



# Quarterly Report

## Castelnau Group Limited

30 June 2022

Table 1: Summary Overview

	2021 Q4	2022 Q1	2022 Q2	QoQ Change
Net Assets £m	£170,945,059	£154,704,051	£142,065,322	-8.2%
Net Assets /share	0.94	0.84	0.77	-8.3%
Share Price	1.055	0.96	0.84	-12.6%
No. of shares	183,996,057	183,996,057	183,996,057	0.0%
Market Cap	£194,115,840	£176,636,215	£154,556,688	-12.6%
Prem / Disc	12.8%	14.2%	7.7%	-5.3%
<b>Assets</b>				
Equities	£123,308,880	£115,297,475	£118,568,337	2.8%
Loans to Subs	£3,361,795	£5,386,795	£5,186,795	-3.7%
Cash & Equiv	£44,614,629	£36,324,706	£20,735,050	-43.0%
<b>Share Price</b>				
Dignity	£5.90	£5.05	£4.04	-20.0%
Hornby	£0.42	£0.33	£0.30	-10.6%
Phoenix SG	£2,385.75	£2,366.40	£2,369.37	-5.3%
Cambium	£1,079.08	£1,047.06	£1,284.94	19.6%
<b>Ownership</b>				
Dignity	20.0%	21.0%	21.0%	
Hornby	55.0%	55.0%	55.0%	
Phoenix SG	55.7%	60.0%	60.0%	
Cambium	19.2%	34.8%	60.0%	25.2%
Rawnet	100.0%	100.0%	100.0%	
Ocula	77.0%	77.0%	77.0%	

Source: Phoenix Asset Management Partners Ltd.

**Table 2: NAV Breakdown**

<b>Asset</b>	<b>Q1 2022</b>	<b>Q2 2022</b>	<b>Q2 2022</b>
	£m	£m	% of NAV
Dignity	52.3	41.9	29%
Hornby	30.0	27.7	20%
Phoenix Stanley Gibbons	19.9	18.8	13%
Showpiece	0.1	0.0	0%
Cambium Group	7.0	24.1	17%
Rawnet	6.0	6.1	4%
Ocula	0.0	0.0	0%
<b>Total Equities</b>	<b>115.3</b>	<b>118.6</b>	<b>84%</b>
Loans to enabling companies	5.4	5.2	4%
Cash	3.7	16.7	12%
Short Term Bonds	32.6	4.0	3%
GAV	157.0	144.5	
Accrued Liabilities	-2.3	-2.5	
<b>NAV</b>	<b>154.7</b>	<b>142.0</b>	

Source: Phoenix Asset Management Partners Ltd.

**Table 3: Castelnau 'Look-Through'**

	<b>Pro-Rata Castelnau "Look-Through"</b>	<b>listed stakes</b>			<b>unlisted stakes</b>				
		Dignity	Hornby	Stanley Gibbons	Phoenix SG	Cambium	Rawnet	Ocula	Showpiece
Castelnau (CGL) Ownership stake	↓	21%	55%	35%	60%	60%	100%	77%	100%
<b>Employees</b>	1011	3,375	210	66		180	57	18	2
<b>Sales annual run-rate</b>	<b>£116.5m</b>	£312.0m	£53.7m	£12.0m		£24.6m	£4.2m	0	0
per CGL share	£0.63								
<b>underlying Pre-tax profit run-rate</b>	<b>£7.1m</b>	£26.8m	£3.2m	-£3.0m		£1.1m	0.2	0	0
per CGL share	£0.038								
# CGL shares (m)	184								
<b>CGL Share price (latest)</b>	<b>£.83</b>								
CGL Market Capitalisation	£153m								
CGL NAV (31/06/22)	£142m	£41.9m	£27.7m		£18.8m	£24.1m	£6.1m	0	0
<b>CGL NAV per share</b>	<b>£.77</b>								
premium	8%								

Source: Phoenix Asset Management Partners Ltd

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## Performance Overview

Net Assets declined by 8.2% in Q2, driven by the decline in share price at Dignity (-20.0%), Hornby (-7.7%) and Phoenix SG (-5.4%), countered in part by a rise at Cambium (+19.6%). The cash position declined mainly as a result of our participation in the Cambium capital raise, which increased the Castelnau Group holding in Cambium to 60%. Combined with Q1's performance, the decline of Castelnau Share Price for year-to-date 2022 is now -17.6% versus a fall of -4.6% for the FTSE All Share.

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## Update on our Transformation Work

As we set out in the 2021 Q4 report, there are four key attributes that we work to develop at our portfolio companies and they are: the right culture serving a clear purpose, a competitive advantage, high returns on capital and great management. Looking at our progress through that lens, here is an update on the four portfolio companies.

### Portfolio Companies

#### **Dignity**

In the quarter Gary Channon, our CIO, formally handed over the CEO position to Kate Davidson, who until then had been COO. This was part of a planned succession. Choosing the right leadership is one of the most important things we need to do with our businesses, if not the most important, and there are so many aspects to it. In the quarter Dignity held its AGM, a video recording of which is on the Dignity Investor Relations section of its corporate website. In it you will see some of that new leadership line up, including Kate. Towards the end of Gary's section in the AGM video, he explains why we think Kate is the right person to lead Dignity.

The presentation also sets out the strategy and updates on its execution. One of the key aspects explained is the extent to which Dignity is operationally geared, which is why the essence of the strategy is about growth, because of the transformative effect it has on long term value creation by lowering the unit cost of production. Growth though is not easy, it requires winning share and expanding markets, it requires a deep understanding of what clients want, or may want, and a culture focused on finding and delivering it.

One of the key elements of the strategy is to increase the use of funeral plans and grow Dignity's share of that market. The move to an FCA regulated world from 29<sup>th</sup> July raises standards, greatly improves the customer protections, and may help the market expand. However, we set a higher bar to grow the market by rethinking the product and inspiring a wider audience of people to take out a plan. Castelnau Group personnel and companies have been working with the Dignity team to do that and we are excited about what that collaboration is going to deliver. The new product launches in August, but that's just the beginning.

Elsewhere in the Group, the rollout of the inversion strategy that organises Dignity into empowered and supported local businesses is progressing well, and an update on that by James Wintle, Head of Regional Development, is included in the AGM presentation.

As announced by Dignity earlier this year, the capital structure work continues, but much progress has been made in the quarter and by the time we next write, you should expect us to be able to report on that.

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## Hornby

Hornby announced its results for the year to March 2022, which showed a further increase in profitability. This trading year is notable for two major headwinds, hobby time has been reduced as lockdowns have ended and supply chains are disrupted, restricting Hornby's deliveries and therefore sales. The table below illustrates the progress at Hornby following the acquisition by Phoenix of a controlling interest at the end of 2017 and the appointment of Lyndon Davies as CEO. A lot of hard work and capital has gone into turning around an insolvent and loss-making business and to put it on a profitable platform from which it can now start to show its true potential to grow significantly and create value.

	2022 (£'000)	2021 (£'000)	2020 (£'000)	2019 (£'000)	2018 (£'000)
Sales	53,739	48,549	37,842	32,759	35,651
Variable Costs	(28,023)	(26,795)	(21,140)	(19,348)	(21,900)
Gross Profit	25,716	21,754	16,702	13,411	13,751
Fixed Costs	(24,632)	(20,976)	(19,444)	(18,041)	(21,309)
Operating Profit/ (Loss)	1,085	778	(2,742)	(4,630)	(7,578)
Underlying Operating Profit/(Loss)	3,246	1,456	(3,241)	(4,401)	(7,574)

Source: Hornby

We are still seeking a CEO and have considered several candidates, so far none of which have made it all the way through our process. Identifying, recruiting, developing and working with CEOs is a skill set we are building from a low base. We are grateful to those who have been helping us even beyond the Group.

Work continues on the new experiential store, which we aim to have trading by Christmas 2022 provided a location can be agreed and prepared in time.

## Stanley Gibbons & Showpiece

As announced in July, we appointed a new CEO for our collectibles businesses; Stanley Gibbons, Baldwins and Showpiece. Tom Pickford joins us from The Hut Group and before that, Proctor & Gamble. He joins on September 12<sup>th</sup>.

We also announced the delisting of Stanley Gibbons from AIM, accompanied by an offer from Castelnau Group to buy out the minority equity. As this is still a live process subject to a vote, we are restricted from commenting further this quarter, save to say we think it's the best thing to do for the long term.

Showpiece launched its third asset, a rare Andy Warhol print portrait not intended for sale from his *Reigning Queens* series of Queen Elizabeth II (please see the Showpiece website for further information) and has just purchased its fourth asset. The secondary marketplace also launched (in Beta form) and already a steady flow of transactions has taken place. What is pleasing to see is how new collectors drawn to one asset then take an interest in and purchase the others, this is the underlying basis of the business model that cumulates in the buying power of the Showpiece community through time, and with it the business and its value. The team continues to build, and you can follow progress on social media. They are based in The Strand with our other collectibles businesses.

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## **Cambium**

Building on the progress mentioned last quarter, the team at Cambium caught up with the backlog of orders and have coped so well with the summer wedding season that they are consistently being awarded 5-star reviews. The standings of our Wedding Shop, Prezola and Wedding Present Co. brands on Trustpilot are all back to the top rating of Excellent.

Castelnau Group worked with the team at Cambium to build a dynamic prediction model that allows detailed planning to be made through the business for upcoming activity, including every station in the warehouse. That allowed them to be fully staffed and prepared in advance. The focus so far this year has been on delivering the 5-star service with productivity improvements now following.

Further strengthening of the leadership team has taken place in particular with the appointment of a COO.

Cambium undertook a capital raise underwritten by Castelnau Group to allow it to clear its COVID-era survival debt and provide capital for the Hostology acquisition and new growth initiatives, including in the baby list space. £16m was raised and Castelnau invested £15.7m which takes our holding to 60%. The business is now valued at £40m post dilution.

## **Enabling Companies**

### **Rawnet**

Last quarter, we referenced the "strong start" to 2022 which Rawnet was experiencing with regard to client activity and revenue run-rate. This momentum has continued into Q2. Our Q1 report also referred to the improving quality of Rawnet's client roster and resulting improving market reputation. We note a significant new external client signing in the quarter that is emblematic of that progress.

As we do for all our Castelnau companies each quarter, in June we hosted Rawnet management for a strategic review of its business. We are encouraging all our companies to adopt the OKR methodology (Objectives & Key Results management system pioneered by Andy Grove at Intel) and this meeting with Rawnet focussed heavily on this area.

The momentum in the external sales pipeline and increased Castelnau Group work has understandably buoyed management, who have raised their internal growth projections for the business. The new projections are actually not at all implausible: on a five-year view the Rawnet business could double its revenue base (to c£10m) resulting in material operational leverage.

Rawnet believes there is likely 'natural limit' to the size of the business (c. 100 staff and 25 key clients) in order to maintain their proposition, which is based upon being part of the strategy development and execution for their clients and establishing long-term working relationships. We support their aspiration to be a small giant (in the context of Bo Burlingham's book of the same name) aspiring to greatness, not growth for the sake of it.

We have not, at this stage, raised our NAV valuation for Rawnet (from its original £6.1m) although the realisation of such growth would imply material upside to its valuation within the

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Group.

At a granular level, Rawnet's work with Hornby is bearing fruit and looks to be a clear validation of its inclusion in the Castelnau Group – that of an enabler of technology productivity. Of course, Hornby has played its part as well with its new-found openness to e-commerce which must be recognised and applauded. Rawnet is also deeply embedded in SG and most especially, Dignity.

We are impressed with the strong culture created by Rawnet's founder Adam Smith to-date. We will monitor it and do what we can to help them preserve and enhance it.

## Ocula

August 13<sup>th</sup> marks the first anniversary of Ocula's incorporation as a business entity. In that short time and from a standing start, the Ocula team has already amassed a growing pool of intellectual property (IP) and is slowly forging its own corporate identity and culture. The business is beginning to see some early signs of open-market validation too.

The second quarter saw a continuation of investment with two notable new hires: a VP of Operations (ex Dunnhumby) and a Head of Sales. The next step and highest priority for the team is monetisation of that IP, i.e., converting client leads into Recurring Revenue.

Last quarter we mentioned that Ocula was *"in early discussions with VCs to increase market awareness and fund the necessary investment ahead of its revenue ramp"*. That work continues at pace but with rising headcount (and commensurate cash burn), the urgency of securing such funding is rising for Ocula's CEO, who must balance courting both venture capitalists and prospective customers. The VC funding environment has become much more challenging in recent months, and so the onus on Ocula to show market validation via 3rd party recurring revenues is now the sine quo non.

For context: of the £5.2m of loans extended by Castelnau to Group companies as of 30<sup>th</sup> June, £2.5m is issued to Ocula. We don't know the timing or magnitude of any new external financing that Ocula might secure (whether later this year or next year). It is possible (and we are prepared) that Castelnau could be asked to increase its capital contribution to Ocula in the second half of this year.

This should not detract from our long-term enthusiasm for what this business can deliver to its shareholders. As Nick Sleep might put it: we should 'Focus on the Destination'. We believe the opportunity for Ocula in the retail analytics market with its differentiated solutions is substantial. Equally, our opportunity as its owner to deploy Ocula's 'Actionable AI' IP into our own companies at Castelnau is an exciting prospect in terms of the value it can create.

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## Outlook

All our businesses are making positive progress. On the people front, we've added two CEOs (Dignity and Collectibles) as well as key leadership appointments across the group. Structural activity has seen us tidy up the post-COVID balance sheet of Cambium and delist Stanley Gibbons. All the portfolio businesses have new innovations and growth initiatives in the pipeline. Across the Group, the help from Castelnau, whether directly or through intercompany

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collaborations or by tapping into the wider Phoenix network, is bearing fruit and demonstrating the benefits of our approach. In time you should expect to see this in value creation and trading results.

The market and economic backdrop are opening up interesting opportunities for us and we will say more when we are ready to act.

The NAV of the fund is a reflection of the price of things rather than the value. Stock markets are weak, and prices are down, but in our estimation the Group is more valuable now than it was at the beginning of the year. If we are right, then in time it will show. Rising values and falling prices combine to make, we believe, excellent future investment returns. We were optimistic when we floated so you can imagine we are even more optimistic now.

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