW – COMPETITIVE DYNAMICS

The market in the UK is highly fragmented, most of the market (2/3) is controlled by small enterprises. There are high entry barriers, being the reputation of the service provider one of the most relevant.

Service	Highly Fragmented	Regulation	High Entry Barriers
Funeral Services	The funeral market has a variety of businesses, some of them vertically integrated. The market remains highly fragmented , out of c.5 000 funeral director branches, 3 000 are still operated by small and regional businesses¹ .	The process of arranging and carrying out a funeral is subject to many rules and regulations, however, there are no licensing regimes or restrictions on who can operate as funeral directors . Recent rising funeral costs have generated a significant amount of attention generating a growing pressure to greater regulation to drive unethical practice out of the market.	Reputation, recommendation and previous experience, together with pre-arranged funerals, represent the highest stake when choosing the provider. However, there is an ongoing decline of this traditional source of business in the face of competition from an increasing trend towards pre-arranged funerals and other competitors. Capital Intensive , most of funeral homes have their own assets such as personal, funeral home, facilities and car park.
Crematoria	Local authorities have also a share of the market, of the 290 crematoriums in the UK, around two thirds are still owned by local authorities which also operate most of the cemeteries .	Only regulated activity of this industry. Local authorities are the only entity that can launch crematorium concessions . This concession usually last 25-30 years and define a set of rules that private entities must follow to keep concessions. By doing so, local authorities can control private entities and the number of crematoriums.	Crematoria act as Local Monopolies , being its implementation strict. Hence, criteria for new crematoria are very demanding: <ul style="list-style-type: none"> • Must show proof of need, i.e., proof that the existing don't fulfill local needs. • A lot of planning constraints and environmental factors to consider, as well as general public resistance to such build. • Relatively high building costs: +£ 4M.
Pre-arranged Funerals	Around 210 000 funeral plans are sold per year the UK. Being the total of plans outstanding c.1.2M	Voluntarily regulated by the Funeral Planning Authority , however this entity does not have the power to prevent any providers from malpractice, as its code is not legally binding .	Nationwide presence for life insurance firms for affiliate programme. Reputation also performs an important role due to the increased required trust in the service provider.

Sources: Competition & Markets Authority, Funerals market study – summary of responses from individuals to the Statement of Scope; UK Government, Tougher regulation for funeral plan providers; The Federation of Burial and Cremation Authorities, A Guide to Cremation and Crematoria. **Notes:** 1. The number was only an approximation since the exact numbers are difficult to pinpoint as the profession is unregulated and anyone can enter it

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ANNEXES | MARKET OVERVIEW – KEY PLAYERS

FUNERAL SERVICES

The Funeral segment is highly fragmented being the two main players Co-Op and Dignity, with Market Shares of 16% and 12%, respectively. Co-Op is a fierce competitor and real threat to Dignity's business, stronger brand awareness aligned with lower prices.

Co-Operative Group



- As part of the Co-Op Group, they're members of one of the **world's largest consumer co-operatives**, owned by millions of members, and with interests across food, funerals, insurance or legal services
- As expected from larger companies, Co-Op typically benefits from **economies of scale and reduced costs** when compared to smaller private operators. They also benefit from the **cross-funding** from the different businesses within the Group
- The company is the **UK's #1 funeral services provider, owning around 1 100 branches performed in 2017 c.100 000 funerals**. Is currently divesting from its crematoria division and focusing more on simple and more affordable funerals leading this way a downwards price trend in the industry
- They have a strong digital marketing presence and a great national brand equity.
- Right after Dignity's announcing a decrease in prices, Co-Op responded in a £ 100 decrease. This action resulted, in January 2018, in a stock price fall of 70% as investors feared a price war.
- Co-Op had in its funeral division a revenue stream of c. £ 343M (an increase of 4.3% compared to 2016) , with an underlying operating profit of c. £ 66M (a decrease of 7%). Decrease, mainly, explained by the exit from the Crematoria segment.
- Co-Op is a fierce competitor, with a wide network, an efficient cost structure and a much more powerful brand than Dignity's one.

Sources: Competition & Markets Authority, Funerals market study, Companies' websites

Notes: 1. Currently there is no available information regarding neither the overall number of Funeral Director Branches

CREMATORIA

Crematoria are controlled by local authorities as they are the ones who concession such activity. Dignity is the main private player, followed by Westerleigh.

Westerleigh WGH



- Westerleigh Group claims to be the leading developer and operator of crematoria and cemeteries in the UK caring for over **35,000 funerals a year, owning 31 locations**.
- They have an extensive professional expertise in managing existing sites, but they are also much more focused in building new attractive facilities than their competitors.
- They work and maintain a close relationship with local authorities helping the ones who are seeking for brighter solutions for their cemeteries and crematoria.
- When under the construction of new sites, the Group is the one who seems to give the most importance on how should they utilize light, space and natural materials to instill a sense of calm in their properties.

Memoria Ltd.



- Memoria is operating since 2003, currently owns 9 crematoria facilities and will open another facility in the end of 2018. Added to the simple cremations it offers, it also has available cremation funeral plans.
- One of Memoria strategies, claiming to be better than its competitors, is to charge a single price throughout the UK (England, Wales and Scotland), unlike its competitors that do have variable prices.
- In addition, it claims to have much lower prices than the main competitors, although its funeral services lack in some features. (e.g. It is not possible to arrange a funeral service with further services such as limousines, a chapel of rest or a selected type of coffin)

ANNEXES | MANAGEMENT TEAM



Although Dignity has a well all rounded team who can pursue the designed strategy, there is still a need to hire some professionals to cover specific competency gaps.



Chief Executive

Mike McCollum joined Dignity's former parent, SCI, in 1995 from KPMG Corporate Finance. He was part guided the Group through the MBO in 2002 and IPO in 2004. Mike was appointed Chief Executive in 2009.



Corporate Services Director

Richard Portman joined SCI from HSBC to be Chief Accountant in 1999. He is a Fellow of the Institute of Chartered Accountants, a Member of the Investor Relations Society and one of the Trustees of the Dignity Welfare Trust.



Finance Director

Steve Whittern joined the Group in 1999 from KPMG. He has led the three refinancing and Returns of Cash since 2010, and the debt and equity funding. Steve holds a mathematics degree from Warwick University.



Commercial Director

Steve Wallis joined Dignity in 1996. He's responsible for Group's digital, pricing, marketing and external affairs as well as the Group's pre-need business and contact center. He is a Fellow of the Institute of Direct and Digital Marketing.



Funeral Operations Director

Andrew Judd joined Dignity in 1996. He is responsible for all aspects of the Group's day to day provision of funeral services through a nationwide network of employees, funeral locations and associated facilities. He is President for NAFD Western Counties Area Federation holds qualifications in both Funeral Service Management and Funeral Directing



Crematoria Director

Steve Grant joined the group in 1988. He's responsible for Dignity's Crematoria and Cemetery Business. Steve currently sits on the Executive for the Federation of Burial and Cremation Authorities ('FBCA') and is part of the National Cremation Working Group for the Ministry of Justice.



Business Development Director

Alan Lathbury joined Dignity in 1999. Responsible for Business Development of Crematoria, through acquisition of existing ones, building of new greenfield locations and through partnerships with local authorities to manage existing bereavement services.



Transformation Director

Paul Turner, appointed on 1st of August 2018 possesses a vast experience driving organizational change at major UK retailers. His past projects covered IT development & implementation, Supply Chain reorganization, Digital and bespoke analytical solutions, M&A, Competitive strategy development & implementation.

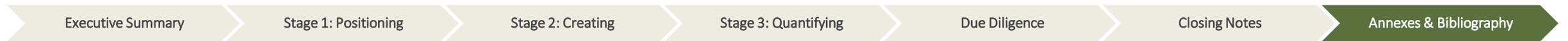
Pre-Arranged Funerals Director (TBD)

As Dignity has a Director for each one of its remaining product lines, we believe that a Pre-Arranged Funerals Director will be a plus, by providing a **more structured action plan** and by **monitoring the results for this product**.

M&A Team (TBD)

Our high level of bolt-on acquisitions will require a M&A team with great expertise. They will work side-by-side with Mr. Alan Lathbury and together will be responsible for scanning the market, complete Due Diligence and carry negotiations.

Sources: Company's Reports; Group's Research



ANNEXES | IT - STRONG MARKET SHARE GAIN POTENTIAL

To gain market share organically, Dignity must conquer the consumer through better quality or lower prices. It has already been severely affected by the price adjustments made by Co-op and it needs to find a proper strategy to protect its market share.

Investment Thesis	Description	Co-op Pricing Strategy
<p>Strong market share gain potential</p>	<ul style="list-style-type: none"> Well-positioned business able to rapidly capture market share based on clear, sustainable competitive differentiation. 	<div data-bbox="1625 382 1913 418"> <h3>Arranging a funeral</h3> </div> <div data-bbox="1625 449 2066 692"> <p>Our funerals start from £1,395 and if you find the same funeral service at a lower price, we promise to beat it - that's our best price guarantee.</p> <p>If you need immediate assistance, we're here to help 24 hours a day, please call our support team on: 0800 088 4850 or click here to Find your local Funeral Director</p> </div> <div data-bbox="1956 449 2066 549">  </div> <ul style="list-style-type: none"> Co-op strategy has been focused on price, offering to beat the prices offered by rivals. Co-op lowest priced funeral is already less expensive than the corresponding Dignity service and it is expected to become even lower. Co-op revealed that intends to lower £ 100 on its simple service and offer more discounts to its members. Dignity shares were down 6% has investors feared a price war.
<h2>Reasoning</h2>		
<ul style="list-style-type: none"> Dignity market share gain potential has only two possible paths. Differentiated service or competitive pricing. There is no possible innovation to capture new clients to this market since everyone is already expected to die, and somehow have a burial or cremation. As we have seen the funeral market in the UK is highly fragmented having only two large players, Co-op and Dignity, revealing a competitive advantage when compared to the smaller players, due to scale economies and brand recognition. But it also reveals a big obstacle in the relation with Co-op, that might lead to price wars. Dignity must compete in both fronts, on the one hand the supreme quality of its services will help to gain market share (mainly from smaller players), but on the other hand Co-op is making a huge pressure on prices, having claimed that it will match the prices offered by the competition. It is not an easy task to increase the quality of the service while reducing its price... 		
<p>+</p> <p>PROS</p>	<ul style="list-style-type: none"> Clear advantage over the smaller players and availability to implement improvements on its products. Necessary network and scale to be a pioneer in such differentiation. 	<p>-</p> <p>CONS</p> <ul style="list-style-type: none"> Huge price pressure from Co-op, offering to beat prices offered by competition. Entering in such price war would result in profit loss around £ 1.5M.
<h2>Our Investment Thesis Rating</h2>		
<div data-bbox="1753 999 2168 1078">  </div> <div data-bbox="2237 996 2372 1082"> <h1>3/5</h1> </div> <p>Final Considerations: Due to the price pressure from Co-op, Dignity won't be able to increase its market share neither to improved quality nor lower prices.</p>		

Sources: Co-op website; BBC News (Dignity hit as Co-op cuts funeral costs in price war)



ANNEXES | IT - INTERNATIONALIZATION (I/III)

As a matter of proximity, both cultural and geographical, an Internationalization strategy would only make sense if to one (or more) European country. Nevertheless, neither of them seem to be a perfect fit for extending Dignity network.

Investment Thesis	Description	Sizing the Opportunity
Internationalization	<ul style="list-style-type: none"> Expand successful company from home market into adjacent foreign markets. 	<p>Quick Facts:</p> <ul style="list-style-type: none"> Germany: <ul style="list-style-type: none"> Most Populated Country (c.920 000 deaths/year); c.58% Cremations; Very little information; fragmented market, with no dominant players. France: <ul style="list-style-type: none"> c.590 000 deaths/year; Traditional industry: less than 40% Cremations; Very fragmented, with more than 2 500 companies operating. Iberia: <ul style="list-style-type: none"> Combined deaths/year of c.520 000; Reports suggest 50% of cremations on non-rural areas; One player is starting to become dominant (Mémora / Servilusa) but it is still a quite fragmented market. Benelux & Ireland: <ul style="list-style-type: none"> Smaller markets (Benelux: c.260 000 deaths/year of; c.30 000 in Ireland); 55%-60% of Cremations at Benelux. 18% in Ireland; Dominant player at Benelux with a c.20% Market Share : Dela, by Co-Operative Group; Geographically closer to Dignity operations. 
Reasoning		
<ul style="list-style-type: none"> Currently, Dignity operates only in the UK, which comprises Scotland, Northern Ireland, Wales and England and, although there is still room to improve the company's market share in this geography, the possibility to expand to other countries, as Co-Operative Group did at Benelux, should be weighted. However, due to the nature of the industry, an expansion to other countries would only work, at an initial stage, by buy-and-build, taking advantage of an existing structure to comply with every regulatory issue that might arise. Additionally, Dignity most profitable service is the crematoria one, being the propensity to choose this service, together with the total market size, two factors to consider. Lastly, countries within a reasonable geographic distance may benefit from be supplied for the same manufacturers and ultimately lead to economies of scale. 		
<p>+</p> <p>PROS</p>	<ul style="list-style-type: none"> Possibility to take advantage of a highly fragmented market. Possibility to replicate a successful implementation of an international expansion by its main competitor. 	<p>-</p> <p>CONS</p> <ul style="list-style-type: none"> Different traditions across countries. Different regulations across countries and uncertainty regarding Brexit. Hard to achieve gains of scale as it would likely imply finding new suppliers to avoid cross-border exports.
Our Investment Thesis Rating		
 <p>2/5</p> <p>Final Considerations: Although Germany seems a territory that could be aligned with an Internationalization of Dignity, the lack of information regarding this industry, works against this option.</p>		

Sources: Candestic, *As welcome as death at a funeral*; NEW, *International Cremation Stats 2016*



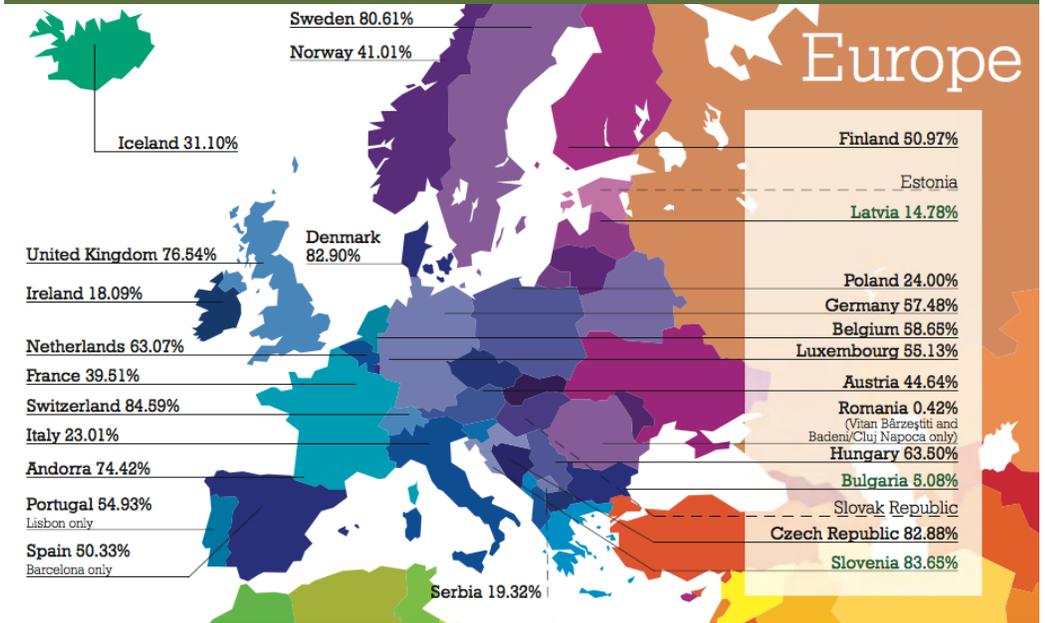
ANNEXES | IT - INTERNATIONALIZATION (II/III)

The ability to decide on the most relevant dynamics across the various possible target countries was heavily limited due to the lack of information

Relevant Factors for Internationalization

- **Market Size** – The target market should generate significant additional revenues to make the internationalization strategy worth it
- **Cremation Percentage Rates** – Being the cremation service the most profitable one, a country with a higher cremation percentage rate would become instantly more attractive to target.
- **Distance from UK** – A larger distance from the HQ may compromise any possible synergies (suppliers and logistics for example) that may arise
- **Market Fragmentation** – A highly fragmented market is absolutely essential in order to penetrate the new market through a successful buy-and-build strategy
- **Tradition** – Similar traditions and religious practices will ease the whole process and would enable possible synergies and give continuity to any competitive advantage that Dignity might already have
- **Regulatory Issues** – Different geographies might imply structural difference in regulation which can create major problems when it comes to sustain Dignity’s business model
- **Availability of Information** – In order to take informed decisions on where to expand, it is essential to get access on for the target countries

Cremation Percentage Rates



Internationalization’s Main Obstruction

Deciding on where to expand is a hard task that requires obtaining information on the above mentioned factors for every possibility. This was the major drawback when it came to deciding whether or not to pursue this strategy. In most of the countries we faced **privately held funeral companies with a relatively low amount of information available for the public**. Even when some companies’ reports were found, they were presented in their **native language with no English versions**. There was a possibility to try to acquire in geographies where we were more familiarized to the traditions and mother tongue, and where we could access information more easily, such as **Spain and Portugal**, but here the cremation percentage rates lie below our desired figures.

Sources: International Cremation Stats 2016

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ANNEXES | IT - INTERNATIONALIZATION (III/III)

Although more information is necessary, Sweden seems a good expansion option for Dignity Plc

Why Target Sweden?

Even with all the limitations regarding availability of information, a study on where to internationalize was conducted.

All the relevant factors previously enumerated were weighted in the different geographies.

From this analysis, Sweden aroused as a good possibility since:

- It has a really **high cremation percentage rate**, around 80%, according to a study from 2016.
- It's **market size is also considered to be relevant**. From the 10.2m habitants, around 2m are over 65 years old.
- The fact that Sweden has the **15th highest PIB per Capita** in the world and has an international business environment that is modern and business friendly. They are extremely **open to international partnerships**, and also, the Swedish **corporate tax rate is low** by international standards.
- Sweden possesses one of the largest tech hubs in Europe, and **even the non-Tech-related companies have strong digital strategies and competencies**. This highlights one more synergy that could arouse if Dignity enters this market.

Swedish Targets



Service Provided: Leading digital funeral agency founded in 2014 with significant lower prices

Current Revenues: £ 1.76M in 2017 versus £ 615 thousand in 2016

Prices Charged: From 1 144 £ (simple option) until 2 550 £ (most complete solution)

Growth Forecasts: High pace of market share increasing, being now backed by two VCs who invested 2M £

Acquisition Reasoning: Possibility for several digital synergies that would enhance Dignity's business in the UK



Service Provided: Nationwide funeral services, counting with 218 Funeral Locations. It offers Themed Funerals

Current Revenues: n.a.

Prices Charged: From £ 1 012 without ceremony till £ 1 778 with ceremony included

Presence / Forecasts: Controls around 1/3 of the whole Market

Acquisition Reasoning: Major established player that would give access to a national network



Service Provided: Online Funeral Services at a much lower price than the traditional funeral agencies

Current Revenues: n.a.

Prices Charged: £ 529 for a Funeral Package

Growth Forecasts: Operating in the same market as Lavendla but the value proposition seems a bit lower

Acquisition Reasoning: Besides the digital synergies, their expertise in simple funerals is valuable asset

Sources: International Cremation Stats 2016; Business Sweden – Why invest in Sweden?

Notes: Conversion Rate equals £ 1 = 11.6 kr

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ANNEXES | IT - EXPLOIT HIDDEN ASSETS

There are still some assets that might be underexploited and therefore not providing their full potential for a valuation enhancement increasing this way the attractiveness at exit.

Investment Thesis	Description
Exploit hidden assets	<ul style="list-style-type: none"> Recognize hidden/under appreciated value within under-utilized assets, e.g. brands and successfully capitalize on this hidden value.

Reasoning

- In this industry, **brand plays a huge role**¹ when it comes to decide between service providers. Dignity is responsible for +500 distinct local brands with varying levels of local brand equity. Although the Corporate branding is 90% of fascia there is still limited visibility of national brand, as only 6% of consumers are aware.
- According to the IFRS, in the majority of the cases, land must be held at historic cost. But for a company like Dignity, with years of history, there is a high likelihood that this type of asset could be worth substantially more than what is reflected on the balance sheet. Places held for a long time in the hearth of big cities like London are more prone to be subject of recent appreciations and to present this discrepancy in valuations.
- If Dignity has the ability to develop operating systems/processes and the skill to place them ready to support both their human and customer capital, they will be able to provide more value than the case where after the exit, talented staff or lucrative customers are likely to walk out the door. Systems and processes in this category include key-employee contracts and procedures to make sure intellectual property ownership is protected, such as patents.

Lack of Brand Awareness



Although Dignity uses its brand as a leveraging factor, it is not very present in their local branches.

Our Investment Thesis Rating



Final Considerations: Although there is still some hidden value in Dignity's assets, this is expected to be exploited naturally through other strategies such as the Operational Turnaround.

+

PROS

- Brand awareness increases market share gain potential.
- Re-evaluation of properties and greater employee retention methods increase attractiveness at exit.

-

CONS

- The property's re-evaluation and the increase in brand awareness presents additional costs.
- Reformulation of current employee contracts might lead to early resignations.

Sources: Economic Times, How is stock market peak of 2017 different from that of 2008?; Forbes, The Hidden Value (Or Value-Killer) In Your Business

Notes: 1. Brand is considered to be the 2nd most important factor after proximity

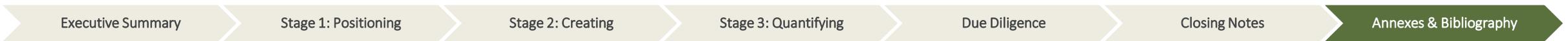


ANNEXES | IT - CYCLE / TIMING

Although Dignity is placed in a recession resistant industry it also presents some limitations on its upside potential due to demand inelastic nature.

Investment Thesis	Description	Industries' Reaction to Economic Cycles
Cycle/timing	<ul style="list-style-type: none"> Invest in a business that is under pressure at / near bottom of (macro-economic / valuation / technology / product) cycle and that will recover/benefit from cycle turn. 	<ul style="list-style-type: none"> Some industries are very susceptible to economic changes, but there are other industries that do relatively well no matter what is happening with the economy. Even though no industry is completely recession-proof, there are some who continue to see strong performance even when unemployment rises or consumer sentiment falls. Predictions on the market's future trajectories are far from being bullet proof, nevertheless the current all-time high equity valuations and the past years of economic growth on the major economies suggest we are approaching the peak of an expansion phase which will eventually be followed by a recession.
Reasoning		
<ul style="list-style-type: none"> Dignity sits in a market with relatively inelastic demand, providing funeral related services that people are dying to use. There is never any guarantee of investment gains, but if a given PE Fund is looking to put a hedge in their portfolio against a possibility of a weak economy, this industry can provide some safety by minimizing risk and creating a diversified, well-rounded portfolio. On the opposite side, if markets continue their current expansion phase, a company like Dignity might lack some of the upside potential by struggling to take advantage of economic cycle movements. An eventual recession will lower the Funeral Industry overall value, due to a downward pressure in prices, families will also lower on their spending's when sending their loved ones to eternal rest, resulting in downward pressure in profit margins. Dignity's, will continue to be on an inelastic demand market, but where prices to be charged will be much lower. 		
<div style="text-align: center;">+</div> <div style="text-align: center;">PROS</div>	<ul style="list-style-type: none"> Attractive assets for pension funds creating good exit options. Limited upside potential due to demand inelastic nature. 	<div style="text-align: center;">-</div> <div style="text-align: center;">CONS</div> <ul style="list-style-type: none"> Limited upside potential due to demand inelastic nature.
Our Investment Thesis Rating		
<div style="text-align: right;">  2/5 </div> <p>Final Considerations: Cycle/ timing will not be crucial factors to maximize the value of the company, due to the industry reaction to economic cycles.</p>		

Sources: MarketWatch; Investopedia (5 Recession Resistant Industries); the Balance, Where Are We in the Current Business Cycle?



ANNEXES | NETWORK OPTIMIZATION MODEL



Dignity's Network should also be redesigned, looking to the number of branches, its activity and its organization, enhancing mobility, quality and efficiency of its processes.

Network

- To achieve a more efficient model in funeral delivery, Dignity must be able to take advantage of its well established platform, **leveraging scale and better allocating resources**. With this said, the company must **rationalize all the resources available enabling synergies from new geographical openings and the digitalized offering**:

Number of Branches

- Rationalize locations with low performance or highly overlapping catchments**, looking analytically to those who provide less than 50 funerals a year (c.40%) and the reasoning behind their existence;
- Seek acquisitions or greenfield expansions to increase geographic coverage**, mainly by better proliferate the main line of business (Cremations);
- Take advantage of centralized operations at a regional level when appropriate, sharing services and resources as fleet or mortuary.

Network Optimization Model

- Looking for the network distribution throughout the UK (England: 9 Regions, 33 Counties and 390 Districts; Scotland: 14 Joint Board Areas and 32 Council Areas; Wales: 8 Preserved Counties and 22 Districts; Northern Ireland as a single country), it was possible to infer that **there are inefficiencies both locally and regionally**.
- For that reason, to optimize the network, a flexible model¹ was performed, taking into consideration the following factors:
 - Number of estimated funerals per branch: Expected to be, **at least, 50 funerals per branch**, as it is internally considered as the threshold below which a location may not be safely profitable. To estimate this, 2017 Death levels were taken in consideration.
 - +65 Population of the Location: Considering not only the previous values but also the soon-to-become clients – either in death events or in pre-arranged services – Dignity should also look carefully to the number of elderly people living in these areas, targeting a per branch of **not more than 30 000 +65 years old**, which is based on the average “*Conversion Ratio*” and the company’s market share.
 - Area of the Location: On average, there is a funeral location every 48.5km² in all the UK territory. Nevertheless, wide rural districts have a wider dispersion whereas highly populated cities may have funeral locations really close to each other. Hence, as a reasonable proxy, Dignity must strive, although with some exceptions, to have locations in a **50km² – 350km² range**.
 - Special Events’ Bias: The flexible component of the model, as it took into consideration relative factors that may have occurred / are happening and that could explain the higher / lower branch level (for example: Natural Disasters, Highly Competitive Local or Relevant News Reports).

Expected Number of Closings 2018-2023

50 – 75

Key Takeaways

Optimize the network footprint, clearly identifying branches where there is an overlap or where its market share may be captured by other channels, as the digital one.

Develop a optimization model that, without comprising the companies’ reputation and market share and sales, enable to generate an efficient network.

Sources: Company’s Reports & Presentations

Notes: 1. In order to perform this model and due to the lack of realistic information, a constant market share was assumed through the entire market

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ANNEXES | FORECASTING FINANCIALS (I/II)

CapEx		Branches' Changes									
Acquisition	<ul style="list-style-type: none"> Firstly, it was gathered information relative to a previous transaction made by Dignity¹, both the financials of the business acquired and the multiple of the transaction. These figures were assumed as a proxy of a typical branch in the UK and were used for all the acquisitions. For Crematoria openings, the transaction parameters were kept the same, obtaining the EBITDA values from the industry standards and applying a premium for Memoria acquisition (+ 1x EBITDA). 	Region²	2018	2019	2020	<ul style="list-style-type: none"> After defining the BnB model and setting the investment time-frame to 3 years, the choice on where to invest first was made taken into consideration the industry prices. To lighten the movement, branches were open on a 60% / 30% / 10% on the top-tier prices and the other way around for the low-tier.³ The same reasoning was applied for closings, being the ones with lower prices on the verge to be closed first. 					
	Revamping	<ul style="list-style-type: none"> To calculate the opening costs for a single branch, it was taken as a proxy – for both funeral services and crematoria – the previous acquisitions made by Dignity, assuming that costs to be constant for each new opening. 	London	-	-		-	Region ²	2018	2019	2020
	Maintenance	<ul style="list-style-type: none"> Maintenance Capital Expenditures followed the same assumptions as Revamping CapEx, being assumed the values calculated as a function of the ones expended before, only moving on a “per branch” basis. 	South West	3	2		1	London	-	-	-
		East	1	1	-	South West	(1)	(2)	(5)		
		South East	-	-	-	East	(1)	(2)	(4)		
		Yorkshire and the Humber	1	1	-	South East	(2)	(5)	(8)		
		West Midlands	3	2	1	Yorkshire and the Humber	(1)	(2)	(5)		
		East Midlands	2	1	1	West Midlands	(1)	(2)	(2)		
		North East	-	1	2	East Midlands	(1)	(1)	-		
		Scotland	-	1	2	North East	(4)	(2)	(1)		
		North West	1	2	2	Scotland	(1)	(1)	-		
		Wales	1	1	2	North West	(7)	(3)	(1)		
		Northern Ireland	-	1	1	Wales	(2)	(1)	-		
						Northern Ireland	-	-	-		

Employees Dismissals		GOV.UK
Redundancy pay Redundancy is when you dismiss an employee because you no longer need anyone to do their job. This might be because the business is: <ul style="list-style-type: none"> (...) changing location or closing. 	Statutory redundancy pay rates These are based on an employee’s age and length of employment and are counted back from the date of dismissal. Employees get: <ul style="list-style-type: none"> 1.5 weeks’ pay for each year of employment after their 41st birthday a week’s pay for each year of employment after their 22nd birthday (...) Length of service is capped at 20 years and weekly pay is capped at £ 508. (...)	

Notes: 1. Information obtained from the sell-side advisor of the transaction; 2. Ordered by the industry average price of funeral; 3. For Crematoria Openings, the first was the Memoria Crematoria chain and for the remaining 8 were divided equally between 2019 and 2020

ANNEXES | FORECASTING FINANCIALS (II/II)



Revenues			
Price	# Deaths & Distribution	Market Share	
<ul style="list-style-type: none"> Funeral Services: Decreasing due to market pressure to become “more average”. Strong pressure from Pre- Arranged plans. Crematoria: Assumed to be constant as it is already competitive. 	<ul style="list-style-type: none"> # Deaths: Knowing the Number of deaths expected in 2040, it was assumed a constant growth from today’s values that would allow to achieve it. % Cremations: Calculated used both the growth rates of cremations since 2010 and fitting the expected share of cremations for 2040 of 90%. 	<ul style="list-style-type: none"> Impacted by the digitalization bet, enabling to capture clients through this channel. Forecasted using estimates for the size of the market in 2026. 	<ul style="list-style-type: none"> Computed through the total number of funerals performed, assuming changes with branch divestments and acquisitions: <ul style="list-style-type: none"> Divestments: Temporary loss of the services performed in that branch, fully recovered in three years. Acquisitions: Captured either the same as existing Dignity branches (if any) or Dignity’s Average Market Share (if the first Dignity branch on the district).
	Pre-Arranged Funerals	Funeral Services	Crematoria
	<ul style="list-style-type: none"> Market Share is computed per number of crematorium. To fit with cremations realized by Dignity and Westerleigh in 2017, it was assumed that local authorities were capturing a larger share of the market (each branch performed more cremations than a privately-held branch). Openings were assumed to perform as well as they were performing. 		
Depreciations	Central Overheads	Cost of Sales	
<ul style="list-style-type: none"> Computed as a function of the number of branches / crematoria, plus a fixed £ 1M / year from Central Overheads 	<ul style="list-style-type: none"> Besides the mentioned impact of the Operational Improvements, Central Overheads will also change as a result of the overall savings on rents. To compute those, an average of known rents was considered, adjusting it to inflation. 	<ul style="list-style-type: none"> Includes three effects: <ul style="list-style-type: none"> Wages: Growing on one hand with the number of employees needed per branch / crematoria, changing in the first three years but becoming steady thereafter. Revenues: Variable component of the costs, linked to the revenues and growing at the same rate. Operational Improvements: Reducing variable component in 3% (after 3 years). 	

Notes: 1. Ordered by the industry average price of funeral. 2. The same reasoning was applied for Crematoria Openings



ANNEXES | PEERS' OVERVIEW

Carriage Services Inc.



Carriage Services, Inc. provides funeral and cemetery services, and merchandise in the United States. It operates through two segments, Funeral Home Operations and Cemetery Operations. The Funeral Home Operations segment offers burial, cremation, and consultation services; removes and prepares remains; sells caskets, urns, and related funeral merchandise; and enables the use of funeral home facilities for visitation, remembrance, and transportation services. The Cemetery Operations segment provides products and services, such as interment services; the rights to interment in cemetery sites comprising grave sites, mausoleum crypts, and niches; and related cemetery merchandise, including memorials and vaults. As of August 21, 2018, the company operated 181 funeral homes in 29 states; and 32 cemeteries in 11 states.

Service Corporation Int.



Service Corporation International provides death care products and services in the United States and Canada. The company operates through Funeral and Cemetery segments. Its funeral service and cemetery operations comprise funeral service locations, cemeteries, funeral service/cemetery combination locations, crematoria, and other businesses. The company also provides professional services relating to funerals and cremations, including the use of funeral facilities and motor vehicles; arranging and directing services; and removal, preparation, embalming, cremation, memorialization, and travel protection, as well as catering services. In addition, it offers funeral merchandise, including burial caskets and related accessories, urns and other cremation receptacles, outer burial containers, flowers, on-line and video tributes, stationery products, casket and cremation memorialization products, and other ancillary merchandise. As of December 31, 2017, it owned and operated 1,488 funeral service locations; and 473 cemeteries, including 281 funeral service/cemetery combination locations covering 45 states, 8 Canadian provinces, the District of Columbia, and Puerto Rico.

Lung Yen Life Service Corp.



Lungyen Life Service Corporation provides funeral services in Taiwan. It is also involved in the development and lease of interment premises; sale and rental of residence and business buildings; cultivation, growing, wholesale, and retail of flowers; investment business; provision of architecture and civil engineering services; and sale of cremated remains storage facilities. The company was formerly known as Dahan Development Corp. Lungyen Life Service Corporation was founded in 1987 and is headquartered in New Taipei City, Taiwan.

InvoCare Ltd.



InvoCare Limited provides funeral, cemetery, crematoria, and related services in Australia, New Zealand, and Singapore. The company operates 250 funeral homes, and 16 cemeteries and crematoria under various brands. It also offers HeavenAddress, an online memorial community; LifeArt coffins; and Guardian Plan, a prepaid funeral plan, which enables prepay selected funeral services. In addition, the company operates MyGriefAssist, an online grief resource Website; MyMemorial, a Website that provides range of cremation and burial memorial options; Funeral Planner, a digital funeral planning service; and FuneralAdvice that provides information on funerals and related topics. InvoCare Limited is headquartered in North Sydney, Australia.

Sources: Bloomberg

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ANNEXES | DIRECTORS' INTEREST IN SHARES

The Sales' Proceeds for the management team aren't considered to be big enough in order to create a major misalignment of interest that requires a management rollover

	Number of Shares	Equity Stake %	Proceeds from Sale
Mike McCollum	91 667	0,183%	1,84
Andrew Davies	41 754	0,083%	0,84
Richard Portman	50 000	0,100%	1,00
Steve Whittern	27 000	0,054%	0,54
Peter Hindley	80 696	0,161%	1,62
David Blackwood	2 189	0,004%	0,04
Alan McWalter	2 552	0,005%	0,05
Jane Ashcroft	917	0,002%	0,02
Mary McNamara	1 000	0,002%	0,02
Total	297 775	0,595%	5,97

Equity Rollover

- There are multiple reasons for the PE firms to suggest an equity rollover, the first, and most important reason, is that the buyer wants the management team to maintain a continuous interest in the future success of the company.
- PE firms often want the key managers to stay in order to run and/or advise the company. This can be a tricky situation if the managers have received a large amount of money from their sales proceeds.
- A sudden large amount of money in the bank account can create some doubts when it comes to remain in the target company. This lost of interest in the manager's job running the company can be exponentially increased by the difficult time adjusting to work for someone else.
- In **Dignity's case, there is no need to pursue a rollover.** The Management Team is already **expected to invest 2x their annual salary and being the proceeds from the sales of their current positions relatively low,** one can assume that a major misalignment of interests won't happen.

Note: Proceeds in millions

EV	£1 500,67
Net Debt	£497,20
Outstanding Shares	50,01 million

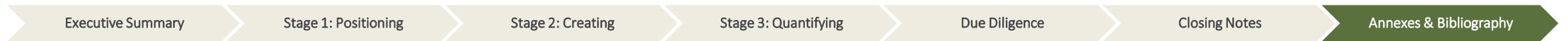
Sources: Company's Report, Bloomberg



ANNEXES | COMMERCIAL DD

Being the most important component of the business, one may expect that the Commercial Due Diligence, occurs throughout the all scheduled timing, being the major touching points how the company's market share fluctuate across regions and how feasible are the targets defined to apply the Buy-and-Build strategy.

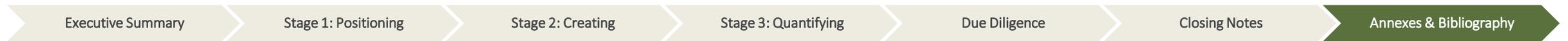
	Focus	Elements to Confirm	Red Flags	Importance	Typical Provider	Expected Length
Commercial	Market Size and Trends	<ul style="list-style-type: none"> Correct distribution across all services and its forecasts Need for different services How able is the company to overcome changes in pricing 	<ul style="list-style-type: none"> Lower than expected number of estimated deaths To steep decrease in prices 		McKinsey & Company	75 DAYS
	Competition	<ul style="list-style-type: none"> Dignity's rank among competitors at a local level in terms of quality, pricing, growth rate, cost structure and market share Is Dignity an 800-pound Gorilla or the Elephant in the Room? 	<ul style="list-style-type: none"> Incapacity to capture market share from well-established local players Incapacity to enter a price-war with Co-op 			
	Business Model	<ul style="list-style-type: none"> Deeper analysis of the reconciliation of service that combine more than one activity Deeper analysis of the composition of revenues of each activity Dependence on single suppliers 	<ul style="list-style-type: none"> High revenues dependence between activities High revenues dependence in one component or in one supplier 			
	Acquisitions	<ul style="list-style-type: none"> True market share of the company across regions Feasibility of acquiring the identified targets Valuation of the targets Integration Effectiveness 	<ul style="list-style-type: none"> Under or over estimated efficiency of some branches Slower process of acquisition More than expected Expansion CapEx Slower integration 		BCG	
	Sales & Marketing	<ul style="list-style-type: none"> Thorough evaluation of Marketing Expenditures for each activity and per channel 	<ul style="list-style-type: none"> Too high acquisition costs comparing to the industry 		Deloitte.	
	Customer Satisfaction	<ul style="list-style-type: none"> Investigate customers satisfaction and pros and cons of the service from their point of view Estimate the customers' retention level (at a familiar level) 	<ul style="list-style-type: none"> Too low reputation among customers Incapacity to leverage Dignity's brands Inability to sign the Fair Funerals pledge 			



ANNEXES | FINANCIAL AND REGULATORY DDs

Financially, it would be important to ensure that none material misstatements are presented. As it is one of the key assets of the business, a thorough Property Management analysis should be done for which, hiring a consultancy firm that is familiarized with the business and the business model, as L.E.K. Consulting, would work favorably.

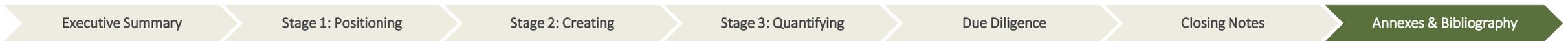
	Focus	Elements to Confirm	Red Flags	Importance	Typical Provider	Expected Length
Financial	Accounting	<ul style="list-style-type: none"> Assess the truthfulness of the company's fillings Accounting policies and practices Working capital, Net Debt and Net Debt to EBITDA detailed analysis to infer the company's requirements and ability to repay debt Analysis of the consolidations of the business Revenues reconciliation from pre-arranged funeral services Confirm Cash Management procedures and periodicity 	<ul style="list-style-type: none"> Fraud or any material misstatements Overestimation of Assets (namely Goodwill and Trade names) Difficulties to bear high levels of debt Doubtful management of the pre-arranged funeral services Poor cash management policies 			
	Acquisitions	<ul style="list-style-type: none"> Verify the ability to perform high investments for maintaining a strong Buy-and-Build strategy 	<ul style="list-style-type: none"> Historically poor funding conditions 			
	Tax	<ul style="list-style-type: none"> Tax compliance 	<ul style="list-style-type: none"> Tax litigations outstanding Above expected tax liabilities 			
	Property Management	<ul style="list-style-type: none"> Conduct an individual analysis on rental vs owned facilities how flexible are rental and leasehold contracts Confirm how suitable are the current levels of Maintenance CapEx to keep quality standards 	<ul style="list-style-type: none"> Inappropriate rents and impossibility to renegotiate contracts Necessity for increasing Maintenance CapEx 			
Regulatory	Legal	<ul style="list-style-type: none"> Assess if the company has any historic or outstanding court litigations and the reason behind Study Brexit impact in contracting and supplying of materials 	<ul style="list-style-type: none"> Too high level of legal litigations High level of overseas suppliers 			
	Licensing	<ul style="list-style-type: none"> Identify how compliant is the company with the licensing standard prospects (if any) Verify if the company is legal legitimated to perform its services abroad 	<ul style="list-style-type: none"> Visible need to adjust its services and workers if licensing become highly likely Incapacity to perform legally abroad 			



ANNEXES | HUMAN RESOURCES AND VALUATION DDs

A Human Capital intensive business, should imply a Human Resources intensive due diligence. Aligned objectives, an educated workforce and efficient processes would serve the investment purpose and mitigate possible changes in other factors.

	Focus	Elements to Confirm	Red Flags	Importance	Typical Provider	Expected Length
Human Resources	Workforce	<ul style="list-style-type: none"> Assess Dignity's work culture, corporate structure and modus operandi to identify major challenges and opportunities along the workforce Check continuity of key employers and managers in the company after the acquisition Review key contracts and employment policies 	<ul style="list-style-type: none"> Lack of alignment with the company's objectives Collective bargaining agreements Potential payments triggered in case of transaction Evident aversion to transformation 			60 DAYS
	Internal Processes	<ul style="list-style-type: none"> Investigate key internal processes to see how efficient, or inefficient, they are Read the procedure manuals 	<ul style="list-style-type: none"> Evident inefficient processes Lack of procedure manuals 			
	Current Management	<ul style="list-style-type: none"> Interview all the top management to confirm if they are suitable and motivated enough for the job Ensure competence, strategic vision and incentives 	<ul style="list-style-type: none"> Public scandals or other legal issues Skills below the acceptable Key professionals close to retirement Poor compensation schemes 			
	New Hires	<ul style="list-style-type: none"> Ensure suitability to the industry and positions available 	<ul style="list-style-type: none"> Lack of alignment with the company's philosophy Incapacity to find suitable candidates 			
Valuation	Valuation	<ul style="list-style-type: none"> Ask for and independent and exhaustive valuation for a syndication purpose 	<ul style="list-style-type: none"> Smaller than LBO valuation 			45 DAYS
	Exit Strategy	<ul style="list-style-type: none"> Assess potential buyers for different scenarios – IPO, secondary sale, strategic sale or multiple partial sales – and forecast market conditions at exit 	<ul style="list-style-type: none"> Low number of interested parties Low development potential for potential acquirers Unfavorable expected market conditions 			



ANNEXES | OTHER DDs

Other Due Diligence should be conducted to verify if all procedures are in line with expectations. IT should concentrate a particular focus, ensuring a full DD done by specialists, as a state-of-art already implemented technology would allow a quicker implementation of the Digital strategy of the business.

	Focus	Elements to Confirm	Red Flags	Importance	Typical Provider	Expected Length	
Others	IT & Tech Develop.	<ul style="list-style-type: none"> Assess current IT platforms and possibility to expand those in order to optimize resources regionally and nationally Define the initial point for develop the digital component of the business and how scalable it is Assess the possibility to integrate the different IT infrastructures of each branch into a unified platform 	<ul style="list-style-type: none"> Too inefficient servers and platforms Necessity to design from scratch the platforms Difficulties in streamline IT Inadaptability of the demand to use the digital business 		Deloitte. Digital	30 DAYS	
	Logistics	<ul style="list-style-type: none"> Assess the efficiency, or inefficiency, of the supply chain of the business Assess the capacity to replicate or expand the network in a different geography Verify the provenience of the supply contracts and its terms 	<ul style="list-style-type: none"> Outdated processes and logistics Poor supplier agreements High shipping costs High dependence in third-parties distribution 				
	Environmental	<ul style="list-style-type: none"> Assure that all the best practices in terms of hygiene and safety rules are fulfilled by the employees Conduct a market study to determine if there is any relevant demand for more environmental friendly services 	<ul style="list-style-type: none"> Non-compliance in safety and hygienic practices Inability to adapt to eco-friendly practices 				
	Insurance	<ul style="list-style-type: none"> Find out what insurance and other risk mitigation procedures the company has in place, and whether they are adequate for the business 	<ul style="list-style-type: none"> Low coverage Insurance costs above market levels 		Deloitte.		
Full Due Diligence						£ 22 500 000	75 DAYS



ANNEXES | FINAL ACKNOWLEDGEMENTS



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Advice given by the UK office of an international M&A firm which, due to its experience in transactions in the sector gave us insightful information regarding the heat of the national market right now.

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