



Quarterly Report

Castelnau Group Limited

30 September 2022

Introduction

Castelnau celebrated its first anniversary as a listed entity on 18th October 2021 and this is now our fourth quarterly report to you, our shareholders.

We are conscious that progress within the Group is complex to properly assess from the outside. Our inaugural letter last year where we set out our mission (2021 Q4 Report) emphasised our promise of openness and transparency; we are committed to candour. As these letters are one of the primary channels with which we communicate to shareholders, please do give us your feedback on their usefulness.

In order to give you the opportunity to get to ask your questions and learn more about the work of Castelnau and the Group companies, at next year's Phoenix Annual Meeting we are planning on starting earlier with a session devoted to Castelnau. That's going to be on March 2nd at the QEII Centre in Westminster, and the Castelnau session will start at 3pm. We hope you are able to come along. All the Group companies and management teams will be represented, and we will answer your questions with the same openness as we have been doing for the past 24 years of Phoenix meetings.

Q3 was another busy quarter for the Group and its companies. Some operational highlights included Dignity relaunching its revitalised (and FCA-approved) funeral plan product, Stanley Gibbons delisting, Hornby launching its all-new TT product range, and our expanded Collectibles business welcoming its new CEO, Tom Pickford.

In our Phoenix funds, we calculate and share our estimate of the intrinsic value of the portfolio and have done for over 20 years, and we are planning to do the same for the Castelnau Group at the year end. Given that Castelnau Group contains some private and unlisted companies we will need to explain more about the methodologies we are using. We believe that intrinsic value gives a better yardstick for measuring progress and for predicting future expected returns; that has been our experience. It also helps in times of depressed markets to flag the valuation opportunity that usually arises.

Our work so far on the Castelnau Group companies has, in our estimation, been positive for individual and overall intrinsic values and so, as market prices have declined and intrinsic values have risen, the upside to intrinsic value has widened considerably, leaving us with a very positive expectation for future returns.

There is a long way to go on the transformation work of our portfolio companies, but we are making progress on all fronts and we plan a fuller update at the year end and hope to see you at the Annual Meeting.

2022 Q3 Financials We break down the constituents of your business' NAV in three ways. As shown in Table 1 below, Net Assets fell -3% QoQ in Q3 2022 to £138m, reflecting declines in Dignity and Hornby share prices (-7% and -5% QoQ respectively) offset by increased equity ownership in Stanley Gibbons upon its delisting.

Group cash and equivalents fell -22% or £4.5m QoQ (from £20.7m to £16.2m) due to 1) increased loans of £1.7m allocated to Group companies (Showpiece +£1.2m and Ocula +£0.5m), and 2) the planned £2.5m investment in Phoenix SG as part of Stanley Gibbon's delisting in July. The remaining £0.3m was spent on operating expenses that was elevated (+£0.2m vs Q2) due to the incorporation of Castlenau Group Services and a new group licensing deal with Ocula.

Table 1: Summary Overview

	2022 Q1	2022 Q2	2022 Q3	Q3 QoQ Change
Net Assets £m	£155m	£142m	£138m	-3%
Net Assets /share	£.84	£.77	£.75	-3%
Share Price	£.95	£.83	£.81	-3%
No. of shares	184	184	184	0%
Market Cap	£175m	£153m	£148m	-3%
Prem / Disc	13%	8%	8%	
Assets				
Equities	£115.3m	£118.6m	£116.9m	-1%
Loans to Subs	£5.4m	£5.2m	£6.9m	+£1.7m
Cash & Equiv	£36.3m	£20.7m	£16.2m	-£4.5m
Share Price (£)				
Dignity	5.05	4.04	3.75	-7%
Hornby	0.33	0.30	0.29	-5%
Phoenix SG (unlisted)	2,366.00	2,239.71	2,261.38	1%
Cambium (unlisted)	1,047.06	1,251.81	1,250.99	0%
Ownership				
Dignity	21%	21%	21%	
Hornby	55%	55%	54%	
Phoenix SG	60%	60%	63%	
Cambium	35%	60%	60%	
Rawnet	100%	100%	100%	
Ocula	77%	77%	77%	

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

Table 2 below shows a breakdown of the Castelnau NAV by Asset. Dignity remains the primary holding, accounting for 28% of NAV down from 35.2% at the start of the year with this lower weighting due to the Dignity share price, which has fallen 39% in 2022 to the end of September. The next three constituents; Hornby, Phoenix SG and Cambium combined, make up circa 53% of the NAV in roughly three equal measures. Rawnet remains c.4% of NAV. We continue to ascribe a zero valuation to the equity of Ocula and Showpiece, as their business models are nascent. We keep that under review and the Ocula value will change at the time it does an external capital raise.

Loans to enabling companies at the end of the period totalled £6.9m, of which £1.2m is lent to Rawnet, £3m to Ocula and £2.7m to Showpiece. Cash and equivalent balances, at £16.2m, accounted for 12% of NAV as of September 30 (down from 15% in Q2).

Table 2: NAV Breakdown

Asset	2022 Q2 £m	2022 Q3 £m	% of NAV
Dignity	41.9	38.9	28%
Hornby	27.7	26.3	19%
Phoenix Stanley Gibbons	18.8	21.5	16%
Showpiece	0.0	0.0	0%
Cambium Group	24.1	24.1	18%
Rawnet	6.1	6.1	4%
Ocula	0.0	0.0	0%
Total Equities	118.6	116.9	85%
Loans to enabling companies	5.2	6.9	5%
Cash	16.7	16.2	12%
Short Term Bonds	4.0	0.0	0%
GAV	144.5	140.0	
Accrued Liabilities	-2.5	-2.5	-2%
NAV	142.0	137.5	

Source: Phoenix Asset Management Partners Ltd.

Finally, we include a cursory 'look through' set of Castelnau headline KPIs. Table 3 below shows the hypothetical number of employees, sales and underlying earnings of the Group as if it were a standalone business entity – that is, pro-rata for the ownership stakes held in the businesses.

It is informative, we think, to hypothetically consider your ownership of Castelnau Group pro-rata for your ownership stakes, that is on a 'look through' basis. In this case, that would be akin to an entity that has over one thousand and fifty employees (pro-rata), and a sales run-rate of £112m. This approach should, in time, prove useful to monitor our progress. Obviously, we would much rather that the earnings power of the 'look-through' business was already in steady-state and demonstrably increasing, but the restructuring of the Dignity and Phoenix SG businesses means that Castelnau's aggregate look-through earnings of £5.0m today is neither in steady-state nor representative.

Table 3: Castelnau Q3 2022 'Look-Through'

	Pro-Rata Castelnau "Look-Through" ↓	<u>listed</u> stakes			<u>unlisted</u> stakes				
		Dignity	Hornby	Stanley Gibbons	Phoenix SG	Cambium	Rawnet	Ocula	Showpiece
Castelnau (CGL) Ownership stake		21%	54%	52%	63%	60%	100%	77%	100%
Employees	1051	3,375	210	66		191	69	20	5
Sales annual run-rate	£112.2m	£282.4m	£53.7m	£12.0m		£23.5m	£4.2m	0	0
per CGL share	£0.61								
underlying Pre-tax profit run-rate	£5.0m	£26.8m	£3.2m	-£3.0m		-£2.0m	£.5m		
per CGL share	£0.027								
# CGL shares (m)	184								
CGL Share price (latest)	£.81								
CGL Market Capitalisation	£148m								
CGL NAV (30/09/22)	£137.63m	£38.9m	£26.3m		£26.3m	£24.1m	£6.1m	0	0
CGL NAV per share	£0.75								
premium	8%								

Source: Phoenix Asset Management Partners Ltd.

Castelnau's People We would like to shed some light on the people aspect of Castelnau's work. There isn't a more important element to our ultimate success than getting this right.

Organisationally, we are structured as follows:

Firstly, we have formed a dedicated team from Phoenix including two of the partners to run the business of Castelnau: Graham Shircore, Lorraine Smyth, Roddy Manzie and Akos Balint. They are responsible for the overall effort of Castelnau, including the framework by which we help our businesses develop.

Castelnau Group has a board of Directors, chaired by Jo Peacegood, which is there to provide the formal governance structure, challenge us on what we are doing and ensure that it is in compliance with our prospectus and relevant rules and regulations.

We then have a team of specialists whose job is to assist group companies. They cover areas including Branding, Innovation, Technology, People and Culture. They work for an entity called Castelnau Group Services and their costs are recharged to the relevant business when they do work for them.

We then have the wider Phoenix investment team who assist in many ways including being placed for periods within group businesses.

Next, we have a network of individuals that help us in various aspects of our activities. Some are businesspeople and some are organisations, they sometimes are also shareholders in Castelnau. Beyond that we have a wider informal network of people we know that we may call upon for specific areas of assistance. If you are a shareholder reading this and you have a particular skill or expertise that you think we might want to use, then please make contact with us at info@castelnau.com.

Borrowing from the world of venture capital we also have an Entrepreneur in Residence in Andrew Gerrie whose role is to help stimulate new entrepreneurial ideas as well as share his experience and knowledge with our management teams.

We seek to put our businesses in the hands of leadership teams who share our vision and values and can make the most of the overall Castelnau Group offer. Of the seven companies in the Group, five now have their CEO in place and the final one is close to being appointed. Most of the leadership teams are also in place, although we still have some work left there.

Having the right leadership in place is the first step to setting the right culture within an organisation as principles and values are heavily influenced and reflective of those in the leadership. Cambium and Dignity have been through the principle setting processes which Stanley Gibbons and Hornby will follow.

Castelnau is and always will be a work in progress, but right now we are in the early stages of its development and, therefore, its processes, methods and culture are all new and have been evolving at pace in the past year. For those who are new to Castelnau it is worth setting out where it came from and how it sits within the Phoenix family.

Update on your Portfolio Companies

We are limited in what we can say about the listed entities that we own stakes in and so we encourage you to see their own statements to investors in the first instance. In the main though, we remain encouraged by the trajectory of all our businesses.

Across all our businesses, recruitment is top of most agendas whether it is rising salary costs, the scarcity of staff, or the difficulty of hiring executives.

Here is a brief update on your portfolio companies.

Dignity plc

Our largest holding, Dignity plc recently reported its Interim results. The results statement released on September 30th ([click here](#) for full information) is a useful way to catch-up on developments. The results offer some early insights into the impact of Dignity's new strategy on its volumes and profits since Castelnau acquired its stake. Most importantly for us, the results show early signs that market share gains are being realised but that growth is being held back by shortages of staff and difficulties recruiting in a tight labour market. The company has over 400 vacancies.

A major milestone was reached with the agreement with bondholders to allow a deleveraging of the balance sheet and in return more flexibility within the securitisation that will assist in the investment and restructuring programme underway. The deal relies upon a disposal of a small portfolio of crematoria from the securitisation and the company envisages doing this whilst keeping them integrated within the Dignity group.

Hornby plc

Hornby launched its all-new TT 1:120 scale range, creating a whole new category for railway modellers on a smaller scale more compatible with the space that most have available for the hobby. This launch has been years in the making requiring all new design and tooling. It creates a new growth opportunity for the business and so far it has been well received.

We are seeing early signs of productive cross-collaboration between Hornby and Ocula. Hornby has, from a low base, made strides in improving its e-commerce position. Ocula has helped this process by providing dynamic pricing techniques to maximise revenues and Rawnet has continued to help on the digital technology and digital marketing

Collectibles & Showpiece

Castelnau's Collectibles investment is mainly via Phoenix SG (a 63% equity stake worth £21.5m, as per table 2), an entity that comprises the now-private Stanley Gibbons plc ('SG'), SG's stamp inventory and loans to SG. Q3 was an important quarter for Stanley Gibbons plc as the plc delisted from AIM, its original listing having been almost 40 years ago. New CEO, Tom Pickford, joined the business in early September and brings new energy and ideas. Tom will now oversee Stanley Gibbons and the wider Collectibles businesses including Baldwins and Showpiece.

Showpiece welcomed three new joiners to the business in Q3, bringing the total team (excluding directors) to five. The business now has three assets that are fractionalised: The Ic Magenta, the Edward VII penny and The Warhol 'Reigning Queens' painting. Showpiece's collective attentions are focussed on three primary areas: 1) acquiring suitable assets (at the right price), 2) developing the technology necessary to fractionalise and trade those assets and 3) attracting and keeping a loyal customer base. Real-world auction prices for rare Collectibles (especially those with storied histories) still remain extremely high but we commend the Showpiece team for their consistent discipline in this regard. It would be too easy to pay-up for trophy assets. That said, there is a balancing act to be had in securing the right assets in order to drive revenue to fund recruitment and investment in growth. We are happy to support the investment in the right assets. As we write, the fourth asset is being launched.

Cambium Group

We are now three quarters of the way through a year of sharp recovery in wedding activity which Cambium, as the market leader in wedding gift lists, is obviously mirroring. Cumulative wedding registrations year-to-date at the Group are up +63% vs 2019/20. Product pledge revenue is currently running at +71% YTD on 2019/20.

With our encouragement, Cambium continues to invest heavily in its service delivery and is resolutely focussed on delivering a consistent five-star service. This is absolutely necessary to restore the strong reputation for customer service previously enjoyed but that was negatively impacted by Covid. The good news is these actions are bearing fruit with a marked improvement in Trustpilot scores already evident; all three brands are consistently back to delivering a 5-star service and rating. There is a real cost to great service of course in terms of headcount and salaries. This has raised fixed costs and negated operational gearing this year; the Cambium Group now employs 191 staff. Once customer service is sustainably restored, the focus can and will return to operational efficiency. In the meantime, despite revenue growth of over 20% YoY, EBITDA will be negative this year and profitable in 2023. We would expect wedding list revenue growth to continue in 2023, as well as the addition of an exciting new list business being launched in January.

Ocula Technologies

Ocula's value proposition is to retailers who do not have the sufficient scale or internal resources required to capitalise on the insight and value inherent in their customer datasets. Customer feedback within the group, especially at Hornby, suggests validation of the company's proposition. During the quarter, Castelnau signed an umbrella license agreement with Ocula.

Feedback from 3rd-party customers, including some very high profile companies (one of which is US-based), is promising. In the coming quarter we are expecting Ocula to sign more external license deals and to agree a new investment around bringing in new partners. We expect the valuation to result in an uplift to the carrying value of Castelnau's investment.

Rawnet

Last quarter we spoke of the momentum within Rawnet's business both from 3rd-party clients and Castelnau group companies. That momentum continued in Q3. The earlier discussion of Dignity Funeral plans demonstrates the strength of the Rawnet digital marketing offering and the synergy to be had from having this skillset within the Group. Rawnet has now grown to 70 employees and it celebrates its 20th anniversary on November 17th.

Events After the period

On October 13 2022, Castelnau announced its first new investment since listing on the LSE last year. The investment (of £1.6m in equity and £4.4m in an unsecured loan) is in Silverwood Brands plc. After the investment, Castelnau will own 15.7% of the Silverwood equity. The loan facility has a term of 12 months with an annual interest rate of 15%.

Silverwood is an investment vehicle focused on premium consumer brands which has an existing presence in the beauty sector and the funding will facilitate the completion of their previously announced acquisition of NBY London Ltd (trading as Nailberry), a category leader in non-toxic nail products. Silverwood's co-founder and largest shareholder is Andrew Gerrie who is a non-executive director of Phoenix Asset Management Partners Ltd.

Andrew was a co-founder of Lush and its CEO for 20 years. Since he stepped down from that role, he has been investing in and nurturing some nascent premium consumer businesses and Silverwood is his listed vehicle for developing that activity.

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