

## **A Vision for Dignity**

Dear Shareholder,

As you decide how to vote you should know what voting to support Phoenix's proposals would mean. We've talked about board structure and governance but the big difference to shareholder value is our vision for the business.

Dignity has all the ingredients to be the UK's leading end-of-life business, uniquely positioned with a vertical structure to guide customers all the way from buying a funeral plan through to dealing with memorials and gravestones.

### **Funeral Plans**

It starts with funeral plans. There is a major change coming next year as the FCA regulates these. This will drive out the dubious operators and make the products more customer-friendly and should help grow the market.

Only 10% of people over 50 in the UK have funeral plans. That percentage is much higher in other countries. A trusted, regulated product will attract more customers as selling standards come into line with other regulated products.

Dignity is the only national company that can undertake both the funeral and cremation and from that strength it can build the leading position in the industry which will create future growth for the rest of the business. But its offering must be ready as the changes come into effect.

### **Trust Funds**

Dignity holds nearly £1bn in trust for funeral plans taken out. Dignity has not earned anything from this for some time. This is rectifiable. While the changes we proposed, being implemented now, will take out cost, there is more to do. A more intelligent but risk averse investment strategy can generate positive returns on that float (as Warren Buffett would call it), which is likely to grow as funeral plan sales increase.

### **Funeral Directors**

Dignity's national network of funeral directors is an opportunity to create genuine community end-of-life businesses that do everything from educating about funerals, promoting funeral plans and offering memorials as well as arranging funerals and cremations. Strong and well-invested local brands that are part of a national Dignity network bring the best customer proposition, but only when that is combined with competitive prices and locally empowered management. In those areas where Dignity does not have a strong presence then high-quality independents could be invited to join that network and would enjoy the benefits of Dignity's scale and infrastructure in a newly regulated market.

The world of funerals is changing rapidly and as with all other fields the internet is changing the way customers are making their choices. If Dignity has the best proposition, then those changes will have a powerful effect on Dignity's market share. But that isn't the case today. The proposition needs to be improved. This is the purpose of the trials, known as Project 20:20 internally, that we have been running. They will help to discover what the right

proposition is, including price, service, choice, location, infrastructure and empowerment, to deliver sustainable growth. Dignity is yet to offer direct cremations in its branches (outside of the trials) despite these being a great way of delivering affordable funerals for those who want them. Dignity's wide ownership of service chapels, combined with its network of crematoria gives Dignity a real advantage as it will be the price leader.

This way the internet can be harnessed to educate and convert more potential customers than it does today. Where we have seen similar conditions elsewhere the results can be dramatic.

### **Crematoria**

Dignity's unique position with its national portfolio of crematoria creates opportunities for growth and innovation. There is strong growth in direct cremations and new players are emerging. But no one in the UK is better positioned to fulfil that business for itself and other market operators than Dignity. Such incremental growth has high marginal returns. Dignity also has a pipeline of planning permissions through which it can continue to expand its network of crematoria further. The UK is short of crematoria and no one is better placed to serve that need.

### **The Lollapalooza Effect**

When you put all this together you get what Charlie Munger calls a 'Lollapalooza Effect'. Growth in one part feeds into and builds on the next. For Dignity this is a four-part process. Phoenix's modelling of this shows values ranging from multiples of the current share price to many multiples.

This is not a quick fix; it is the work of years and ultimately decades to build that great long-term business. It needs the right team leading it with the right values. We believe all the ingredients are there to deliver this and that is the work we have been doing at Dignity this year and the course on which we have been trying to steer the company for 2 years.

### **Capital Structure**

Dignity has large borrowings in the form of securitised bonds under which it owes £542m. Although it has the assets and earning power to service those bonds they come with restrictions and covenants that may hinder the above strategy.

There are many ways to deal with this and we have worked on a number but believe this is likely to be the best.

Infrastructure investors place a high value on crematoria in countries like the UK. Dignity can tap into that without losing its vertical integration. Listing the crematoria business separately while retaining a majority holding would be a way of raising capital and drawing attention to the value of Dignity's shares. The level that similar assets trade at would suggest that this division would be worth over £1bn. Dignity could float that division, selling a minority stake, and raise a significant sum that would transform its financial position, give it the capital to invest in its future and unshackle some of the restrictions the bonds bring. It will also draw attention to the undervaluation of the existing equity.

## **Timing**

If we succeed in our motions, then we will present this plan in detail to you at the AGM on 23rd June and will be able to take your questions. Hopefully, we will be able to hold a physical meeting by then and meet you in person.

## **Conclusion**

Although this vote was on change of directors the board has decided to make it a mandate on Phoenix's involvement in Dignity. If we fail, then our director on the board will be removed and an end will be brought to our involvement. We have worked for 2 years to save Dignity from heading down the wrong path and to get it heading in the right direction. We do not believe it is in shareholders' best interest to end that.

As we have said before, we only have one way of benefitting from our work at Dignity and that is through the share price and dividends. It completely aligns us with all other shareholders.

**This strategy needs both urgency of execution and a long-term perspective. We believe Dignity has a shareholder base who think similarly and therefore we ask for your support by voting in favour of both resolutions at the General Meeting on 22 April 2021.**