Castelnau
GROUP

Quarterly Report

Castelnau Group Limited

31 December 2024

Introduction

CEO Comments

Appreciating that the end of 2024 feels like the distant past, we nonetheless wanted to thank the leadership and employees of our portfolio companies for everything accomplished during the year. A lot of strategic groundwork was delivered, which we hope to see driving performance during 2025.

This quarter saw key strategic progress, including Dignity launching a sale-and-leaseback transaction and completing its acquisition of Farewill (both completing in January); Hornby divesting LCD (which owned Oxford Diecast) and announcing the move of their logistics operation to the Midlands; Stanley Gibbons Baldwins ("SGB") being reissued with the Royal Warrant and partnering with VeVe to launch a digital Penny Black; Iona Star making its first investment post formal launch; and Cambium finding innovative ways to improve efficiencies while maintaining its customer experience.

In terms of financial performance/KPIs, Dignity grew EBITDA by 13% in 2024, SGB beat its forecast business plan for FY24, and Hornby's sales to 31 December were 8% above the same period as last year - 10% at gross profit level. Rawnet's final quarter was strong across both new business and account management, and since Christmas Cambium is seeing registrations approximately 25% ahead of the prior year. Whilst there is still much to do, there are reasons to be optimistic about the strategic and financial progress we are making.

Each November we host an annual event for the leadership teams of our portfolio companies where our CEOs talk in front of their peers about challenges, key learnings and strategic ambitions for the coming year. It's an incredibly valuable event, allowing attendees to understand commonalities, and differences between the companies, and to build relationships. This year, we were delighted to welcome approximately 75 colleagues and look forward to seeing even greater participation in the years to come.

During the course of this quarter further progress was made on the capital structure at Dignity. In January, Dignity completed a crematoria sale-and-leaseback transaction that generated strong demand from several institutions at attractive rates. In January, driven primarily by the net proceeds from this transaction, the loan between the Phoenix UK Fund and Dignity was repaid.

As well as spending a huge amount of time thinking about each of the businesses, we are very aware that we need to ensure our investor communication articulates the reasons why Castelnau Group is such an attractive investment opportunity. You will see in this quarterly that we have increased the financial disclosure relating to Dignity and we will look to continue improve disclosure going forward.

We are excited by the progress being made across the portfolio and look forward to 2025 and demonstrating further the inherent value in it.

Richard Brown, CEO

CIO Comments: 2024 Review

As Castelnau continues to evolve we are continually learning. There are a number of ways in which we try to help improve our businesses, one of which is with leadership selection, one learning for me this year was that most of the others follow from this one, they don't just sit alongside it. It has been a good year of progress in that regard, in the parlance of Jim Collins of getting good people on the bus, not least of which has been Zillah Byng-Thorne taking over at Dignity.

Another learning is how we adapt the inspiration and learnings of the likes of Danaher, Halma and Constellation Software with the types of businesses that we are interested in. We believe in the decentralised model with a small centre that shares best practice and learning, connects expertise and maximises the use of our network. The needs of our leaders and businesses are different in the depths of turnaround to when they are performing well.

All of our businesses require a culture that is customer centric to truly thrive in the long term and we are not there yet in all of them. Culture is a really hard area in which to help. We believe you can't improve something you can't measure, and you can't build continuous improvement without measurement, so the Castelnau team spent a lot of time evaluating what tools and methodologies exist to do this and now have trials underway in two of our businesses. We don't seek to be the ones to impose a culture or to be the ones improving it, we think that is for the leadership of the business. We aim to suggest tools that might help them to do that and shared learnings that might be useful. We expect unique cultures.

Through a combination of experience, necessity and then contemplation, I learned that direct involvement in our businesses by me personally was not the best use of my time and that I am less effective than the capable people that I have access to. Distance and perspective have been useful and, I believe, will be more effective.

An area all of our businesses will be impacted by is AI, as will all businesses. This is where Castelnau can be very helpful. What is going on is seismic, we have been working with Cambium, which is used to being innovative and changing, on the art of the possible and if we are right, then our unit cost economics are going to be transformed dramatically and quickly. What we learn in implementation is what is truly valuable to our other businesses, it is easy to see how this can work in theory, but doing whilst operating in full flight is another thing, especially as it involves the very people most affected by it. I've been a student of business since I was 12, that's 45 years, and I've seen some massive changes, like the internet or social media, but the potential for AI to transform productivity in a business in so many ways, is the greatest of them. If we are right about Cambium, given that it is a free service, the value should accrue to the shareholders.

Our businesses are on a path to being self-sustaining, that's a minimum requirement this year, but by the end of the year we expect to be moving into the phase where we are receiving capital at the centre which we can deploy. We won't be looking for turnarounds or loss making businesses. We have been building our expertise and knowledge base where we think we can acquire well and add value. When we reach that stage, i.e. performing businesses sending capital back that is successfully redeployed create more future value, then Castelnau will have started to become what we envisaged at its creation.

Gary Channon, CIO

Castelnau Group Limited ("CGL") is a Guernsey closed-ended company listed on the Specialist Fund Segment of the London Stock Exchange. Formed by Phoenix Asset Management Partners Limited in 2020, its listed structure provides the manager with a permanent capital vehicle with which to make long-term investments and acquisitions in public and private businesses of all structures and sizes. It's investment philosophy involves acquiring large stakes in, and capital to, businesses that have, or can create, strong competitive advantages. Castelnau Group's portfolio comprises investments in Valderrama (Dignity), Hornby Plc, Strand Collectibles Group, Showpiece Technologies Limited, Silverwood Brands plc and The Cambium Group, as well as in two `enabling' businesses, Rawnet Limited and Ocula Technologies Limited.

2024 Q4 Financials

Table 1: Summary Overview

	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Net Assets £m	£216m	£231m	£249m	£317m	£320m	£317m
Net Assets /share	£0.68	£0.73	£0.78	£0.99	£0.99	£0.98
Share Price	£0.72	£0.76	£0.76	£0.77*	£0.98	£0.94
No. of shares	319m	319m	319m	319m	323m	323m
Market Cap	£228m	£241m	£242m	£245m	£315m	£303m
Prem / Disc to NAV	6%	4%	-3%	-23%*	-2%	-4%
Assets						
Equities	£254m	£273m	£297m	£368m	£373m	£377m
Loans to Subs	£12m	£16m	£17m	£19m	£21m	£21m
Cash & Equiv.	£1m	£0m	£0m	£0m	£0m	£0m
Share Price						
Hornby	£0.17	£0.16	£0.38	£0.20	£0.22	£0.23
Silverwood	£0.30	SUS	SUS	£0.23	£0.23	£0.23**
Ownership						
Valderrama (Dignity)	65%	65%	65%	65%	65%	65%
Hornby	54%	54%	54%	54%	54%	54%
Phoenix SG	64%	64%	64%	64%	64%	64%
Cambium	60%	60%	60%	60%	86%	90%
Iona Star	0%	0%	0%	0%	0%	45%
Rawnet	100%	100%	100%	100%	100%	100%
Silverwood	1.8%	1.8%	4.7%	29.9%	29.9%	29.9%
Ocula	50%	50%	49%	49%	44%	41%

Source: Phoenix Asset Management Partners Ltd.
Past performance is not a reliable indicator of future performance.
* The market had not had the opportunity to react to the uplifted June NAV (June NAV announced on 4 July) at end of the Q2 period.
**Castelnau values Silverwood Brands using DCF methodology rather than at share price due to insufficient trading volume for accurate value.

Table 2 below shows a breakdown of the Castelnau Group NAV by Asset.

Table 2: NAV Breakdown

Asset	2024 Q3 £m	2024 Q4 £m	Q4 % of NAV	Q4 % of GAV
Valderrama (Dignity)	323.6	329.0	103.7%	82.5%
Hornby	19.9	21.3	6.7%	5.3%
Cambium	11.3	12.7	4.0%	3.2%
Ocula	5.7	5.7	1.8%	1.4%
Silverwood	7.0	5.6	1.8%	1.4%
Rawnet	2.4	1.5	0.5%	0.4%
Phoenix SG	3.3	1.0	0.3%	0.2%
Iona Star	0.0	0.6	0.2%	0.1%
Total Equities	373.2	377.4	119.0%	94.6%
Loans to portfolio companies	21.2	21.3	6.7%	5.3%
Prepaid Fees	0.0	0.0	0.0%	0.0%
CGSL	-0.1	-0.1	0.0%	0.0%
Cash	0.0	0.1	0.0%	0.0%
Short Term Bonds	0.0	0.0	0.0%	0.0%
GAV	394.3	398.7		
Accrued Liabilities	-74.4	-81.5	-25.7%	N/A
NAV	319.9	317.2		

Source: Phoenix Asset Management Partners Ltd.
Past performance is not a reliable indicator of future performance.

Table 3: Castelnau Q4 2024 Company 'Look-Through'

The below allows investors to look at Castelnau Group from an alternative perspective – focused more on normalised metrics rather than NAV. The table also provides a consolidated view of Castelnau Group and its portfolio companies. The data includes ownership percentage per company, number of employees, annual sales figures, pre-tax profit, and other financial metrics.

Q4 2024	**Pro-Rata Castelnau "Look-Through"**	**Listed stakes**		**Unlisted stakes**				
		Hornby	Silverwood	Valderrama (Dignity)	Phoenix SG Ltd (Stanley Gibbons)	Cambium Intl Ltd. (Cambium)	Rawnet	Ocula
Castelnau (CGL) Ownership stake		54%	30%	65%	64%	90%	100%	41%
Employees (approx.)	2171	229	204	2755	64	109	31	34
Last 12 month running Sales	**£315.1m**	£56.1m*	£12.4m**	£392.9m***	£9.0m	£16.9m	£2.6m	£1.2m
per CGL share	£0.98							
Last 12 month running Profit	**£60.1m**	**-£12.2m***	**-£5.7m****	**£119.6m*****	**£-5.4m**	**-£4.9m**	**-£1.3m**	**-£1.5m**
per CGL share	£0.186							
# CGL shares	323m							
CGL Share price 31/12/24	**£0.94**							
CGL Market Capitalisation	£303m							
CGL NAV 31/12/2024	£317.2m	£21.3m	£5.6m	£329.0m	£1.0m	£12.7m	£1.5m	£5.7m
CGL NAV per share	**£0.98**							
Discount	-4.3%							

*Last 12 months to Sept 2024.
**Last 12 months to June 2024.
*** Adjusted profit before tax excludes consolidated accounting adjustments relating to the funeral plan trusts, exceptional items and other non-recurring costs. The number includes benefit of surplus received from the funeral plan trusts during the period.
Source: Phoenix Asset Management Partners Ltd.
Past performance is not a reliable indicator of future performance.
Given Iona Star is an investing vehicle rather than an operating company, it has not been included in this table.

Update on the Group Companies

Dignity / Valderrama

Key Financial Highlights (draft, unaudited numbers)

Expected Revenue LTM £273.9m (down 3.9%)	Funeral branches December 2024 581
Expected EBITDA LTM £43.9m (up 13.1%)	Crematoria sites December 2024 45
Plans LTM £37.2m (up 9.5%)	FTE December 2024 2,734
Death rate LTM Down 3.4%	Net debt December 2024 £429.4m (£379.3m if adjusted for the subsequent sale and lease back)
	Cash December 2024 £51.4m

For FY 2024, Dignity expects to deliver revenue of £273.9 million, and EBITDA of £43.9 million. This represents double digit EBITDA growth in a year where the death rate was declined by 3.4%. Value of plans sold was £37.2m (up 9.5% on prior year) - we expect that number to significantly increase in 2025.

During the period, a Funerals Managing Director was hired, filling another key leadership team position. A new management incentive programme has also been agreed with the full leadership team, further aligning their interests with shareholders.

The property disposal programme, which we saw operating in earnest throughout 2024, was substantially completed during the quarter, resulting in c.£25m of gross proceeds. This successful initiative not only generated cash but also streamlined operations and reduced future costs.

In December, Fitch upgraded both Dignity's A and B notes providing external validation of the materially improving performance in Dignity's financial position. This upgrade was primarily driven by the pay down of debt using the Funeral Trust release received during 2024.

In January, following the successful completion of the sale-and-leaseback transaction, the outstanding Phoenix debt of £56.1m was repaid using net proceeds from the deal, along with the transfer of certain crematoria pipeline assets to be developed with Dignity.

We remain excited about the opportunities that the acquisition of Farewill will bring to Dignity (see previous quarterly for more detail). Work preparing for Farewill's integration progressed throughout the quarter, with completion announced on 3rd February.

Castelnau facilitated this strategic acquisition for Dignity, using its shares to fund the purchase while increasing its holding in Valderrama. A win win. This mutually beneficial arrangement increased Castelnau's ownership of Valderrama to 66%.

With a stabilized balance sheet and well-established leadership team, Dignity is poised for growth in 2025. Key priorities include:

- Driving market share growth in cremations, funeral home businesses, and funeral plans.
- Making long-term investment decisions to improve core infrastructure, drive a finance team transformation, and digitize the funeral operations process.
- Expansion of future crematoria estate.

We are excited about the trajectory of the business and confident in its future success.

Hornby

Hornby delivered strong sales growth during the quarter, with sales for the period ending 31 December 2024, 7% ahead of the same period last year. Year-to-date sales were 8% ahead of last year, with gross profits showing even stronger growth at 10%. Direct-to-consumer sales also increased by 10%, compared to the same period last year. This growth, coupled with increased full-price sales, contributed to a significant improvement in margins, which rose to 48% from 44% in the same period in 2023.

Despite remaining elevated, net debt was reduced by £600k during the quarter.

In November, the company announced its half-year results, which highlighted the successful completion of a restructuring program. This restructuring eliminated approximately £1 million in annualized central costs, with an additional £500k in savings expected in 2025.

The logistics tender process mentioned in the previous quarterly also concluded, leading to the decision to relocate its logistics operations from Kent to a new partner in the Midlands, a move expected to deliver significant operational, service, and cost efficiencies.

In line with its focus on streamlining operations, Hornby also announced the sale of LCD Enterprises, the wholly owned subsidiary that owned the Oxford Diecast brand. LCD Enterprises, which was loss-making in 2024, was sold for £1.4 million. The payment was received through a combination of cash, deferred cash, and 1.5 million Hornby shares, which have subsequently been cancelled. Following the transaction, Lyndon Davies stepped down from his role as Non-Executive Director and will not be replaced.

Stanley Gibbons Baldwins ("SGB")

Stanley Gibbons was re-issued with a Royal Warrant in December. This achievement is particularly noteworthy given the recent loss of royal warrants by others, with the SGB leadership team working diligently to secure it.

For 2024 SGB delivered sales of £8.95m, 4% ahead of budget, and whilst loss making for 2024, delivered an EBITDA performance £400k ahead of budget.

SGB is constantly looking for new revenue opportunities, and we were pleased to see it partnering with VeVe on a limited-edition penny black digital collectible, especially when the 8,468 digital editions sold within minutes of launch.
New leadership team incentive packages were implemented at SGB based on growing the value and profitability of the business. These have been designed to ensure that the interests of the team are aligned with those of the shareholders.

The development of the digital collectors tool has gained momentum with the arrival of a dedicated product owner in December. We look forward to the launch of this offering later this year, which is expected to significantly enhance the customer experience. Additionally, SGB is embracing new technology by transitioning from a legacy ERP system to a new, highly flexible and much more cost-effective system. The learnings of this move could be valuable to other businesses in the Castelnau portfolio.

SGB's bullion business continues to grow strongly, offering trusted products and benefitting from its convenient location on the Strand. If you are thinking of making a bullion investment, please do bear them in mind https://www.baldwinsbullion.com/.

In December, a new Head of Stamps was hired into the business. This appointment is expected to drive stamp consignment wins and relaunch the stamp dealing business.

Cambium

Anecdotally (as it's hard to get concrete industry-level UK wedding data) we believe that 2024 was a challenging year for the UK wedding market, however, so far 2025 looks much stronger. Since Christmas, registrations at Cambium are up 25% on the same period last year, and we are seeing product pledge 10% up year to date. It is early in the year, but this is encouraging data.

In the core business, in 2024 there were 14,992 converted lists up 7.1% on FY23, total pledges (cash and product) were £41.6m (up 4.3% on FY23) and approximately £2m of run-rate costs were removed from the business.

Cambium remains focused on driving efficiencies across the company, whilst ensuring that it continues to deliver for its customers. In particular, Cambium is embracing technological innovation, including the use of AI to improve customer service and coding productivity. We expect to see significant further benefits from these initiatives during 2025.

During the quarter, a commercial agreement was signed with WithJoy, a US-based digital platform that helps couples streamline the wedding planning process. This will enable WithJoy to promote Cambium wedding gift lists to its UK-based couples in exchange for a fixed commission, which should drive further registrations.

In December, a debt for equity swap was undertaken, converting £5m of loans between Castelnau and Cambium into equity. The net effect of this transaction was to increase Castelnau's ownership of Cambium from 86% to 90%, whilst reducing Cambium's leverage.

Ocula

Ocula's primary focus during the quarter was on acquiring new customers and delivering renewals of existing customers. During the period, new clients included Spinmaster, Groupon and easyJet, with LK Bennett, KAO and Bradfords all successfully renewing. There are some encouraging signs that Ocula Boost is showing promising applicability in the travel market, presenting an exciting opportunity for growth.

To further drive customer acquisition, particularly among larger organizations, Ocula is increasing its sales focus in North America. The company is establishing a US subsidiary to facilitate the hiring of US-based employees.

Current ARR stands at approximately £1.5 million. More than fifteen clients are currently trialling the product, which should contribute growth in the coming months.

Iona Star

The Iona Star team has been extremely busy since closing their fund, reviewing a significant number of opportunities – and declining the vast majority. They made the first new investment since the fund closed in November, investing into AkashX in the same month, a Californian based data storage accelerator, designed to reduce cloud data infrastructure costs. Progress is being made with fundraising efforts and we expect to be able to update in more detail in the next quarterly.

Rawnet

After a period of restructuring, Rawnet has focused on stabilising its workforce while driving new sales growth. Both new business and account management sales demonstrated particularly strong growth in the last quarter. This positive momentum is further bolstered by the rebuilding of Rawnet's business pipeline, providing some reassurance about future sales prospects. However, the broader market remains challenging, making 2025 a key year for the company.

Silverwood

Focus remained on driving sales across Silverwood's brands during the quarter. Balmonds completed its rebrand, with the new branded products now on shelves across various retailers. Balmonds has also signed terms on a new unit in Brighton which should materially increase its production and support space. Nailberry's core focus has been adding independent retailers as customers, where it has been making progress. In Japan, Cosme Science has started further production of SteamCream.

Intrinsic Value

We estimate that Intrinsic Value per share using the methodology Phoenix applies to investments in its funds is £4.06. That represents an upside of 314% from the period end NAV. This calculation does not allow for any performance fee that might accrue. In our view this measurement, applied consistently over time, is the best guide to future returns.

Minority Report

Minority shareholders are typically outside observers of businesses, and our ownership of companies via Castelnau has increased our appreciation of this point. The transparency from owning an entire business brings you far closer to reality than a minority shareholder. Without ownership control, disclosure is often very high level, via aggregate financial data that is in effect a snapshot summary, an average of what is happening across the business in a given period.

By accepting what happens on average, investors are therefore susceptible to missing what might be happening on the margin - especially important for a heterogenous business. Granular insight can therefore be vitally important, not to amass detail just for the sake of it, but to determine what matters most, to understand marginal unit economics and identify hidden operating leverage. To figure out what matters most we have to go deep.

Michael Dell once put it well: *"averages obscures a lot, and aggregate financial statements are pretty meaningless. Our approach is to take really big numbers and "de-average" them. Unless you look inside and understand what's going on by business, by customers, by geography, you don't know anything"*. Of course, Michael Dell as CEO was inside the operation and had all the information he needed to hand. Dell already had reality on his side.

The legendary Phil Fisher called the search for reality his 'scuttlebutt method'; some investors loosely call it channel checks; we call it monitoring. It is a way of sense checking on-the-ground reality versus what a company communicates is happening. Monitoring offers us the ability to verify how the business actually works, how deep its moat actually is and whether it is widening or narrowing. It also seeks to identify sources of hidden leverage.

The inevitable problem with most corporate disclosure is that it is a summary of average activity. In reality of course, there is no average, just a messy amalgamation of often very diverse activity. There is a great story of the US Airforce in 1950 employing a survey of 4,063 pilots' body sizes to help design the perfectly sized cockpit. The researchers ultimately realised they were effectively designing for a non-existent pilot of average size - in the end they just made the seat adjustable! Analogously, out of c200m Ryanair passengers last year, we might guess there are likely very few actual customers who paid precisely the group average €49.80 fare to take a one-way flight of 780 miles average sector length. Rather, as with many companies with heterogenous pricing structures, there was more like a wide spectrum of customers paying vastly varying fares from €9.99 loss-leaders right up to the €400 ultra profitable last-minute booking. Pareto distributions, though common, are not always obvious.

In a recent interview, Geico CEO (and Buffett protégé) Todd Combs, made an insightful point when discussing his efforts to improve Geico's returns. *"Where people go wrong"*, he said *"is where they think they know their CAC (customer acquisition cost) and LTV (lifetime value) but it's from too high a level. When you slice the data, there are really big pockets where the LTV is negative, and that is where the potential is to improve margins"*. In Combs' specific example, by digging deep into the business, he was able to identify underperforming cohorts, which if improved or eliminated could have a material positive skew on the average. Charlie Munger used to crudely call this 'cutting out the cancer'. The opposite can also be true of course where a small portion of customers or products contribute pools of disproportionately high profits, and their loss would cause a sharp fall in the group average profit.

This phenomenon - pools of hidden profits or losses - is one of those things that, as the saying goes "when you see it once, you see it everywhere". Two examples come to mind. Adidas shareholders found out painfully late that the infamous Yeezy products, whilst only 5% of group revenues, were actually more like one-third of group operating profit! This hidden leverage became all-too apparent when the products were abruptly taken off the market for reputational reasons. Back in its pre-iPhone heyday, Nokia's Mobile Computers segment (phones with a selling price >€400) accounted for just 4% of volumes but 28% of group gross profits in 2006, the year before the iPhone launch! Investors relying solely on both companies' average performance would likely have missed the risk inherent in the business that was about to unfold.

We return to Mr Combs for the final word. Combs wrote in his foreword to the latest (and excellent) 7th edition of Security Analysis: *"the difference between a Good analyst and a great one lies in the ability to keep things simple and determine what matters most. People misinterpret this to mean that's investors should keep things at the surface level. In fact, paradoxically, it takes a great deal of depth to stay simple."*

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