Fitch Affirms Dignity Finance Plc

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Fitch Ratings-London-25 July 2005: Fitch Ratings, the international rating agency, has today affirmed the notes of Dignity Finance Limited ("Dignity") following a satisfactory performance review.

GBP103,981,000 Class A fixed-rate 6.310% secured notes (ISIN XS0165707612) due 2023: 'A'
GBP100,000,000 Class B fixed-rate 8.151% secured notes (ISIN XS0165710913) due 2031: 'BBB'

Dignity is a whole business securitisation of funeral homes and crematoria in the UK. The current estate consists of 515 funeral homes and 22 crematoria, up by 10 and 1 respectively from the levels at closing. For the 12 months ended 31 March 2005, revenues were up 4.76% at GBP137.5 million.

EBITDA for the funeral services division (74% of group's EBITDA before central costs) increased by 8% and EBITDA for the crematoria division (accounting for 24% of the group's EBITDA) grew by 18%. The third source of Dignity's revenues is the pre-arranged funeral plans division, which contributed to the transaction by around 2% of group's EBITDA.

Overall, EBITDA for Dignity as of 31 March 2005 grew by approximately 10% year on year to GBP45.9m and free cash flow (FCF) increased 9% to GBP37.7m. As a result, the EBITDA-based debt service coverage ratio (DSCR) rose to 2.75x from 2.47x and FCF-based DSCR grew to 2.26x from 2.05x, above Dignity's restricted payment tests (1.85x for EBITDA and 1.4x for FCF).

Fitch notes that a new legislation was put in place since January 2005 regarding mercury and carbon emissions, which will affect all crematoria in the UK, including the ones operated by local authorities. The law states that crematoria groups will have to reduce mercury emissions by 50% by 2012. This should lead to increased capital expenditure for upgrades, which will probably be self-financed through a levy in prices per cremation across the industry.

Fitch notes that the portfolio consists of approximately 44% of short leaseholds properties (classified as those with a maturity prior to the legal final maturity of the notes). Fitch considers such arrangements as negative from a credit standpoint and adjusts the debt levels of the transaction in accordance with its published criteria, available on the agency's website entitled 'Operating Leases: Implications for Lessees' Credit' dated 18 September 2003. In this publication, Fitch notes that short leaseholds, which are in effect debt-like obligations, should be accounted for in the debt service calculation (usually by applying a multiple of the rental expense).

The credit metrics of the transaction after adjusting for the short-leaseholds, using an eight times multiple of the rent for assumed debt, decrease the 25-year annuity DSCRs (on an EBITDAR basis) to 4.42x from 5.48x at the 'A'-rated level and to 2.39x from 2.57x at the 'BBB' level. In addition, debt multiples increase to 2.81x EBITDAR at 'A' and 4.78x at 'BBB'. Nevertheless, Fitch considers such levels to be in line with the transaction's current ratings.

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