Dignity Finance PLC

Interim report

for the 26 week period ended 30 June 2023

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Interim review
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The Directors present their Interim review for Dignity Finance PLC ('the Company') for the 26 week period ended 30 June 2023. The Company is a subsidiary of Dignity Group Holdings Limited (formerly Dignity plc) referred throughout this document as Dignity Group Holdings Limited ('Dignity'), as well as a member of the Dignity Group Holdings Limited group ('the Dignity Group').

The Interim report has been prepared for the 26 week period ended 30 June 2023. The interim results for the comparative period have been prepared for the 26 week period ending 1 July 2022.

Business review and future development

The Company continues to act as a financing company within the Dignity Group, managing the Dignity Group's listed debt and providing the funds raised to Dignity (2002) Limited and its subsidiaries through an intercompany loan.

Recommended cash offer for Dignity Group Holdings Limited

On 23 January 2023, the Board of Dignity announced that it had reached agreement on the terms of a recommended cash offer for the Dignity Group (the 'Offer'). The Offer was made by a consortium comprising SPWOne V Limited, Castelnau Group Limited and Phoenix Asset Management Partners Limited. On 14 February 2023, the offer document, which contains, amongst other things, the full terms and conditions of the Offer and the procedures for its acceptance, was published and posted to Dignity shareholders.

In summary, under the Offer:

- Dignity shareholders were entitled to receive 550 pence in cash for each Dignity share (the 'Cash Offer');
- As an alternative to (or in combination with) the Cash Offer, eligible Dignity shareholders could have elected to receive for each Dignity share 5.50 unlisted non-voting D shares in the capital of Valderrama (the indirect parent company of the consortium's Bidco) for each Dignity share (the 'Unlisted Share Alternative'); and
- As an alternative to (or in combination with) the Cash Offer and in addition to or instead of the Unlisted Share Alternative, eligible Dignity shareholders could have elected to receive 7 1/3 listed voting Ordinary Shares in the capital of Castelnau for each Dignity share (the 'Listed Share Alternative' and, together with the Unlisted Share Alternative, the 'Alternative Offers').

The Board of Dignity were unanimous in recommending that Dignity shareholders accept the Cash Offer.

On 5 April 2023, the Offer obtained regulatory approval from the Financial Conduct Authority.

On 19 April 2023, the Offer became unconditional and the consortium obtained control of the Dignity Group.

On 21 April 2023, the consortium had acquired or agreed to acquire 75.09% of Dignity Group Holdings Limited shares and Dignity Group Holdings Limited subsequently announced that the notice period for the cancellation of listing and trading of its shares commenced.

On 4 May 2023, the consortium had received acceptances representing 95.67% of the Dignity Shares and exercised its rights to acquire compulsorily the remaining Dignity Shares.

On 25 May 2023, the cancellation of listing was completed.

As at the date of this report Dignity Group Holdings Limited is 100% owned and controlled by Valderrama Limited.

The change in control and cancellation of listing and trading of shares did not impact the Securitised Debt.

Consent solicitation with bondholders – temporary covenant waiver

As previously disclosed, on 17 February 2022, Dignity Finance PLC, a fellow subsidiary of the Dignity (2002) Group, announced the launch of a consent solicitation period with its Class A Bondholders in relation to a proposed temporary covenant waiver for the Dignity (2002) Limited securitised group (the 'Securitisation Group'). As stated in the Dignity Group's 2022 Annual Report on 27 April 2023, the directors of Dignity continue to work on its plans to improve the capital structure of the Dignity Group. This waiver has now lapsed, albeit the equity which was advanced into the Securitisation Group during the period of the waiver counts towards EBITDA for the purposes of the financial covenant until the end of 31 December 2023 (see below).

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

Interim review
for the 26 week period ended 30 June 2023 (continued)

Business review and future developments (continued)
This waiver allowed for an equity cure (with a cap) where there was a shortfall in EBITDA of the Securitisation Group at any covenant measurement point up to and including 31 December 2022. Any cash transferred into the Securitisation Group during the waiver period (to 31 March 2023) could be included within the EBITDA for the purpose of the DSCR for the following 12 months (i.e. until 31 December 2023).

There was a cash transfer made of £32.7 million in the Relevant Period ending 30 June 2023, this includes cash injections up to and including 31 March 2023. £19.7 million was required to ensure the DSCR ratio was 1.5 and the remaining £13.0 million was an additional cash transfer.

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

In addition, upon completion of the proposed transaction within the timeframe permitted by the noteholder consent, there are amendments to the documents that will allow further equity cures, with restrictions, to be made going forward should they be required. Due to, inter alia, a number of constraints around management time, particularly relating to the take-private transaction described below, and certain further steps that need to be gone through in relation to the trusts, it was necessary to seek an extension of the deadline given in this consent.

Therefore, on 7 August 2023, a further consent solicitation exercise was launched with bondholders. The proposals have now been passed, and the effect of such proposals is to allow for the £70 million (referred to above to be applied towards prepayment) to be drawn from a wider variety of sources and not just a sale of the selected crematoria assets referred to above.

The new consent also: (i) reinstates for certain periods the financial covenant waiver previously granted in 2022 (referred to above), albeit there will be a requirement to completely equity cure as a condition to the waiver as opposed to a cap; (ii) makes certain changes to the calculation of debt service so as to enable a pay-down of debt to immediately be reflected in the calculation thereof; (iii) changes the definition of Material Adverse Effect so as to correct a manifest error in the documentation; and (iv) effectively extends (subject to certain financial and non-financial milestones) the time period for pay-down of the £70 million to the end of December 2024.

The Directors do not currently anticipate any changes in the nature of the Company's principal activities.

Following the United Kingdom leaving the European Union, the Company elected Ireland as its Home Member State under the Transparency Directive. This election was submitted and published on 14 April 2022.

The profit for the period was £98,000 (1 July 2022: £1,000; 30 December 2022: loss of £20,000). The results for the 26 week period are set out in the Condensed income statement on page 7. The increase in profits in the current period is a result of a decrease in the expected credit losses on intercompany receivables.

As at 30 June 2023 the cash balance included accounts restricted for debt service payments of £nil (1 July 2022: £300,000; 30 December 2022: £nil). As at 1 July 2022 the amount included within the restricted bank accounts was used for the payment of interest and principal on Secured Notes, the repayment of liabilities due on the Dignity Group's commitment fees due on its undrawn borrowing facilities and for no other purpose. The reason for the fluctuation of restricted amounts at the balance sheet dates is due to timing of when payments are due.

The principal source of long-term debt financing are the Secured A Notes, rated BBB by Fitch and BBB-(sf) by Standard & Poor's and the Secured B Notes rated B and CCC+(sf) respectively by Fitch and Standard & Poor's.

Interim review
for the 26 week period ended 30 June 2023 (continued)

Business review and future developments (continued)
The Directors do not consider there are any key performance indicators in respect of the Company other than the financial information set out in the Condensed income statement, Statement of comprehensive income, Condensed balance sheet and the Condensed statement of changes in equity.

In respect of the Dignity Group, the directors of Dignity Group Holdings Limited manage the Dignity Group's operations on a divisional basis. The development, performance and position of the Dignity Group, which includes the Company, is discussed within the Strategic report of Dignity Group's 2022 Annual Report and Accounts.

Principal risks and uncertainties
All risks are managed by the directors of Dignity Group Holdings Limited on a group basis. From the perspective of the Company, the principal risks and uncertainties are in respect of servicing of the Company's debt, which is mitigated by the terms of the loan to Dignity (2002) Limited which mirror the terms of the listed debt other than in respect of the interest rate which has an incremental margin. The risks surrounding the ability of Dignity (2002) Limited to service the intercompany debt are integrated with the principal risks of the Dignity Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Dignity Group, which include those of the Company, are discussed within the Principal risks and uncertainties within the Dignity Group's 2022 Annual Report and Accounts which does not form part of this report.

Forward-looking statements
Certain statements in this Interim report are forward-looking. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Dividends
No dividends were declared or paid by the Company in either the current or preceding period.

Directors
The Directors who served during the period and up to the date of signing the condensed interim financial statements were:

K Davidson	-	Chief Executive Officer
A Eames	-	Director (appointed 10 November 2022 / resigned 28 June 2023)
D Ogden	-	Chief Financial Officer (appointed 28 June 2023)
G Shircore	-	Director (appointed 28 June 2023)
C Wensley	-	Director (appointed 28 June 2023)

Interest rate risk
The Company's aim is to minimise the effects of interest rate fluctuations. Apart from cash, which is classed as floating, 100% (2022: 100%) of the financial assets and liabilities carry interest at fixed rates.

Liquidity risk
The Company's objective is to raise external finance for the Dignity Group and consequently seeks to maintain a balance between certainty of funding and a flexible, cost-effective borrowings structure. It therefore seeks facilities that have, for the most part, a maturity of five years or longer.

Liquidity risk (continued)
The Dignity Group manages its liquidity risk by maintaining sufficient cash reserves, committed undrawn borrowing facilities and regular monitoring and forecasting of cash balances. In addition, the Dignity Group is required under the terms of its secured borrowings to maintain a EBITDA to total debt service ratio ('DSCR') of at least 1.5 times in respect of the Securitisation Group, excluding the pre-need trusts. This ratio was determined when raising the debt as being sufficient to ensure all borrowings could be repaid. During the temporary covenant waiver period that was approved by bondholders in March 2022, any cash transferred into the Securitisation Group during the waiver period (up to 31 March 2023) counts as equity cure and can be included within the EBITDA to DSCR for the following 12 months. A cash transfer of £32.7 million has been made into the Securitisation Group for the 12 month covenant measurement point up to and including 30 June 2023, resulting in a ratio of 1.88 times at 30 June 2023 (1 July 2022: 1.86 times; 30 December 2022: 1.96 times). £19.7 million of this cash transfer was required to ensure the DSCR ratio was 1.5 and the remaining £13.0 million was an additional cash transfer. Excluding this cash transfer the ratio at 30 June 2023 was 0.92 times.

This covenant test (as amended by the temporary covenant waiver introduced in March 2022) has been satisfied on each quarterly testing date in the period.

If this primary financial covenant is not achieved, then this may lead to an Event of Default under the terms of the Secured Notes, which could result in the Security Trustee taking control of the Securitisation Group on behalf of the Secured Note holders. Refer to business review and future developments on pages 1 to 3 and also going concern disclosures on pages 10 to 14 for further details.

Whilst not a covenant, in order for the Group to transfer excess cash from the Securitisation Group to Dignity Group Holdings Limited, it must achieve both a higher EBITDA to DSCR of 1.85 times and achieve a Free Cash Flow to DSCR (a defined term in the securitisation documentation) of at least 1.4 times. This latter ratio at 30 June 2023 was 0.61 times (1 July 2022: 1.04 times; 30 December 2022: 0.58 times).

These combined requirements are known as the Restricted Payment Condition ('RPC'). Given the ratios achieved, the RPC was not achieved at 30 June 2023. Failure to pass the RPC is not a covenant breach and does not cause an acceleration of any debt repayments. Any cash not permitted to be transferred whilst the RPC is not achieved will be available to be transferred at a later date once the RPC requirement is achieved but otherwise can be used within the Securitisation Group with no restrictions.

Currency risk
All the Company's financial assets and liabilities are denominated in Sterling.

Credit risk
The Company deposits its on-hand cash with well-established financial institutions with high credit ratings.

The Company has exposure to credit risk through its intercompany loan receivable due from Dignity (2002) Limited, the terms of which are described further within note 4 to the condensed interim financial statements.

The credit risk attached to this receivable is intrinsically linked to the ability of Dignity (2002) Limited and its subsidiaries to continue to generate sufficient profits to service this debt. The principal risks and uncertainties associated with the ability of Dignity (2002) Limited to service the intercompany debt are integrated with those of the Dignity Group and are not managed separately.

Capital risk management
The Company's objective under managing capital is to safeguard the Company's and Dignity Group's ability to continue as a going concern in order to provide returns for the Dignity Group shareholders and repay holders of its Secured Notes. It also aims to reduce its cost of capital by maintaining an optimal capital structure. The Dignity Group's capital comprises equity and net debt as set out in note 25 of the The Group's Annual Report and Accounts. The principal source of long-term debt financing are the Secured A Notes, rated BBB by Fitch and BBB-(sf) by Standard & Poor's and the Secured B Notes rated B and CCC+(sf) respectively by Fitch and Standard & Poor's.

Interim review
for the 26 week period ended 30 June 2023 (continued)

Capital risk management (continued)

In order to achieve these objectives, the Dignity Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or issue further Class A and B Secured Notes. However, it is not currently possible to issue further Secured Notes, as such an issue would require the rating of the Secured B Notes to raise to BBB by both rating agencies. The Group continues to work on plans to improve its capital structure. The Group's operations continue to be cash generative and it understands the priorities of its different stakeholders. It is the Directors' intention to pay a dividend as soon as the required covenant hurdles are adhered to and that it is financially prudent to do so.

During the period, the Company achieved its covenants (as amended by the temporary covenant waiver introduced in March 2022) for the Secured Notes under the terms of the Company's secured borrowings (see 'Liquidity risk' above). The Company and Dignity Group have continued to work on a long-term solution to improve the Dignity Group's capital structure and on 7 September 2022 a consent solicitation with approximately 61 per cent from its Class A Noteholders was launched. This sought certain consents from Noteholders for a potential transaction involving the realisation of value from selected crematoria assets, with the proceeds of such a transaction being applied in a partial redemption of the Class A Notes, in line with the provisions of the current documentation. The necessary quorum was achieved on 29 September 2022 (with 99.92 per cent of the aggregate principal amount of the Notes for the time being outstanding being represented and the Extraordinary Resolution being passed with 94.42 per cent of the votes being cast in favour) and the consents referred to above apply for 12 month period to 29 September 2023.

In addition, upon completion of the proposed transaction within the timeframe permitted by the noteholder consent, there are amendments to the documents that will allow further equity cures, with restrictions, to be made going forward should they be required. Due to, inter alia, a number of constraints around management time, particularly relating to the take-private transaction described below, and certain further steps that need to be gone through in relation to the trusts, it was necessary to seek an extension of the deadline given in this consent.

Therefore, on 7 August 2023, a further consent solicitation exercise was launched with bondholders. The proposals have now passed, and the effect of such proposals is to allow for the £70 million (referred to above to be applied towards prepayment) to be drawn from a wider variety of sources and not just a sale of the selected crematoria assets referred to above.

The new consent also: (i) reinstates for certain periods the financial covenant waiver previously granted in 2022 (referred to above), albeit there will be a requirement to completely equity cure as a condition to the waiver as opposed to a cap; (ii) makes certain changes to the calculation of debt service so as to enable a pay-down of debt to immediately be reflected in the calculation thereof; (iii) changes the definition of Material Adverse Effect so as to correct a manifest error in the documentation; and (iv) effectively extends (subject to certain financial and non-financial milestones) the time period for pay-down of the £70 million to the end of December 2024.

Going concern

The Company is a finance entity within the Dignity Group and is one of a number of entities within that group which are part of a Securitisation Group established in connection with the Dignity Group's long-term borrowings, being the A Notes and B Notes held by the Company. The day-to-day liquidity requirements of the Company are sourced either from within the Company or, where necessary, from the continued support of certain other entities within the Dignity Group or Castelnau Group Limited, one of the new ultimate shareholders of the Dignity Group, such support having been confirmed in writing as available for a period at least through 27 December 2024 from Castelnau Group Limited. In order to assess the ability of the Company to continue as a going concern the Directors of the Company have therefore considered the ability of the Dignity Group to continue as a going concern and to provide financial support to the Company as required, alongside the support provided by Castelnau Group Limited.

The Company has carried out a diligent going concern analysis and details of this analysis are set out in note 1 to the condensed interim financial statements.

Going concern (continued)

Further information in respect of the Directors' assessment of the ability of the Dignity Group to continue as a going concern in addition to information in respect of the longer-term viability of the Dignity Group is presented within the Dignity Group's 2022 Annual Report and Accounts which does not form part of this report.

Following consideration of the going concern analysis of the Dignity Group and its ability to continue to provide financial support to the Company, alongside the support provided by Castelnau Group Limited, the Directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period at least through to 30 September 2024.

The Directors have also considered events beyond the assessment period. The Directors formally considered this matter at the Board meeting held on 28 September 2023. The Directors continue to adopt the going concern basis for preparing the condensed interim financial statements.

The Interim review has been approved by the Board

By order of the Board

K A Davidson	C Wensley
Director	**Director**

28 September 2023

Dignity Finance PLC

Condensed income statement (unaudited)
for the 26 week period ended 30 June 2023

	Note	26 week period ended		52 week period ended
		30 Jun 2023	1 Jul 2022	30 Dec 2022 (audited)
		£'000	£'000	£'000
Interest receivable and similar income	3	**11,608**	11,722	23,353
Interest payable and similar charges	3	**(11,510)**	(11,721)	(23,373)
Profit / (loss) before taxation		**98**	1	(20)
Tax on profit / (loss)		**-**	-	-
Profit / (loss) for the financial period		**98**	1	(20)

The profit / (loss) has been derived wholly from continuing activities.

Statement of comprehensive income (unaudited)
for the 26 week period ended 30 June 2023

There were no other items of comprehensive income such that there is no difference between the profit / (loss) for the financial period as shown above and the total comprehensive income. Therefore, no separate statement of comprehensive income has been presented.

Dignity Finance PLC

Condensed balance sheet (unaudited) as at 30 June 2023

	Note	**30 Jun 2023**	1 Jul 2022	30 Dec 2022 (audited)
		£'000	£'000	£'000
Current assets				
Debtors (including £500,004,000 (1 July 2022: £511,111,000; 30 Dec 2022: £505,607,000) amounts falling due after more than one year)	4	**511,580**	522,228	516,916
Cash at bank and in hand (1)		**69**	368	44
		511,649	522,596	516,960
Creditors: amounts falling due within one year	5	**(11,107)**	(11,024)	(10,913)
Net current assets		**500,542**	511,572	506,047
Total assets less current liabilities		**500,542**	511,572	506,047
Creditors: amounts falling due after more than one year	6	**(500,004)**	(511,111)	(505,607)
Net assets		**538**	461	440
Capital and reserves				
Called up share capital		**50**	50	50
Profit and loss reserve		**488**	411	390
Total shareholders' funds		**538**	461	440

(1) This includes £nil (1 July 2022: £300,000; 30 December 2022: £nil) of cash set aside for debt service payments. This amount at 1 July 2022 was transferred to restricted bank accounts which could only be used for the payment of the interest and principal on the Secured Notes, the repayment of liabilities due on the Dignity Group's commitment fees due on its undrawn borrowing facilities and for no other purpose.

Dignity Finance PLC

Condensed statement of changes in equity (unaudited)
for the 26 week period ended 30 June 2023

	Called up share capital	Profit and loss reserve	Total shareholders' funds
	£'000	**£'000**	**£'000**
Shareholders' funds as at 31 December 2021	50	410	460
Profit for the 26 weeks ended 1 July 2022	-	1	1
Total comprehensive income	-	1	1
Shareholders' funds as at 1 July 2022	50	411	461
Loss for the 26 weeks ended 30 December 2022	-	(21)	(21)
Total comprehensive expense	-	(21)	(21)
Shareholders' funds as at 30 December 2022	50	390	440
Profit for the 26 weeks ended 30 June 2023	-	98	98
Total comprehensive income	**-**	**98**	**98**
Shareholders' funds as at 30 June 2023	**50**	**488**	**538**

1 Principal accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of these condensed interim financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

These condensed interim financial statements have been prepared in accordance with Transparency (Directive 2004/109/EC) Regulations 2007 and FRS 104 "Interim Financial Reporting" issued by the Financial Reporting Council. No condensed statement of cash flows is presented within these condensed interim financial statements as detailed in FRS 104, as the Company will not be presenting a statement of cash flows in its next annual financial statements for the 52 week period ended 29 December 2023. These condensed interim financial statements for the 26 week period ended 30 June 2023 are not audited or reviewed by the external auditors. Prior period comparatives for the 26 week period ended 1 July 2022 are reviewed, not audited.

They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Company as at and for the 52 week period ended 30 December 2022. The Directors approved these condensed interim financial statements on 28 September 2023.

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its audited financial statements as at and for the 52 week period ended 30 December 2022, which are prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and applicable accounting standards. The annual financial statements for the 52 week period ended 29 December 2023 will be prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and applicable accounting standards. There are no changes in accounting policies arising.

The preparation of condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the audited financial statements as at and for the 52 week period ended 30 December 2022. Comparative information has been presented as at and for the 26 week period ended 1 July 2022, and as at and for the 52 week period ended 30 December 2022.

The comparative figures for the 52 week period ended 30 December 2022 do not constitute statutory accounts for the purposes of s434 of the Companies Act 2006. A copy of the Company's statutory accounts for the 52 week period ended 30 December 2022 has been delivered to the Registrar of Companies and contained an unqualified auditors' report which did not contain an emphasis of matter reference or a statement made under section 498 (2) or (3) of the Companies Act 2006.

Going concern

The Company operates as part of the Dignity Group. The day-to-day liquidity requirements of the Company are sourced either from within the Company or, where necessary, from the continued support of certain other entities within the Dignity Group or Castelnau Group Limited, one of the new ultimate shareholders of the Dignity Group, such support having been confirmed in writing as available for a period at least through 27 December 2024 from Castelnau Group Limited. In order to assess the ability of the Company to continue as a going concern the Directors have considered the ability of the Dignity Group to continue as a going concern and to provide financial support to the Company as required. The Directors of the Company have also obtained the latest financial information from Castelnau Group Limited to consider their ability to provide financial support to the Company and Group as required.

The Company's position in the Dignity Group structure is such that it sits inside of a sub-group of companies which form part of a Securitisation Group established in connection with the Dignity Group's only loan borrowings.

1 Principal accounting policies (continued)

Going concern (continued)

The financial performance of the Dignity Group and the Securitisation Group has been forecast for a period through 30 September 2024 (the ‘going concern period’) and those forecasts (‘base case’) have been subjected to a number of sensitivities. The base case forecasts reflect an assessment of current and future market conditions and their impact on the future profitability and liquidity of the Dignity Group and the Securitised Group.

The key factors which impact the Dignity Group’s financial performance are death rate, market share, funeral mix (Attended Funeral vs Unattended Funeral), average revenue per funeral and inflation.

The base case assumes death rates are approximately one percent higher in 2023 compared to 2022 and in line with ONS figures for 2024, funeral market share growth of one per cent in 2024 (phased through the year, being 12.6 per cent for 2024 compared to 11.9 per cent in 2023), with funeral mix remaining at the current rates and an uplift in average revenues reflecting 2023 price adjustment and having considered the development of the Group’s cost base including initiatives to improve efficiency and the expected impact of inflation.

Debt and liquidity

As at 30 June 2023, the Dignity Group had cash (excluding cash in the Trusts) of £18.2 million. Its operations are also funded by Class A Notes with an outstanding principal of £154.7 million (matures 2034) and Class B Notes with an outstanding principal of £356.4 million (matures 2049) (together, the ‘Loan Notes’) that are listed on the Irish Stock Exchange. The terms and conditions for these Loan Notes are covered by an Issuer/Borrower Loan Agreement (‘IBLA’).

Dignity Group Holdings Limited has a £50 million loan facility (the ‘Loan Facility’) that was signed on 6 December 2022 and is available to be draw down in full or in instalments until 5 December 2023 and carries a seven per cent rate of interest. The Loan Facility is with Phoenix UK Fund Ltd which is a related party, it has no restrictive covenants, no minimum solvency covenants and no charges over any assets and therefore no negative impact on the Securitisation Group’s existing capital structure.

The Directors of Dignity Group approved drawdowns against the Loan facility amounting to £50 million, all of which has been received by 30 June 2023 to fund capital expenditure and non-underlying professional fees.

Covenant test

As part of the conditions of the Loan Notes, the Securitisation Group is required to comply with an EBITDA: Debt Service Charge Ratio (‘DSCR’) covenant, tested quarterly on a last 12 month (‘LTM’) basis. At each point of testing, EBITDA must exceed c.£51 million (i.e., 1.5x the annual debt service cost of £34 million).

The Securitisation Group did not meet this covenant at 30 September 2022, 30 December 2022,31 March 2023 and 30 June 2023, being £8.6 million, £18.6 million, £14.6 million and £19.7 million respectively below the LTM DSCR requirement. However, under the terms of a waiver agreed with the bondholders on 11 March 2022, this was not a breach as the Dignity Group was able to make an equity cure, contributing cash which counts as EBITDA and therefore makes good this shortfall. To provide additional headroom in the forecasts (the equity cure and any additional cash transferred counts in the covenant calculation for the prospective 12 months), Dignity Group Holdings Limited paid an amount of £32.7 million (being the £19.7 million required for an equity cure and an additional cash transfer of £13.1 million) into the Securitised Group in the nine months ending the 31 March 2023.

Furthermore, under the terms of the waiver agreed with the bondholders on 4 September 2023, the Dignity Group will in certain circumstances be required to make further equity cures, contributing cash which counts as EBITDA. The waiver applies, subject to certain conditions around the consent not lapsing, to the EBITDA DSCR calculations for the 31 December 2023, 31 March 2024, 30 June 2024, 30 September 2024 and 31 December 2024 Quarter End Dates and the Dignity Group has the option of further contributing an uncapped amount of cash in order to provide headroom against the covenant prospectively. Any cash contributed (including by way of cure) during the 15 months ending on 31 March 2025 can be included in the covenant test point at each successive quarterly test to the extent its contribution falls within the relevant period for that subsequent test.

1 Principal accounting policies (continued)

Going concern (continued)

Stress test

When considering the going concern assumption, the Directors have reviewed the principal risks within the environment in which it operates and have considered relevant sensitised scenarios giving a reduction to the base case, these include:

- Deaths being 5,000 less than forecast (noting 2024 deaths are forecast to be one and a half per cent lower than 2023 deaths);
- No funeral market share growth in 2024;
- Average revenue per adult attended funeral being £50 lower;
- The proportion of Unattended Funerals being half a per cent higher (compared to the FY23; and
- Additional inflation costs of one per cent above those modelled (with mitigation activity).

In a severe but plausible downside scenario (having taken into account all of the above sensitivities in tandem and applying further downside risk) and considering the use of the equity cure there was no plausible scenario in which the Dignity Group would not meet its debt service payments or related covenants in the going concern period. The downside scenario modelling also confirmed that the Dignity Group would require further external funding which is expected to come from certain other entities within the Dignity Group or Castelnau Group Limited, one of the new ultimate shareholders of the Dignity Group, such support having been confirmed in writing as available for a period at least through to 27 December 2024, there were no plausible scenarios in which the Dignity Group would not have sufficient liquidity in the going concern period.

Impact should there be a breach of the DSCR covenant

Any breach of the covenant does not give rise to an immediate requirement to repay the associated Loan Notes. Rather, such a breach results in a requirement for the noteholder trustees to appoint a financial adviser who will review the financial and operational circumstances of the Securitised Group prior to making recommendations as to how the breach can be resolved considering whether the Securitised Group is likely to be able to remedy such a breach. If the financial adviser considers that the Securitised Group is likely to be able to remedy such a breach this will be done by the placing of cash collateral in an amount which, if it had been placed for the relevant period in respect of which the covenant was breached, would have generated interest sufficient (if added to EBITDA for the relevant period) to have ensured that the covenant was not breached. The interest rate on which the cash collateral would accrue interest to add to the EBITDA calculation would be measured at the rate that is earned on such cash collateral as at the date it was placed (e.g., a deposit rate quoted by a bank). If the Dignity Group is unable to remedy such a breach the Loan Notes would be repayable on an accelerated basis and could be repayable immediately at the request of the noteholders.

The Directors of Dignity Group Holdings Limited have obtained independent legal advice to confirm that there are no consequences of the material uncertainty conclusion over going concern under the terms of the IBLA.

Period beyond the going concern period

The Dignity Group has also considered the period beyond 30 September 2024 to assess if there are any significant risks that exist that would otherwise impact the going concern assumption. As the current equity cure benefits the DSCR covenant reporting up to December 2025 there is no reduction to the base forecast covenant headroom from the equity cure expiring.

To provide further headroom and reduce the risk of a covenant breach, the Dignity Group has continued to work on its long-term solution to improve the Group's capital structure. On 7 September 2022 a consent solicitation with c.61 per cent support from its Class A noteholders was launched. The voting concluded on 29 September 2022 and the consents were approved, with 94.42 per cent of votes cast in favour. As a result of this, consents from noteholders have been gained to permit a potential transaction involving the realisation of value from selected crematoria assets (the trading performance for which is included within the Securitisation Group), with the proceeds of such a transaction being applied in a partial redemption of the Class A Notes. These consents applied for a 12-month period to 29 September 2023.

1 Principal accounting policies (continued)

Going concern (continued)

Dignity Group Holdings Limited will be required to inject a minimum of £70 million into the Securitisation Group to partially repay some of the Class A Notes outstanding in consideration for trade and assets leaving the Securitisation Group. If the transaction had completed by 30 June 2023 and £70 million was the net realisation, then upon repayment of debt at this level, this would of resulted in a deleveraging of the Dignity Group and a positive full year impact of £10.2 million on the DSCR covenant calculations, i.e., a reduction of the DSCR from c.£51 million to c.£41 million.

In addition, upon completion of the proposed transaction within the timeframe permitted by the noteholder consent, there are amendments to the documents that will allow further equity cures, with restrictions, to be made going forward should they be required.

On 7 August 2023, a further consent solicitation exercise was launched with bondholders. The proposals have now been passed, and the effect of such proposals is to allow for the £70 million (referred to above be applied towards prepayment) to be drawn from a wider variety of sources and not just a sale of the selected crematoria assets referred to above.

The new consent also: (i) reinstates for certain periods the financial covenant waiver previously granted in 2022 (referred to within the Interim review), albeit there will be a requirement to completely equity cure as a condition to the waiver as opposed to a cap; (ii) makes certain changes to the calculation of debt service so as to enable a pay-down of debt to immediately be reflected in the calculation thereof; (iii) changes the definition of Material Adverse Effect so as to correct a manifest error in the documentation; and (iv) effectively extends (subject to certain financial and non-financial milestones) the time period for pay-down of the £70 million to the end of December 2024.

Takeover and delisting of the Group

In February 2023, the Dignity Group Holdings Limited board recommended that Dignity shareholders accept the cash offer for Dignity made by Yellow (SPC) Bidco Limited (‘BidCo’), a newly formed company controlled by a consortium comprised of joint offerors SPWOne V Limited, Castelnau Group Limited and Phoenix Asset Management Partners Limited (collectively hereafter the ‘Bidco consortium’).

For the takeover to be effective, the Acceptance Condition (as defined in the offer document) had to be satisfied (i.e., holders of Dignity shares representing the requisite percentage of Dignity shares to which the Offer relates need to submit valid acceptances of the Offer in respect of those Dignity shares). The Offer was also conditional upon, among other things, satisfaction of the FCA Change in Control Condition (as defined in the offer document).

Through review of the offer document published by BidCo and having regard to the discussions of the Dignity Group with the Bidco consortium, the Directors of the Company are confident of the continuation of the Group’s strategy to invest in its estate and target market share growth following the takeover.

The Directors of Dignity Group Holdings Limited have also considered the impact of the takeover on its financing agreements and pre-need trusts and have concluded that a change in control did not impact on the terms of the IBLA or the deeds of the pre-need trusts. The takeover constituted a change in control for the purposes of the £50 million Loan Facility. However, a waiver was granted by Phoenix UK Fund Ltd (as lender) that allowed the Dignity Group to draw funds under the Loan Facility.

On 5 April 2023, the Offer obtained regulatory approval from the Financial Conduct Authority. On 19 April 2023, the Offer became unconditional and BidCo obtained control of the Dignity Group. On 21 April 2023, BidCo had acquired or agreed to acquire 75.09% of Dignity plc shares and Dignity Group Holdings Limited subsequently announced that the notice period for the cancellation of listing and trading of its shares. Furthermore, on 4 May 2023, BidCo received acceptances representing 95.67% of Dignity Group Holdings Limited shares and BidCo exercised its rights to acquire compulsorily the remaining Dignity Group Holdings Limited shares. On 25 May 2023, the cancellation of listing was completed. As at the date of this report Dignity Group Holdings Limited is owned and controlled by BidCo.

This change in control and cancellation of listing and trading of shares has no impact on the Securitised Debt.

1 Principal accounting policies (continued)

Going concern (continued)

Conclusion
Having considered all the above, the Directors of the Company remain confident in the long-term future prospects for the Dignity Group and its ability to continue to provide support to the Company through to 30 September 2024, including the support provided by Castelnau Group Limited, and therefore continue to adopt the going concern basis in preparing the condensed interim financial statements.

New standards, amendments and IFRIC interpretations
No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 29 December 2023, have had a material impact on the Company.

2 Turnover and segmental analysis

The Company is a finance company and has no turnover for the 26 week period ended 30 June 2023 (26 week period ended 1 July 2022: £nil; 52 week period ended 30 December 2022: £nil). In the opinion of the Directors, the Company only has one operating segment, therefore no further segmental reporting is provided in these condensed interim financial statements.

3 Net interest receivable / (payable) and similar income / (charges)

	26 week period ended		52 week period ended
	30 Jun 2023 £'000	1 Jul 2022 £'000	30 Dec 2022 £'000
Non utilisation fee on Liquidity Facility	**303**	303	605
Interest income on intercompany loans	**11,232**	11,419	22,746
Change in estimated credit loss provision on loan receivables	**72**	-	-
Bank Interest	**1**	-	2
Interest receivable and similar income	**11,608**	11,722	23,353
Interest payable on secured loan notes	**(11,207)**	(11,393)	(22,693)
Non utilisation fee on Liquidity Facility	**(303)**	(303)	(605)
Change in estimated credit loss provision on loan receivables	**-**	(25)	(75)
Interest payable and similar charges	**(11,510)**	(11,721)	(23,373)
Net interest receivable / (payable) and similar income / (charges)	**98**	1	(20)

4 Debtors

	26 week period ended		52 week period ended
	30 Jun 2023	1 Jul 2022	30 Dec 2022
	£'000	£'000	£'000
Amounts falling due within one year			
Amounts owed by group undertakings - called up share capital not paid	**37**	37	37
Amounts owed by group undertakings	**11,539**	11,080	11,272
	11,576	11,117	11,309
Amounts falling due after more than one year			
Amounts owed by group undertakings	**500,004**	511,111	505,607

As described in the Interim review, the Company uses the funds raised to loan Dignity (2002) Limited, a fellow group company, an equal amount.

The terms of the intercompany loan described above mirror the terms of the Secured Notes (as described in note 6), except that interest accrues at a rate which is 0.01% higher than the Secured Notes.

An ECL provision of £45,000 (1 July 2022: £67,000; 30 December 2022: £117,000) is held against all amounts owed by group undertakings.

5 Creditors: amounts falling due within one year

	26 week period ended		52 week period ended
	30 Jun 2023	1 Jul 2022	30 Dec 2022
	£'000	£'000	£'000
Secured Notes (note 6)	**11,107**	10,724	10,913
Accruals and deferred income	**-**	300	-
Interest accrued on Secured Notes	**-**	-	-
	11,107	11,024	10,913

6 Creditors: amounts falling due after more than one year

	26 week period ended		52 week period ended
	30 Jun 2023	1 Jul 2022	30 Dec 2022
	£'000	£'000	£'000
Secured Notes (a)	**500,004**	511,111	505,607

(a) Secured Notes

On 17 October 2014, the Company issued £238,904,000 Class A Secured 3.5456% Notes due 2034 ('Class A Notes') and £356,402,000 Class B Secured 4.6956% Notes due 2049 ('Class B Notes' and together with the Class A Notes, the 'Secured Notes'). Interest is payable on the Secured Notes on 30 June and 31 December of each year. The Secured Notes are listed on Euronext Dublin.

The Class A Notes carry interest at 3.5456% payable half yearly in arrears. The A Notes are repayable in instalments ending in December 2034.

The Class B Notes carry interest at 4.6956% payable half yearly in arrears. The B Notes are repayable in instalments commencing on June 2035 and ending in December 2049.

There were no issue costs incurred directly by the Company.

At 30 June 2023, £154,709,000 (1 July 2022: £165,433,000; 30 December 2022: £160,118,000) of the principal of the Class A Notes and £356,402,000 (1 July 2022: £356,402,000; 30 December 2022: £356,402,000) of the principal of the Class B Notes was outstanding.

For further details of security provided by the company over the Secured Notes see note 7. Further discussion of security provided by the Dignity Group (which includes a fixed and floating charge over all assets and undertakings of the Dignity (2002) Group), is included in note 30 of the Dignity Group's 2022 Annual Report and Accounts.

The maturity of the Secured Notes, including interest accrued and non-utilisation fees at the period end was:

	26 week period ended		52 week period ended
	30 Jun 2023	1 Jul 2022	30 Dec 2022
	£'000	£'000	£'000
Within one year	**11,107**	11,024	10,913
Between one and two years	**11,505**	11,107	11,305
Between two and five years	**37,049**	35,766	36,402
Over five years	**451,450**	464,238	457,900
	511,111	522,135	516,520

6 Creditors: amounts falling due after more than one year (continued)

(b) Borrowing facilities

The Securitisation Group has the following undrawn committed borrowing facilities available at 30 June 2023, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

	26 week period ended		52 week period ended
	30 Jun 2023	1 Jul 2022	30 Dec 2022
	£'000	£'000	£'000
Expiring in more than two years	**55,000**	55,000	55,000

£55,000,000 (1 July 2022: £55,000,000; 30 December 2022: £55,000,000) of the undrawn facilities available to the Securitisation Group is a liquidity facility relating to the Class A and B Secured Notes. This facility may only be used to repay interest and principal on the Secured Notes in the event of insufficient cash to service these instruments. The facility is subject to annual renewal. However, if the bank providing the facility does not renew it, then the provider is required to place £55,000,000 (1 July 2022: £55,000,000; 30 December 2022: £55,000,000) in a bank account, which the Securitisation Group may access as if it represented a borrowing facility on the same terms. The facility is available on these terms until the Secured Notes have been repaid in full.

7 Contingent liabilities

As a result of the issue of Secured Notes on 17 October 2014, BNY Mellon Corporate Trustee Services Limited in its capacity as Security Trustee of the Secured Notes has the following guarantees and charges:

The Company has granted the Security Trustee fixed and floating charges over the assets and undertakings of the Company.

At 30 June 2023, the nominal amounts outstanding by the Company, including accrued interest, in relation to these borrowings was £511,111,000 (1 July 2022: £521,835,000; 30 December 2022: £516,520,000).

In the opinion of the Directors, no liability is likely to crystallise in respect of these guarantees.

8 Financial instruments

Fair value of current and non-current financial assets and liabilities

	30 Jun 2023			**1 Jul 2022**			**30 Dec 2022**		
	Nominal value £m	**Book value £m**	**Fair value £m**	Nominal value £m	Book value £m	Fair value £m	Nominal value £m	Book value £m	Fair value £m
Secured A Notes – 3.5456% maturing 31 December 2034	**154.7**	**154.6**	**134.4**	165.4	165.3	166.9	160.1	160.0	144.4
Secured B Notes – 4.6956% maturing 31 December 2049	**356.4**	**356.1**	**230.4**	356.4	356.1	321.7	356.4	356.1	242.0
Total	**511.1**	**510.7**	**364.8**	521.8	521.4	488.6	516.5	516.1	386.4

8 Financial instruments (continued)

The Secured Notes are held at amortised cost. Other categories of financial instruments include debtors and creditors, however there is no difference between the book value and fair value of these items.

The fair values of the Secured Notes are their market value at the balance sheet date and are considered to be level 1.

9 Related party transactions

Other than the related party transaction with Dignity (2002) Limited, detailed within the Interim review, there are no other related party transactions.

10 Post balance sheet events

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

On 7 August 2023, a further consent solicitation exercise was launched with Class A Noteholders. The proposals have now been passed, and the effect of such proposals is to allow for the £70 million (referred to within the Interim review to be applied towards prepayment) to be drawn from a wider variety of sources and not just a sale of the selected crematoria assets referred to above.

The new consent also: (i) reinstates for certain periods the financial covenant waiver previously granted in 2022 (referred to within the Interim review), albeit there will be a requirement to completely equity cure as a condition to the waiver as opposed to a cap; (ii) makes certain changes to the calculation of debt service so as to enable a pay-down of debt to immediately be reflected in the calculation thereof; (iii) changes the definition of Material Adverse Effect so as to correct a manifest error in the documentation; and (iv) effectively extends (subject to certain financial and non-financial milestones) the time period for pay-down of the £70 million to the end of December 2024.

Dignity Finance PLC

Notes to the condensed interim financial information (unaudited) for the 26 week period ended 30 June 2023 (continued)

Statement of Directors' responsibilities

The Directors confirm to the best of their knowledge that:

(a) The condensed interim financial statements have been prepared in accordance with FRS 104 "Interim Financial Reporting" issued by the Financial Reporting Council (in the UK); and

(b) The Interim Report includes a fair review of the information as required by regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first half of 2023 and their impact on the condensed interim financial information; and a description of the principal risks and uncertainties for the remaining second half of the year.

The Directors of Dignity Finance PLC and their functions are listed below:

K Davidson	-	Chief Executive Officer
D Ogden	-	Chief Financial Officer
G Shircore	-	Director
C Wensley	-	Director

On behalf of the Board

Chris Wensley

Director

28 September 2023