



## Dignity plc Corporate Profile 2018



## We are Dignity

Dignity is listed on the London Stock Exchange. We own 826 funeral locations and operate 45 crematoria in the United Kingdom and have a strong market presence in pre-arranged funeral plans, where people plan and pay for their funeral in advance.

We are here to help people at one of the most difficult times in their lives and we are honoured to serve the local communities we are part of with expertise, compassion and total commitment.

We strive to set the highest possible standards in our facilities and in the funeral service and care we provide.

Delivering excellent client service in an evolving digital age and in an increasingly competitive funeral sector is core to our strategy. In this way we are well positioned to provide the best quality service at each price point and market segment we choose to compete in.



### Stay informed

Find out more about Dignity and the latest financial information, results, presentations, reports and shareholder services or to view and download a pdf version of the 2017 Annual Report:

 [www.dignityfuneralsplc.co.uk](http://www.dignityfuneralsplc.co.uk)



Download  
2017 Annual  
Report.

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## Key financial highlights

for the 52 week period ended 29 December 2017

### Revenue

## £324.0m

Revenue up 3% to £324.0 million  
(2016: £313.6 million).

### Strong cash generation

## £115.4m

Cash generated from operations  
(2016: £121.1 million).

### Acquisitions

## £28.3m

Amount invested in acquiring  
established funeral and crematorium  
businesses.

### Current period financial highlights

	2017	2016	Increase/ (decrease) per cent
Revenue (£million)	324.0	313.6	3
Underlying operating profit <sup>(a)</sup> (£million)	104.6	101.7	3
Underlying profit before tax <sup>(a)</sup> (£million)	77.8	75.2	3
Underlying earnings per share <sup>(b)</sup> (pence)	128.3	119.8	7
Cash generated from operations <sup>(c)</sup> (£million)	115.4	121.1	(5)
Operating profit (£million)	98.0	97.7	–
Profit before tax (£million)	71.2	71.2	–
Basic earnings per share (pence)	115.8	115.3	–
Interim dividend paid in the period <sup>(d)</sup> (pence)	8.64	7.85	10
Final dividend paid in the period <sup>(e)</sup> (pence)	15.74	14.31	10
Number of deaths	590,000	590,000	–

#### Non-GAAP measures

The Board believes that whilst statutory reporting measures provide a useful indication of the financial performance of the Group, additional insight is gained by excluding certain non-recurring or non-trading transactions. These measures are defined as follows:

<sup>(a)</sup> Underlying profit is calculated as profit excluding profit (or loss) on sale of fixed assets, acquisition related amortisation and external transaction costs.

<sup>(b)</sup> Underlying earnings per share is calculated as profit on ordinary activities after taxation, before profit (or loss) on sale of fixed assets, acquisition related amortisation, external transaction costs and exceptional taxation items (all net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.

<sup>(c)</sup> Cash generated from operations excludes external transaction costs.

The Group's underlying measures of profitability exclude profit (or loss) on sale of fixed assets, external transaction costs, amortisation of acquisition related intangibles and exceptional items in respect of taxation. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day to day management of the business and allow for greater comparability across periods.

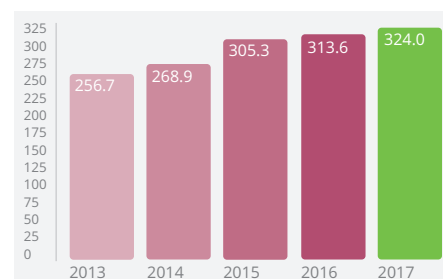
In 2017, following the commencement of amortisation of acquired intangible trade names and other crematoria related acquired intangibles, acquisition related amortisation of £1.8 million (2016: £nil) has also been excluded in determining underlying profitability measures. Acquisition related amortisation is defined as being the amortisation arising in respect of trade names, use of third party brand names and other crematoria related acquired intangibles.

#### Other notes

<sup>(d)</sup> Interim dividend represents the interim dividend that was declared and paid in the period out of earnings generated in the same period.

<sup>(e)</sup> The final dividend represents the final dividend that was declared and paid in the period relating to the earnings generated in the previous period.

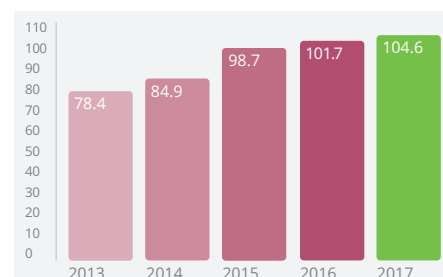
### Revenue (£m)



Revenue up 3%  
to £324.0 million

↑  
+3%

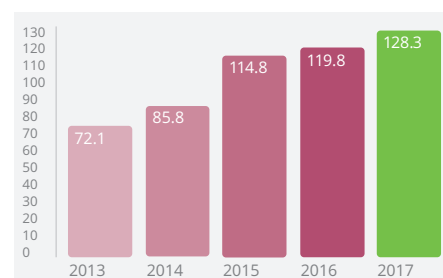
### Underlying operating profit (£m)



Underlying operating profit  
up 3% to £104.6 million

↑  
+3%

### Underlying earnings per share (pence)



Underlying earnings per share  
up 7% to 128.3 pence per share

↑  
+7%



## Dignity at a glance

Our operations are focused on three main areas, funeral services, crematoria and pre-arranged funeral plans.

### Our purpose

Our purpose is to be the company that everyone knows they can trust at one of the most difficult times in their lives, now and for generations to come.

### A proud tradition and history of service

We are proud of our long tradition of service. Many of our businesses have been serving their local communities for generations. Our oldest funeral location was established in 1812 in Glasgow and our oldest crematorium in Birmingham dates back to 1903.

To learn more about Dignity's history:  
[www.dignityfuneralsplc.co.uk/corporate/corporate-profile/history](http://www.dignityfuneralsplc.co.uk/corporate/corporate-profile/history)

### Dignity today

Our heritage and expertise combine to give us a special vantage point from which we aspire to set the highest standards in each market segment we choose to operate in. Every aspect and detail of our services and products are carefully considered and delivered with professionalism, compassion, respect and expertise.



#### People and culture

**3,000+** People



Our people come from the towns and cities they serve or families that have been in the funeral profession for generations.

#### Strong core business



Dignity is one of the leading providers of funeral-related services in the UK with strong market-leading positions.

#### Size and scale

**826** Locations



We operate a network of 826 funeral locations throughout the UK, generally trading under established local names.

**45** Crematoria

We operate 45 crematoria in England and Scotland.

**824,000** Pre-paid plans

We have already helped more than 824,000 people plan for their funerals in advance, of which 450,000 remain outstanding.



## Dignity at a glance continued

## Funeral services

**We are a major provider of funeral services in the UK and we strive to set the highest standards of service and care.**

**Performance in 2017**

At 29 December 2017, we operated a network of 826 funeral locations throughout the UK generally trading under established local trading names.

Funeral services revenues relate to the provision of funerals and ancillary items such as memorials and floral tributes. In 2017, Dignity conducted 68,800 funerals which represented approximately 11.5 per cent of total estimated deaths in Britain.

**£221.8m**

Revenue

**68,800**

Number of funerals conducted during 2017.

**£79.5m**

Underlying operating profit

## Crematoria

**We are the largest single operator of crematoria in Britain with a growing portfolio of well-established and state of the art crematoria that meet the needs of the local communities we serve.**

**Performance in 2017**

At 29 December 2017, we operated 45 crematoria in England and Scotland.

Crematoria revenues arise from cremation services and the sales of memorials and burial plots at Dignity operated crematoria and cemeteries. In 2017, we carried out 63,400 cremations representing 10.7 per cent of total estimated deaths in Britain.

**£74.0m**

Revenue

**63,400**

Number of cremations conducted during 2017.

**£40.0m**

Underlying operating profit

## Pre-arranged funeral plans

**We are one of the UK's leading providers of pre-arranged funeral plans and we continue to strengthen our business in this growing market.**

**Performance in 2017**

At 29 December 2017, the number of active funeral plans increased to 450,000.

Pre-arranged funeral plans income represents allowances received for the sale and administration of plans. Pre-arranged funeral plans allow people to plan and pay for their funeral in advance. Dignity works with a number of reputable affinity partners.

**£28.2m**

Revenue

**450,000**

Number of active funeral plans as at 29 December 2017.

**£8.0m**

Underlying operating profit

## From the Chairman



It is clear that the pace of change and the fierceness of competition, particularly for our funeral business, will continue to increase. For this reason, the Board took decisive action in January 2018 to change our pricing strategy and market positioning in order to protect market share and recalibrate the Group for future growth.

**Peter Hindley**  
Chairman

# 128.3p

**Underlying earnings per share** up 7% to 128.3 pence (2016: 119.8 pence).

### Overview

2017 was another successful year. Our client service results demonstrated that we continued to deliver for our clients at one of the most difficult times in their lives and we met financial expectations.

However, our financial success was achieved against the backdrop of a rapidly changing and increasingly competitive market and accelerating erosion of our market share. It is clear that the pace of change and the fierceness of competition, particularly for our funeral business, will continue to increase. For this reason, the Board took decisive action in January 2018 to change our pricing strategy and market positioning in order to protect market share and recalibrate the Group for future growth.

This new pricing strategy is to protect market share by offering a range of new price points and services to our clients while preserving our unrivalled levels of service. We have therefore significantly reduced the price of some funerals and frozen the price of others as part of this evolving pricing strategy. As we have also stated clearly this action will have a substantial impact on profits in 2018 and the new relationship between volumes and margins will take time to become clear.

The combination of new price points and industry-leading service levels means that we can now position ourselves as the best value service provider in the market. Delivering excellent client service remains a key strategic priority. Our strong investment over the years means that we are well positioned to provide the best quality service at each price point and market segment we choose to compete in. At the same time, the Group has embarked on a rigorous review to ensure that our funeral operations are organised to run more efficiently and effectively in the light of this change of pricing strategy and market positioning.

In meeting the challenges ahead, we will continue to build on the strong strategic initiatives we developed in 2017, in particular, our digital marketing and brand strategies. There are significant opportunities to lead the industry in digital marketing and to leverage the Group's scale to develop national recognition online to complement our existing physical national network. Dignity will also continue to lead calls for greater regulation of the funeral sector while continuing to set the standard for what constitutes best practice in the industry.

### Dividends

The Board is proposing to maintain the final dividend at 15.74 pence per Ordinary Share bringing the total dividend for the year to 24.38 pence, an increase of three per cent on the previous year. If shareholders approve this payment at the Annual General Meeting ('AGM') on 7 June 2018, then it will be paid on 29 June 2018 to members on the register at close of business on 18 May 2018.

### Board change

In March 2017, Mary McNamara was appointed to the Board as an independent Non-Executive Director and has been Chair of the Remuneration Committee since the beginning of 2018. In June 2017 we announced that our



## From the Chairman continued

long-serving Operations Director, Andrew Davies would retire in April 2018. He stepped down from the Board in January 2018. His successor was appointed from within the Company and will not be a Main Board appointment. On behalf of our shareholders and my Board colleagues I want to thank Andrew for his magnificent service to the Group and wish him a long and happy retirement.

Alan McWalter retired in January 2018 having completed nine years as an independent Non-Executive Director. In order to maintain a balanced Board he will not be replaced as Andrew Davies' replacement will not be a Main Board Director. Alan has provided wise counsel to the Board during his time as a director. Whilst Alan is stepping down as a director, given the challenges facing our funeral business and his industry knowledge, I am delighted that he has agreed to remain as a consultant to the Board until the end of July 2018.

### Directors' remuneration

The Group's 2017 financial performance was sufficiently strong to justify an award to Executive Directors of 95 per cent of the maximum amount possible of their annual bonus opportunity. However, in light of the significant reduction in financial expectations for 2018 following the trading update in January 2018, the current Executive Directors have decided to voluntarily waive their entitlement in full.

In addition, no Board member will receive an increase in basic salary or fees in 2018.

### Our people and culture

We are truly a people business because we help people at an extremely difficult time in their lives. Meeting their needs means that our employees must be caring, thoughtful and truly engaged with those they serve. I want to thank all Dignity staff for the continued care and commitment they show their clients, demonstrating what I like to think of as 'The Dignity Way'. This describes a special culture and way of working that means delivering the highest standards of service and going the extra mile. Thank you once again for making this company what it is and for your continued support in meeting the challenges that the Group faces.

### Outlook for 2018 and beyond

The business model for the Group's funeral business is changing as the Board focuses on protecting market share by introducing new service offerings and price points. As indicated in January, the Board believes that whilst the combination of action being taken will lead to substantially lower profits in 2018, it should create a new platform to allow many years of further stable growth.

The Office for National Statistics anticipates approximately 580,000 deaths in 2018, a small decrease of 10,000 on the actual deaths in 2017. However, the number of deaths in the first two months of 2018 are approximately seven per cent higher than the prior year.

## Committed to the highest standards of governance

Good governance is the basis on which we as a business can build an environment of trust, transparency and accountability. It also differentiates us from many competitors in what is still, regrettably, an unregulated industry. As such it provides assurance and confidence to our clients and fosters long-term investment, financial stability and business integrity. As a Board we are therefore committed to maintaining our high standards of corporate governance and ensuring there is a high level of cultural integrity embedded within the way we operate.

### Board priorities

The Board provides strategic leadership to the Group within a framework of robust corporate governance and internal control, setting values and standards that are embedded throughout the business to deliver long-term sustainable growth for the benefit of our shareholders and other stakeholders.

### Compliance

Our governance framework, which is shaped by the UK Corporate Governance Code, the Companies Act 2006 and secondary legislation and Financial Conduct Authority rules and guidance, sets out standards of good practice in relation to Board leadership and effectiveness, remuneration, accountability and relations with shareholders.



## Chief Executive's review



We are evolving our funeral business to be able to offer a range of new price points and services to our clients while preserving our unrivalled levels of service. Delivering excellent client service remains a key strategic priority and means that we can offer the best quality service at each price point and market segment we choose.

**Mike McCollum**  
Chief Executive

### Maintaining high standards of client service

Our funeral service survey results continue to demonstrate the outstanding work being performed by our dedicated people and the quality of our core business.

# 99.0%

**99.0 per cent** of families said that Dignity met or exceeded their expectations.

### Overview

2017 was a successful year with good performances from our crematoria and pre-need businesses. However, while our funeral business continued to set the standard at the premium end of the market, having commented on an acceleration in market share decline in our 2016 Annual Report, market share continued to decline at an accelerated rate in 2017 reflecting further increases in competition. As a consequence, the Board has taken decisive action to change the Group's pricing strategy and market positioning in our funeral business.

Underlying operating profit increased three per cent to £104.6 million (2016: £101.7 million), with each operating division trading in line with the Board's expectations. Alongside this, we continued to invest to support the existing network, acquire well reputed businesses and develop new crematoria.

### Change of pricing strategy and market positioning

As the Chairman has set out in his statement, the Board took decisive action in January 2018 to protect market share in our funeral business and reposition the Group for future growth.

In addition to the pricing changes already implemented, we will test a range of new price points and services to our clients while preserving our unrivalled levels of service. Delivering excellent client service remains a key strategic priority and means that we can offer the best quality service at each price point and market segment in which we choose to operate. We are now positioning ourselves as the best value service provider in the market, leveraging the strong investment in the funeral business that we have made over the years. In addition to these changes, we have also embarked on a rigorous review to ensure that our funeral operations are organised to run more efficiently and effectively.

Having delivered the market's financial expectations for 2017 our results for 2018 are less certain as we gauge client response to various pricing scenarios while maintaining our high levels of professional service and care. This has meant rebasing expectations for 2018. The key challenge for 2018 is to find the optimum relationship between price, service and demand for our funeral business going forward.

### The changing market

Over the last 18 months we have consistently drawn attention to the increasingly competitive environment in which we operate. The internet is beginning to change the nature of competition as the funeral industry enters the digital age. Clients are increasingly price-conscious and in an over-supplied industry, are shopping around more. This continues to have an increasing impact on the Group's market share, with a significant reduction in the average number of funerals per location noted since 2015. The average reduction in the number of funerals per location per one thousand deaths between 2004 and 2014 was 3.6 per cent. This accelerated to 6.8 per cent per year between 2015 and 2017. We have assumed that this will continue into 2018, and the revised pricing strategy and promotional activity is aimed at reducing the rate of decline as the year progresses.



## Chief Executive's review continued

Leveraging the strong fundamentals of our business

A new pricing strategy and market positioning

Unrivalled standards

Competitive pricing and continued excellent client service

### New pricing strategy

This increasingly competitive market was the background against which the decision to change our pricing strategy and market positioning was made in early 2018. In 2017, approximately 60 per cent of our funerals were traditional full-service funerals, seven per cent were simple funerals and approximately 27 per cent had been pre-arranged. The remainder of the Group's volumes were contract and other low value funerals. Reflecting the trend towards lower cost funerals we immediately reduced the price of the Group's simple funeral by an average of approximately 25 per cent and froze the price of our traditional funerals in the majority of our locations.

As a result of reducing the simple funeral price and other initiatives to be progressively tested during the year, it is likely that this changing mix of funeral services will continue. The Group currently anticipates that as a result of changes to its pricing strategy, simple funerals may represent approximately 20 per cent of all funerals performed in 2018. However, this is clearly an estimate and the precise mix will emerge during the year.

It should also be noted that ours is an evolving pricing strategy and other price and service level options are being actively considered as we review client response. We have also extended the services available from our online business, Simplicity Cremations. In all cases, we aim to provide the best quality and value in each segment. The high quality of our offering, more competitively priced, is how we will differentiate ourselves, locally and nationally.

Delivering these changes effectively will require tools and training for our staff and this work is in progress. In order to promote the new prices and the business more generally, the Group expects to spend an additional £2 million in 2018 and in subsequent years compared to 2017 on digital and other promotional activities, building on the work started in 2017. This additional cost is expected to reoccur and is likely to increase in future years.

### Opportunities

In a fragmented and increasingly online marketplace we have a significant opportunity to leverage our existing physical national funeral and crematorium networks and create a powerful national digital presence in both our traditional premium service market and other emerging market segments. The first example of this was Simplicity Cremations, launched in November 2016 and currently averaging a run rate of 1,000 direct cremations per year.

We also continue to view selective acquisitions of well-established funeral businesses as an appropriate use of capital despite the changing market. We will also continue to develop our network of crematoria.

### Investment and development momentum

Our future development builds on strong, Group-wide fundamentals, reflected in our track record of good operating performance, continued excellent client service results and the further acquisition of established funeral businesses. A core strength of the management team is its ability to spot quality acquisitions and integrate them effectively within the business. During the year the Group

has acquired 24 funeral locations and one crematorium for an aggregate investment of £28.3 million and has opened 14 satellite locations.

### Leadership and standards

We have continued to call for regulation in the industry, commissioning and launching a ground-breaking report into the pre-paid market. We have further industry-leading initiatives in the pipeline.

We believe the funeral industry will benefit significantly from proper regulation to ensure that clients are not misled into accepting below-par service and standards. We pride ourselves in providing industry-leading standards. It is a thread which has run through our business from the beginning and we are determined to maintain this focus while augmenting our products and improving our channels to market. Reaching our desired goals, operational and financial, will require our staying focused on excellent service and we are committed to ensuring that this is the case.

Alongside this, it is increasingly important to us that all stakeholders, including policymakers and those outside the industry, understand what we stand for and why our goal of achieving a properly regulated industry is important. We welcome fair scrutiny of the industry and our business.

### Delivering excellent client service in an evolving digital age and increasingly competitive funeral sector



We have long been known for our high quality of service and every year we have reported on exceptionally high levels of client satisfaction. We are determined this will not change. This total commitment to quality of service and client satisfaction will now be applied to a wider range of products and price points. Our aim is to be recognised as the company that provides the best value funeral service, regardless of how simple or traditional.

Adjusting pricing is relatively straightforward, but the greater challenge is building the infrastructure and developing the staff necessary to provide excellent service. We believe this is where the years of investment in our facilities and staff training will pay dividends, for us as a company, but also for our clients. It means we can offer them unrivalled service at each product and service level they choose and at a price that is competitive. This is the repositioned Dignity.

## Chief Executive's review continued

A changing and increasingly competitive environment.

### Market overview

The UK funeral market is getting more complex. The internet is beginning to play an increasing role and consumer behaviour is beginning to change. After years of declining deaths and a significant rise in the number of funeral directors, although deaths are now projected to increase in the coming years, there are around 30 per cent fewer deaths per funeral director in the UK compared to 25 years ago. Clients are becoming more price-sensitive and are shopping around more.

The Group monitors and responds to the environment it operates in, seeking to understand the implications for the short, medium and long-term. Outlined below are some basic facts about the marketplace as it currently stands. Further on I describe in more detail the key drivers in the marketplace and what we are doing to address these challenges.

### Scale and structure of the market

The funeral director market remains very fragmented, with approximately two thirds of funeral directors being small owner managed businesses. There are approximately 290 crematoria in the UK, with circa 66 per cent owned by local authorities. It is estimated that three quarters of all funerals result in a cremation with the remainder being burials.

In 2017, the initial publication of recorded total estimated deaths in Britain for 52 weeks was 590,000, the same number as the 53 weeks in 2016. Some of the Group's key performance indicators rely on the total number of estimated deaths for each period and this information is obtained from the Office for National Statistics ('ONS'). Although annual deaths have declined significantly since the early 1990s from 640,000 to a low of 539,000 in 2011, the last five years have seen deaths above that level. The ONS expects long-term increases in the number of deaths, reaching approximately 700,000 per year by 2040. Deaths have been elevated in the last few years. Whether this marks the start of this longer-term trend or a temporary anomaly is too early to conclude.

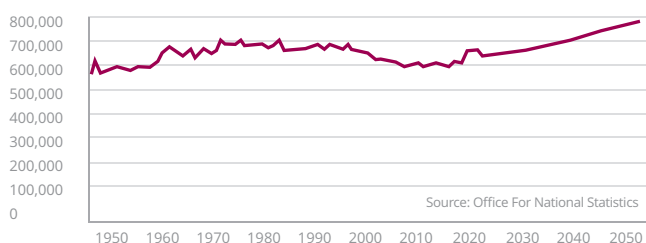
### Funeral director market

The funeral director market remains very fragmented, with approximately two thirds of funeral directors being small owner managed businesses.



### Deaths in Great Britain

Long-term expectations are for the number of deaths to reach 700,000 by 2040.



## The market share of our three businesses

### Dignity's funeral market share

**11.5%** (2016: 11.8%)

#### Funeral services:

Dignity has approximately 11.5 per cent of the funeral market. This gives the Group sufficient size to operate its locations efficiently in a way that shares expensive resources, such as mortuaries and specialist vehicles, whilst providing very high levels of service to each family it looks after.

This size still gives the Group good scope to acquire owner managed businesses in areas where it is not well represented.

### Dignity's crematoria market share

**10.7%** (2016: 10.1%)

#### Crematoria:

With 45 crematoria, Dignity is the largest single operator in Britain. The cremations performed represent approximately 10.7 per cent of deaths in Britain. There is still significant scope to expand through acquisition or new builds where possible.

## Number of active pre-arranged funeral plans

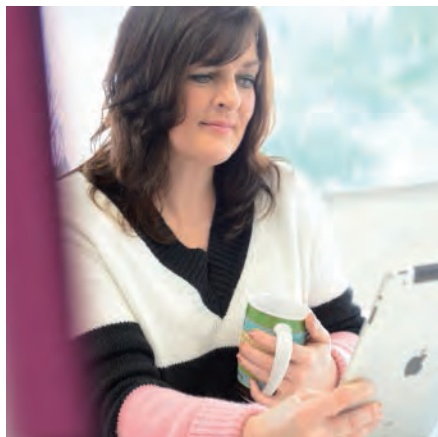
**450,000** (2016: 404,000)

#### Pre-arranged funeral plans:

Dignity's national network of funeral locations and strong relationships with many different affinity partners has allowed it to sell significant volumes of pre-arranged funerals that should represent incremental activity for the funeral division in the future.

## Chief Executive's review continued

## Understanding the evolving trends and dynamics that are shaping the funeral sector.



### Connecting digitally

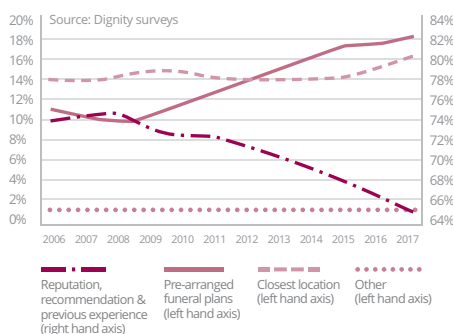
According to ONS' recent analysis, 90 per cent of households have access to the internet, 78 per cent of consumers have accessed it 'on the go' via a device and 75 per cent of those aged 55 to 64 now buy online. Given this, it is not surprising that there is now significant use of the internet to fill the knowledge gap around funerals. Data from Google indicates over 5.2 million searches in 2017 compared to 4.6 million in 2016 for funeral related advice and information. The most popular searches were for advice when someone dies and what is involved with arranging a funeral with searches for local funeral directors also very high. Significantly, the providers of this advice online are more frequently consumer websites, media sites and comparison websites rather than funeral directors. Consumers also now expect to be able to check or compare funeral prices online. We also believe more people are shopping around, talking to more than one funeral director before making the arrangements.



### Increasing competition

Whilst our single biggest source of business remains previous experience and word of mouth, the chart below demonstrates the ongoing decline of this traditional source of business in the face of competition from an increasing trend towards pre-arranged funerals and other competitors.

#### Source of funerals based on client surveys



### Price and affordability

The increased media and political interest in the rising cost of funerals in the last few years has affected the marketplace. Consequently, price and affordability are rightly becoming increasingly important factors for a growing number of clients. Combined with the internet which allows them to shop around, prices are coming under growing pressure. Clients want a funeral company that can provide a range of pricing options while guaranteeing a high quality and value-for-money service.



### Changing client demands

It is clear that direct cremations represent a small, but increasing proportion of all funerals. Sun Life's 2017 Cost of Dying report also describes how, within their surveyed population, nine per cent (compared to seven per cent the year before) of funerals last year were eco, environmental or woodland funerals. They also report 31 per cent of funerals being described by funeral directors as a "celebration of life funeral", and note a significant increase in these types of service on the previous year. They should be interpreted as a direction of travel for consumer behaviour rather than precise metrics about the entire market.



The following pages explain how we are responding to these challenges and positioning the business to maximise the opportunities ahead.





## Chief Executive's review continued

Setting the standards for a modern funeral business through the quality of our services and competitive pricing.

## Leveraging our brand and rolling out our digital strategy.



### The brand

With a growing emphasis on price there is a risk that the industry becomes commoditised, with consumers initially choosing on price and assuming that all funeral providers are the same. In such a market an ability to leverage a strong brand becomes crucial.

In addition, our marketplace is fragmented and increasingly online. This provides a challenge, but also a significant opportunity to leverage our scale and create a powerful brand. In the pre-digital world, the strength of our local trusted businesses, trading on reputation and high-quality service gave us a pre-eminent position. In the digital age there is a compelling requirement, and opportunity, to leverage and build a national brand and add that to the mix, supporting and enhancing our strong local market positions. The first step has been to create a new brand style and to begin to develop brand awareness online. This work is a strategic priority for the Group.

### New products and service levels

The brand will be supported by a growing suite of products, product refinements and price points. We are working on and trialling new

propositions for cremations and simple funerals, as well as developing our pre-need packages. We are also reviewing the advantages of launching into other segments under different sub-brands, including a mid-market offering. We have already launched our affordable cremation service, Simplicity, and subsequently offered three new packages and prices.

### Strengthening the competitiveness of our funeral locations

The combination of a strong national brand and a range of product and price offerings to clients will strengthen the competitiveness of our branches. However, more can and will be done at a local level as part of a rigorous review to ensure our operations are organised to run more efficiently and effectively.

### Simplicity Cremations

Simplicity offers low cost direct cremations without any initial funeral service that are both respectful and dignified. They are an affordable alternative to a full funeral or for those wishing to have a simple cremation. We have recently added a pre-need option and will also be providing the option in future to attend one of our 45 crematoria for a committal service.

## 826 Locations

The Group's national coverage is achieved through our 826 funeral locations.

## Chief Executive's review continued

75%

75 per cent of those aged 55 to 64 now buy online.

The internet is changing the nature of competition as the funeral industry enters the digital age. The Group is well placed to respond and lead as it is the only operator with a national network of funeral locations and crematoria.

**Good progress**

We want to ensure that when individuals are searching online for a funeral director, we are well presented and are at the top of the list. We have made good progress so far on this front.

We have set up websites for over 800 of our funeral directors and started to strengthen the online presence and authority of our main site. As at January 2018, it had the highest domain authority on websites of any provider.

The Group has also launched a new service for clients that makes it easier for them to notify family members through email, social media and the internet of funeral arrangements. This service also allows families to order flowers and make donations online.

We are piloting a number of other client-supporting initiatives and services. If successful this will be followed by national roll outs. We are also planning the second phase of developments for our funeral director websites and are developing industry-leading content to support all funeral-related guidance topics.

In truth, the industry has been one of the last to embrace the digital and online revolution. There is much catching up to do but also major opportunities for those leading players who get it right. We are absolutely determined to succeed and are making the investment in terms of technology and people to ensure that we do. In today's digitally enabled and data rich world it is essential that we equip our people with the latest technology and tools to support their activities and the services we provide to our clients.

**Funeral notices online**

The Group has launched a new online funeral notices service that makes it easier for clients to notify family members of funeral arrangements through social media and the internet. The service also allows families to arrange flowers and make donations.

**Engaging with clients online**

Our ongoing digital investment is aimed at making our products and services more immediate, intuitive and relevant, supporting and assisting our clients at a difficult time.





## Chief Executive's review continued

## Leading the call for regulation and higher standards.

### External recognition

In 2017, Dignity Funeral Plans became the first ever organisation in the UK to be accredited the BSI Kitemark for customer service. BSI produce technical standards for various services and across many industries and their Kitemark is a widely recognised symbol of quality and trust globally.



### Defaqto 5 Star Rating

Financial information business Defaqto has introduced a new five star rating for pre-paid funeral plans following research and analysis by its independent experts. Dignity's Diamond Funeral Plan was one of only five out of 97 funeral plans from 26 providers in 2017 to receive the prestigious Defaqto 5 Star Rating.



While increasing competition often leads to higher standards, in an unregulated industry this is far less certain and the funeral industry is a case in point. In addition, in the case of a service industry, the quality of service being provided is not known in advance. Consequently, the importance of reputation and, just as crucially, the need for regulation is paramount.

We regret very much that the provision of funeral services is not regulated and have continued to lead calls for this to change. Dignity would welcome regulation of the funeral industry which set out minimum standards for core activities such as the care of the deceased, minimum standards of facilities and also operating procedures in crematoria.

We therefore continue to support legislative changes by the Scottish Government enacted in 2016. This provides it with the powers to regulate the funeral industry. Dignity welcomes this progress and anticipates making further contributions to the discussion on the service standards required within the regulations.

Dignity also welcomed changes to the Funeral Planning Authority ('FPA'), which acts as a self-regulatory body for the sale of pre-arranged funeral plans. The changes removed provider representation from the Board of the FPA and made them independent of those selling plans. Registration with the FPA and compliance with its requirements will help to provide further comfort to clients as to the quality of the plan they are buying. For our part, in 2017 we commissioned and published research into the pre-paid funeral market, asking whether this market was working well for consumers. We are continuing to engage with HM Treasury and the FCA on the topic of regulation.

With regard to crematoria, these are subject to environmental regulations in accordance with "The Secretary of States Guidance Notes for Crematoria-PG5/2(12)", with emission levels being monitored by Environmental Health Officers in England and Wales and Scottish Environment Protection Agency in Scotland. The abatement of mercury emissions has improved the environmental position with Dignity abating more than the current legislative requirements.



### Thought leadership from Dignity

#### The pre-paid funeral market

Working with a respected and independent partner, Fairer Finance, we commissioned a well-received report which asked whether this market was working well for consumers.

#### Ground-breaking research into cremations

We wish to provide our clients with the best possible service, one which fully meets or exceeds their needs. To do this we need to properly understand them and this requires research. At present we are exploring issues around cremations through two research projects.

The first is a study on the impact of direct cremation funerals on grief, working with bereavement specialists and leading academics from home and abroad. The aim is to produce guidance for consumers and the industry on the decisions to be made at the point of determining a cremation, and their potential impact.

The second project looks at what consumers most value from a cremation service. With this insight we will be able to ensure that our cremation services are giving clients what they really want and value, as well as providing useful insights for the industry as a whole.





## Chief Executive's review – Outlook Q&amp;A

**An already fragmented market is becoming more complicated. The internet is beginning to play an increasing role and consumer behaviour is beginning to change. After years of declining deaths and a significant rise in the number of funeral directors, although deaths are now projected to increase, we estimate that there are around 30 per cent fewer deaths per funeral director in the UK compared to 25 years ago. Clients are becoming more price-sensitive and are shopping around more.**

**We have been alert to the challenges facing the Group in this changing and increasingly competitive environment. At the beginning of 2018 we judged that decisive action was needed to address the challenges we faced. We have taken that action and our focus this year is on delivering our new pricing and product strategy.**

**At the same time we will continue to demonstrate industry leadership to seek the regulated market that will be good for clients and society which plays to our strengths as a well-managed business with high levels of client satisfaction.**

**Mike McCollum**  
Chief Executive

**Q What has happened in your market to trigger this change of strategy?**

As we mentioned at our Q3 trading update at the end of 2017, we continue to see significant competition across the business. A fragmented market is becoming more complicated. The internet is belatedly bringing change to the funeral market, and consumer behaviour is beginning to change. Although deaths are now projected to increase, we estimate that there are around 30 per cent fewer deaths per funeral director in the UK compared to 25 years ago. Clients are becoming more price-sensitive and are shopping around more.

Due to these factors, the Group has experienced a decline in its market share. We have seen a rise in volume erosion. The average reduction in the number of funerals per location per one thousand deaths between 2004 and 2014 was 3.6 per cent. This accelerated to 6.8 per cent per year between 2015 and 2017. The Board has been considering alternative pricing and strategic initiatives over the last 18 months and believed that the time was right to reposition the business and its pricing to protect market share.

**Q What are the Group's immediate strategic priorities?**

It is very clear. We as a management team and Board have to deliver the new strategy. This means promoting our new offerings and positioning to the marketplace and providing an unrivalled and competitively priced service, to the marketplace. It means considering new price points and service offerings as part of our evolving pricing and product strategy. It means rigorously reviewing our operations to ensure that they are more efficient and effective. It also means we have to carefully monitor and review the progress we are making through this year. Our goal is to protect market share and reposition the Group for future growth, recognising that our actions will have a substantial impact on profits in 2018 and that the new relationship between volumes and margins will take time to become clear.

**Q What opportunities do you see for the Group in the changing market environment?**

We have the scale and strength to leverage our brand. We have the resources to ensure that we are the leading provider in the digital and online space. We have the management team and Board that can and is responding rapidly to changing client demands in terms of product and pricing. We have the vision for what a modern funeral service provider should be in the light of the changes outlined above. We have the ambition to get ahead of the competitive curve and continue to provide sustainable growth and a healthy future for all our stakeholders.

**Q Going forward, what are the Group's strongest assets?**

There are a number. We have the required expertise and experience to understand the marketplace and respond to changing client needs. We run high quality operations and believe we set the highest standards within the industry. We have the financial strength and quality of management to deliver on our strategic priorities. Most of all, we have the commitment of our people on the ground, who regularly go the extra mile for clients and are expert and compassionate in dealing with people at an extremely difficult time in their lives.

**Q How confident are you about the future of the Group in the medium-term?**

We saw that the funeral market was changing and have now taken steps to respond to the challenges. We will be performing further tests on pricing and services offered and these will evolve as we analyse the results. Alongside this, we are taking a detailed look at our operational model.



## Strategy and business model

New strategic objectives and a changing business model.

**At the beginning of 2018 in light of continued and increasing competition and market share erosion in our funeral business, the Board took decisive action and announced a change in strategy.**

### New strategic objectives

#### Protect market share and reposition the Group for growth.

In the short-term, our key strategic objective and priority is to protect market share and reposition the Group for growth.

##### How:

- By offering a wide choice of new price points and services to our clients while preserving our unrivalled levels of service.
- By continuing to prioritise excellent client service regardless of market segment which we believe will lead to organic growth.
- At the same time we have embarked on a rigorous review to ensure that our funeral operations are organised to run more efficiently and effectively in the light of this change of strategy and positioning.

#### Establish new market positioning.

We establish ourselves as the best value service provider in the market.

##### How:

- By combining our unrivalled service levels based on historic, long-term investment, with a new, competitively priced range of service and product options for clients.

##### Digital

Through our comprehensive digital strategy be the leading online presence in the funeral sector.

##### Brand

Build our brand to stand out in an increasingly commoditised and competitive market.

#### Re-base the business model and market expectations.

In 2018 find the optimum relationship between price, service and demand for our funeral business going forward.

##### How:

- By using 2018 to gauge the market response to various pricing scenarios while maintaining our high levels of professional service and care.

### Our overall strategic approach

Our new strategic objectives and the means of delivering them are based on the following four key elements:



#### Continue to build on the strong fundamentals of the business and use these as a platform for change.

These strengths, which derive from our well established and highly regarded local businesses, our proven ability to deliver exceptional service and strong corporate governance allows us to remain robust and flexible in the face of change.



#### Continue to be distinctive in the marketplace.

Define clear market positions and build on our positive reputation, and business, by delivering a high-quality and value for money service.



#### Continue to make efficient use of our balance sheet to enhance shareholder returns.

Continue our successful strategy of acquiring and integrating businesses.



#### Continue to be a good corporate citizen.

Corporate responsibility is integral to our business as it supports the delivery of our strategy and aligns with our values.

#### Our previous strategic objectives and our Key Performance Indicators (KPIs)

For 2017 and previous years our strategic objectives were as follows:

- 1 Continue to prioritise excellent client service which we believe will lead to organic growth.
- 2 Control our costs without compromising the quality of our service.
- 3 Expand our funeral and crematoria portfolios.
- 4 Gain new clients through the sale of pre-arranged funeral plans.
- 5 Increase our returns through efficient capital management.

These five objectives are repeated here because they guided the Group in 2017 and underpin and relate directly to the long-standing KPIs which appear in this Report and Accounts. They form a crucial means of measuring performance. In the light of the change in pricing strategy announced in early 2018 it is expected that the Group's KPIs, as they relate to a newly stated set of strategic objectives, will be reviewed during the course of this year to ensure they remain appropriate.

## Strategy and business model continued

### How we operate

#### Generating profitable growth:

- Our consistent track record in strong cash generation and financial discipline enables us to reinvest and grow the business both organically and through strategic acquisition. We generate revenues from new and returning clients and by carefully acquiring businesses that complement our network of locations, extend our geographic reach and represent a reasonable return on our capital.

#### Controlling and measuring growth:

- We do this by making well informed decisions, supported by careful risk management and good governance.

#### Operating responsibly:

- We do this through embedded policies and robust initiatives, appropriate to the distinct needs of our stakeholders, alongside reducing our impact on the environment and making a positive social impact.

#### Maintaining performance across our operations:

- We strive to provide our clients with the highest standards of facilities, service and care. We achieve this by our commitment to continuous improvement and investment in our portfolio and consistently delivering excellent client service.

#### Building strong relationships:

- Our clients are the foundation of our business and their trust is earned through our actions both individually and as a group.
- Our people are our most important asset and we value and invest in them as they are integral to the delivery of our strategic objectives.
- For shareholders, our priority is to reposition the Group for long-term success.
- We play an important part in and are valued by the local communities we serve and we are committed to making a difference.

### Creating and delivering value



#### Our clients

- Our objective is to be the company that everyone knows they can trust in their time of need. We achieve this through continuous improvement and delivering products and services to our clients.



#### Our people

- We believe that the quality of our people is a strong enabler of business growth. We value our people and they are a great asset. We support them by recognising and rewarding performance and long service plays a key part in this.



#### Our shareholders

- We aim to deliver the best possible operational performance from the business to deliver maximum returns to our shareholders over the long-term.



#### Communities

- Contributing to the communities in which we operate benefits both local people and our business. It enhances our profile and reputation, promotes employee engagement and helps to attract new employees.

#### Governance

Our approach to good governance continues to be robust and effective. Clear Board roles and governance processes offer balance and experience to our strong executive team, helping drive strategic and performance progress.

#### Risk

Dignity has a well established risk management process which is embedded within its business to support the identification and effective management of risks across the business.

#### KPIs

The Group uses both non-financial and financial KPIs to both manage the business and ensure the Group's strategy and objectives are being delivered.

#### Remuneration

Our strategy is focused on delivering short and long-term financial performance. Earnings targets, share price return and the achievement of strategic objectives are measures of performance used to incentivise Executive Directors to deliver the Group's strategy.



## Key performance indicators

We use non-financial and financial KPIs to both manage the business and ensure that the Group's strategy and objectives are being delivered.

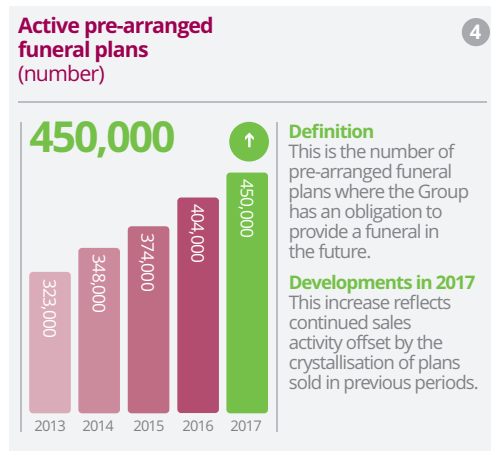
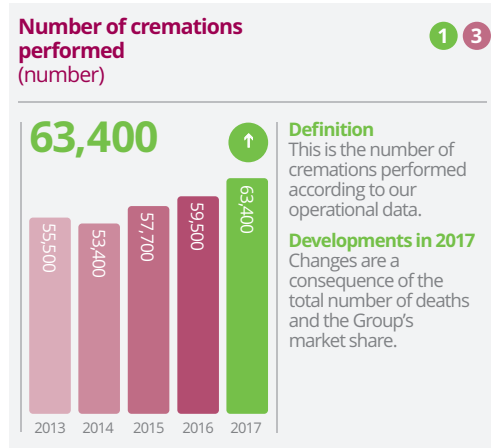
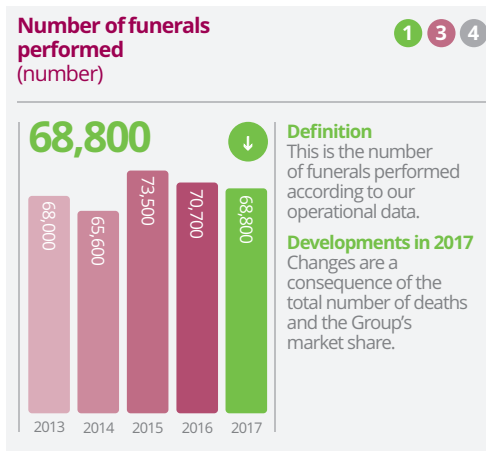
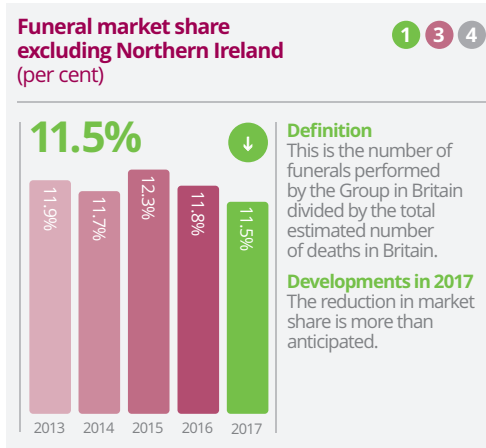
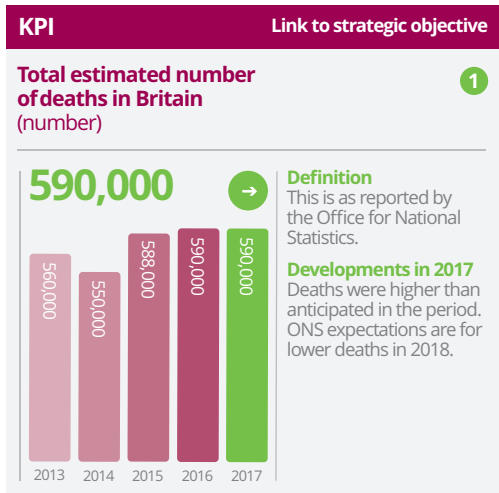
### These KPIs are linked to our 2017 set of strategic objectives

- 1 Continue to prioritise excellent client service which we believe will lead to organic growth.
- 2 Control our costs without compromising the quality of our service.
- 3 Expand our funeral and crematoria portfolios.
- 4 Gain new clients through the sale of pre-arranged funeral plans.
- 5 Increase our returns through efficient capital management.

### How we measure performance

- We monitor our performance by measuring and tracking KPIs that we believe are important to our longer-term success.
- Each KPI reflects a quantifiable measure of different aspects of the Group's strategy. They act as headlines for the Board, allowing them to use more detailed management information to consider the Group's strategy and financial performance in greater depth where appropriate.
- Our KPIs and goals are set to measure our progress in improving our financial performance and in embedding sustainable long-term growth.

### Non-financial KPIs



## Key performance indicators continued

## Financial KPIs

## KPI

Link to strategic objective

## Underlying earnings per share (pence)

1 2 3 4 5

128.3p

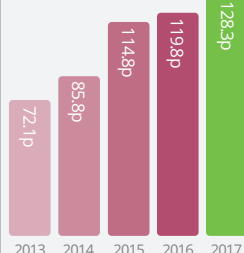


## Definition

This is underlying profit after tax divided by the weighted average number of Ordinary Shares in issue in the period.

## Developments in 2017

This growth follows the increase in underlying operating profit, assisted by a one-off reduction in the effective tax rate.



## Underlying operating profit (£m)

1 2 3 4

£104.6m

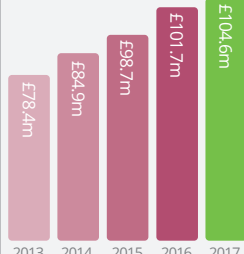


## Definition

This is the statutory operating profit of the Group excluding profit (or loss) on sale of fixed assets, external transaction costs and amortisation of acquisition related intangibles.

## Developments in 2017

Good growth driven by higher than expected deaths as well as acquisition activity, offset by lower market share than anticipated.



## Cash generated from operations (£m)

5

£115.4m

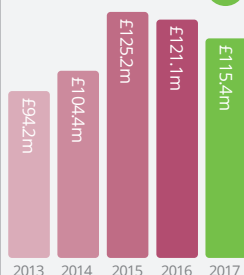


## Definition

This is the statutory cash generated from operations excluding external transaction costs and (in 2013 and 2014) exceptional pension contributions.

## Developments in 2017

The Group continues to convert operating profit into cash efficiently.



## KPI

Link to strategic objective

Our objective is to lead the funeral sector in professional standards and service. Our priorities and our success are determined by our impact on our clients.

## Client satisfaction in our funeral services

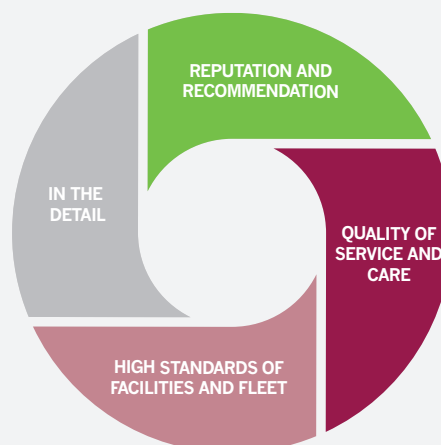
1

## Objective

Ensuring the highest levels of client service is one of our key strategic objectives and is fundamental to our continued success.

## Definition

We closely monitor the results of our client surveys which are conducted by our Funeral services division. In the last five years, we have received approximately 160,000 responses. This is our measure of how these services meet or exceed client expectations.

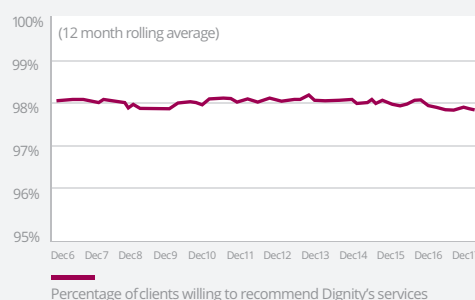


## Maintaining client satisfaction

Our consistently high satisfaction scores reflect the strength of our relationships with our clients and the stability and quality of our core business. We listen to our clients and also use our survey responses to focus on areas in which we can improve and add value.

Our ongoing commitment to high levels of client satisfaction continues to generate high levels of referrals as demonstrated in the graph below.

## Recommending our services (% of clients)



See how we have performed in the Dignity client survey 2017 on page 18.

## Key performance indicators continued

We strive to maintain and improve client satisfaction across our business. Our funeral service survey results continue to demonstrate this commitment.

### What we focus on:

#### Ensuring the highest levels of client service



Recommendations and our reputation have generated approximately 67 per cent of our funeral business on average in the last five years.

#### Recruiting, developing and retaining the best people



We seek to recruit and retain the best people through appropriate remuneration and ongoing training. Over 32 per cent of Dignity employees have over 10 years' service.

#### Continued investment



In 2017, we invested £20.2 million in capital expenditure on the core business to ensure that both our client-facing areas and behind the scenes facilities are maintained to the highest standards.

#### Listening to our clients; providing clear advice and guidance



We act with compassion and care, pay attention to detail, spend as much time as the client needs, we are open and straightforward and keep in regular contact with the client.

### Meeting and exceeding expectations (% of clients)



### What our clients say: The Dignity client survey 2017

#### Reputation and recommendation

**99.0%** (2016: 98.8%)

99.0 per cent of respondents said that we met or exceeded their expectations.

#### High standards of facilities and fleet

**99.8%** (2016: 99.8%)

99.8 per cent thought our premises were clean and tidy.

**97.7%** (2016: 97.7%)

97.7 per cent of respondents would recommend us.

**99.8%** (2016: 99.8%)

99.8 per cent thought our vehicles were clean and comfortable.

#### Quality of service and care

**99.9%** (2016: 99.9%)

99.9 per cent thought our staff were respectful.

#### In the detail

**99.3%** (2016: 99.2%)

99.3 per cent of clients agreed that our staff had fully explained what would happen before and during the funeral.

**99.7%** (2016: 99.7%)

99.7 per cent thought our staff listened to their needs and wishes.

**99.0%** (2016: 99.1%)

99.0 per cent said that the funeral service took place on time.

**99.1%** (2016: 99.1%)

99.1 per cent agreed that our staff were compassionate and caring.

**98.0%** (2016: 98.5%)

98.0 per cent said that the final invoice matched the estimate provided.



## Our summary performance in 2017

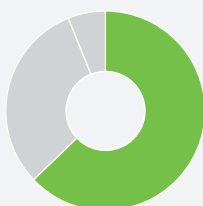
The Group has continued to perform strongly in 2017 against the backdrop of an increasingly competitive market.

### Operational and Financial Summary

#### Funeral services

##### Group underlying operating profit share (%)

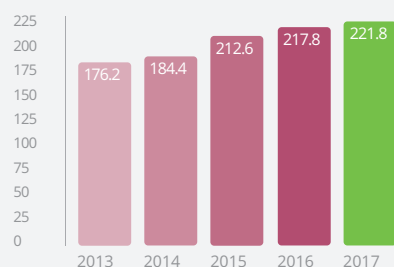
63%



##### Revenue (£m)

↑  
+2%

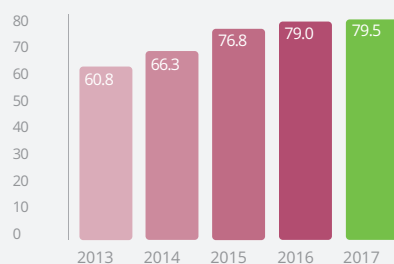
Revenue up 2% to £221.8 million



##### Underlying operating profit (£m)

↑  
+1%

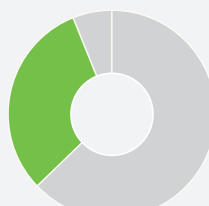
Underlying operating profit up 1% to £79.5 million



#### Crematoria

##### Group underlying operating profit share (%)

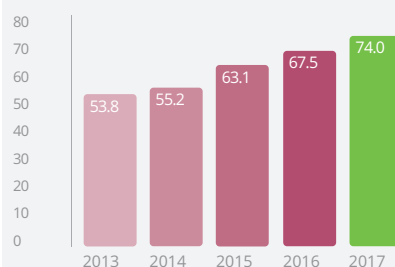
31%



##### Revenue (£m)

↑  
+10%

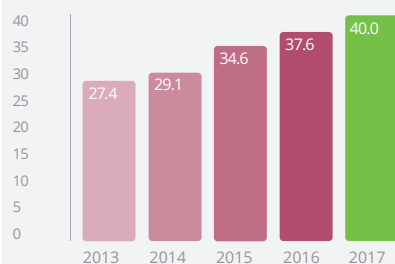
Revenue up 10% to £74.0 million



##### Underlying operating profit (£m)

↑  
+6%

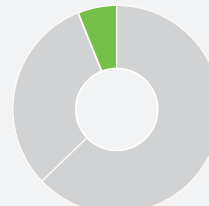
Underlying operating profit up 6% to £40.0 million



#### Pre-arranged funeral plans

##### Group underlying operating profit share (%)

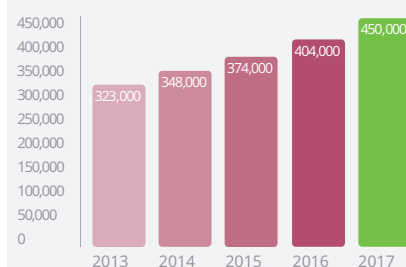
6%



##### Total number of active plans

450,000

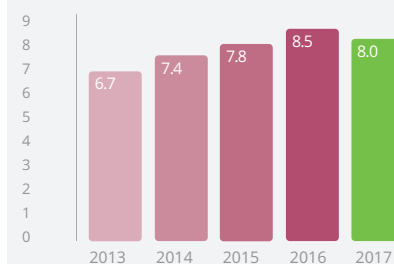
Total active pre-arranged funeral plans increased to 450,000



##### Underlying operating profit (£m)

↓  
-6%

Underlying operating profit down 6% to £8.0 million



## Financial review



Our challenge as a Board is to protect market share and reposition the Group for growth. An important part of that equation is ensuring that our operations are running more efficiently and effectively. To that end we have implemented a rigorous review of our funeral operations to ensure that they are able to fully deliver our new strategic objectives.

**Steve Whittern**  
Finance Director

### Performance in 2017

**£324.0m**  **£104.6m** 

**Revenue** up 3% to £324.0 million (2016: £313.6 million).

**Underlying operating profit** up 3% to £104.6 million (2016: £101.7 million).

**128.3p**  **£28.3m**

**Underlying earnings per share** increased 7% to 128.3 pence (2016: 119.8 pence).

**Amount invested** in acquiring established funeral and crematorium businesses.

### Introduction

These results have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted in the EU.

### Financial highlights

The Group's financial performance is summarised below:

	52 week period ended 29 Dec 2017	53 week period ended 30 Dec 2016	Increase/(decrease) %
Revenue (£million)	<b>324.0</b>	313.6	3
Underlying operating profit <sup>(a)</sup> (£million)	<b>104.6</b>	101.7	3
Underlying profit before tax <sup>(a)</sup> (£million)	<b>77.8</b>	75.2	3
Underlying earnings per share <sup>(a)</sup> (pence)	<b>128.3</b>	119.8	7
Cash generated from operations <sup>(b)</sup> (£million)	<b>115.4</b>	121.1	(5)
Operating profit (£million)	<b>98.0</b>	97.7	–
Profit before tax (£million)	<b>71.2</b>	71.2	–
Basic earnings per share (pence)	<b>115.8</b>	115.3	–
Dividends paid in the period:			
Interim dividend (pence)	<b>8.64</b>	7.85	10
Final dividend (pence)	<b>15.74</b>	14.31	10

<sup>(a)</sup> Underlying amounts exclude profit on sale of fixed assets, external transaction costs, amortisation of acquisition related intangibles, net of tax where appropriate and exceptional items in respect of taxation.

<sup>(b)</sup> Cash generated from operations excludes external transaction costs.

The Board has proposed a dividend of 15.74 pence per Ordinary Share as a final distribution of profits relating to 2017 to be paid on 29 June 2018, subject to shareholder approval.

### Change in accounting estimates – Amortisation of intangibles

During the period, the Group reconsidered the indefinite life assumed for its trade names. Given the increasingly price competitive market and its impact on the business, the Group has concluded that an indefinite life is no longer appropriate. The estimate was updated in 2017 to a useful life of 35 years, applicable from 1 October 2017.

### Exceptional items and underlying reporting measures

The Group's underlying measures of profitability exclude profit (or loss) on sale of fixed assets, external transaction costs, amortisation of acquisition related intangibles and exceptional items in respect of taxation. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day to day management of the business and allow for greater comparability across periods.

In 2017, following the commencement of amortisation of acquired intangible trade names and other crematoria related acquired intangibles, acquisition related amortisation of £1.8 million (2016: £nil) has also been excluded in determining underlying profitability measures. Acquisition related amortisation is defined as being the amortisation arising in respect of trade names, use of third party brand names and other crematoria related acquired intangible.

## Financial review continued

£27.0m

£27.0 million has been invested in maintaining our property and fleet portfolio.

£368.4m

Since flotation, £368.4 million in cash including dividends has been returned to shareholders.

Accordingly, the following information is presented to aid understanding of the performance of the Group:

	52 week period ended 29 Dec 2017 £m	53 week period ended 30 Dec 2016 £m
<b>Operating profit for the period as reported</b>	<b>98.0</b>	97.7
Add/(deduct) the effects of:		
Profit/(loss) on sale of fixed assets	0.1	(0.1)
External transaction costs in respect of completed and aborted transactions	4.7	4.1
Acquisition related amortisation	1.8	-
<b>Underlying operating profit</b>	<b>104.6</b>	101.7
Net finance costs	(26.8)	(26.5)
<b>Underlying profit before tax</b>	<b>77.8</b>	75.2
Tax charge on underlying profit before tax <sup>(c)</sup>	(13.8)	(15.8)
<b>Underlying profit after tax</b>	<b>64.0</b>	59.4
Weighted average number of Ordinary Shares in issue during the period (million)	49.9	49.6
Underlying EPS (pence)	128.3p	119.8p
Increase in Underlying EPS (per cent)	7%	4%

<sup>(c)</sup> Excludes tax on acquisition related amortisation, external transaction costs and exceptional tax credits of £0.4 million (2016: £1.8 million).

### Earnings per share

The Group's statutory profit after tax was £57.8 million (2016: £57.2 million). Basic earnings per share were 115.8 pence per share (2016: 115.3 pence per share). The Group's measures of underlying performance exclude the effect (after tax) of the profit (or loss) on sale of fixed assets, amortisation of acquisition related intangibles, external transaction costs and exceptional items in respect of taxation. Consequently, underlying profit after tax was £64.0 million (2016: £59.4 million), giving underlying earnings per share of 128.3 pence per share (2016: 119.8 pence per share), an increase of 7 per cent.

The growth rate for underlying EPS exceeded the growth in underlying operating profit, reflecting the leveraging effect of the Group's capital structure and reduced tax charge.

### External transaction costs

External transaction costs reflects amounts paid to external parties for legal, tax and other advice in respect of the Group's acquisitions.

In 2017, external transaction costs also include £2.1 million in respect of external advisers' fees for a significant potential acquisition and £1.2 million for other development opportunities that were aborted.

### Capital expenditure

Capital expenditure on property, plant and equipment and intangible assets was £27.0 million (2016: £22.8 million).

This is analysed as:

	29 Dec 2017 £m	30 Dec 2016 £m
Maintenance capital expenditure:		
Funeral services	12.7	13.6
Crematoria	4.6	3.7
Other	2.9	2.3
Total maintenance capital expenditure <sup>(a)</sup>	20.2	19.6
Branch relocations	2.2	1.6
Satellite locations	1.1	0.8
Development of new crematoria and cemeteries	3.5	0.8
Total property, plant and equipment	27.0	22.8
Partly funded by:		
Disposal proceeds	(0.6)	(1.0)
<b>Net capital expenditure</b>	<b>26.4</b>	21.8

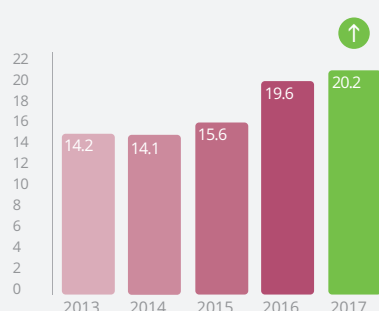
<sup>(a)</sup> Maintenance capital expenditure includes vehicle replacement programme, improvements to locations and purchases of other tangible and intangible assets.

The Group will continue to invest in the maintenance of its existing portfolio of vehicles and funeral and crematoria locations. This is expected to result in similar capital expenditure to 2017.

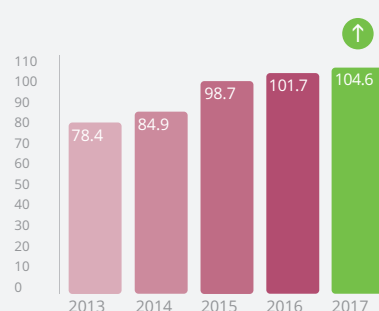
### Cash flow and cash balances

Cash generated from operations was £115.4 million (2016: £121.1 million) stated before external transaction costs of £2.9 million (2016: £3.9 million). The reduction year on year despite an increase in operating profit reflects timing differences of working capital items year on year. The longer-term expectation of profits converting efficiently to cash is unchanged.

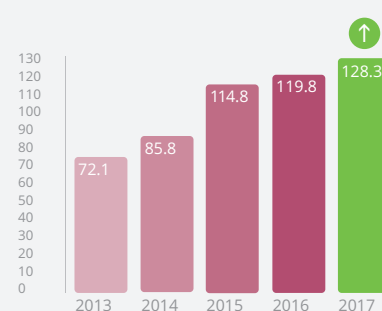
### Maintenance capital expenditure (£m)



### Underlying operating profit (£m)



### Underlying earnings per share (pence)





## Financial review continued

As a result of the strong year, the Group was able to fund all of its corporate activity from its cash reserves, spending £28.3 million (net of cash acquired and excluding external transaction costs) on the acquisition of 24 funeral locations and one crematorium and balancing payments in respect of prior year acquisitions. Cash balances at the end of the period were £49.3 million (2016: £67.1 million). In its planning, the Group sets aside approximately £23.0 million for future corporation tax and dividend payments expected to be spent in 2018.

Further details and analysis of the Group's cash balances are included in note 15 to the consolidated financial statements.

### Pensions

The balance sheet shows a deficit of £24.0 million before deferred tax (2016: deficit of £25.9 million). The Group concluded a consultation with employees in February 2017. Following this consultation, the Group decided to close its defined benefit pension scheme to any further accrual. Affected employees will instead be able to contribute between four and 10 per cent of salary into a defined contribution scheme, which will be matched by the Group.

The Group is currently in discussion with the Trustees of the Group's defined benefit pension scheme with a view to agreeing the April 2017 triennial valuation and consequential schedule of contributions required to address the deficit. This will be finalised by the statutory deadline of 5 July 2018 and the Group will report on the agreed position as part of its interim results.

### Taxation

The Group's effective tax rate on underlying profits in the period was 17.7 per cent (2016: 21.0 per cent) excluding the exceptional rate change in the prior period.

The current period effective tax rate is lower due to prior year taxation items of £2.0 million which are not expected to recur.

In 2018, the Group expects its effective tax rate to be approximately one per cent above the headline rate of corporation tax. This translates to an effective rate of 20.0 per cent.

The Group's net cash tax payments were £11.9 million (2016: £10.6 million) in the period.

## Capital structure and financing

### Secured Notes

The Group's principal source of long-term debt financing is the Secured A Notes and the Secured B Notes. They are rated A and BBB respectively by Fitch and Standard & Poor's.

The principal is repaid completely over the life of the Secured Notes and is therefore scheduled to be repaid by 2049. The interest rate is fixed for the life of the Secured Notes and interest is calculated on the principal.

The key terms of the Secured Notes are summarised in the table below:

	Secured A Notes	Secured B Notes
Total new issuance at par	£238.9 million	£356.4 million
Legal maturity	31 December 2034	31 December 2049
Coupon	3.5456%	4.6956%
Rating by Fitch and Standard & Poor's	A	BBB

The Secured Notes have an annual debt service obligation (principal and interest) of circa £33.2 million.

Given the duration of the Secured Notes, this structure is capable of being used to periodically issue further Secured Notes when deemed appropriate and subject to market conditions. Given the trading update in January 2018, the Group does not have any plans for such an issue in the immediate future and does not need to take any remedial action in respect of the Secured Notes in issue.

### Financial Covenant

The Group's primary financial covenant under the Secured Notes requires EBITDA to total debt service to be above 1.5 times. The ratio at 29 December 2017 was 3.24 times (2016: 3.37 times).

## Financial review continued

### Rating Agency updates

Following the trading update in January 2018, both rating agencies issued public affirmations of the ratings applicable to the Secured Notes. However, in the case of Fitch, they revised their outlook to negative from stable and S&P placed the Group's Class B Notes on credit watch negative. This has no impact on the financial covenant or any other obligation of the Secured Notes from a Group perspective.

### Revolving Credit Facility

As described in the Group's 2017 interim results, the Group's £15.8 million Crematoria Acquisition Facility and undrawn Funeral Acquisition Facility were replaced with a £50 million Revolving Credit Facility ('RCF'), provided by the Royal Bank of Scotland, which is secured against certain trade and assets held by legal entities outside of the Group's securitisation structure.

The facility is available until July 2021, with the option to renew, subject to the bank's consent at the time, by a further year. The margin on the facility ranges from 150 to 225 basis points depending on the resulting gross leverage.

This provides the Group ongoing flexibility in a cost effective manner, as if undrawn, the facility represents an annual cost of approximately £0.3 million. Given the Group's healthy cash balances, the RCF is undrawn at the time of the release of this announcement and as at the year end.

### Net debt

The Group's net debt is analysed as:

	29 Dec 2017 £m	30 Dec 2016 £m
Net amounts owing on Secured Notes	(565.1)	(573.9)
Add: unamortised issue costs	(0.6)	(0.7)
Gross amounts owing on Secured Notes	(565.7)	(574.6)
Net amounts owing on Crematoria Acquisition Facility	-	(15.7)
Add: unamortised issue costs on Crematoria Acquisition Facility	-	(0.1)
Gross amounts owing	(565.7)	(590.4)
Accrued interest on Secured Notes	(0.3)	(0.3)
Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility	(0.2)	(0.1)
Cash and cash equivalents	49.3	67.1
Net debt	(516.9)	(523.7)

The Group's gross debt outstanding was £565.7 million (2016: £590.4 million). Net debt was £516.9 million (2016: £523.7 million).

The market value of the Secured Notes at the balance sheet date was £686.5 million (2016: £678.0 million).

Whilst the Group has no plans to do so, should it wish to repay all amounts due under the Secured Notes, the cost to do so at the year end would have been approximately £764 million.

### Net finance costs

The Group's underlying finance costs substantially consist of the interest on the Secured Notes and ancillary instruments. The net finance cost in the period relating to these instruments was £25.1 million (2016: £25.4 million).

Finance costs of £0.4 million (2016: £0.6 million) were incurred in respect of the Crematoria Acquisition Facility.

Other ongoing finance costs incurred in the period amounted to £1.4 million (2016: £0.9 million), including the unwinding of discounts on the Group's provisions and other financial liabilities.

Interest receivable on bank deposits was £0.1 million (2016: £0.4 million).

### Forward-looking statements

Certain statements in this Corporate Profile are forward-looking. Please see page 31 for further details.

## Financial review – Outlook Q&amp;A

**2018 will be a challenging year for the Group but I am confident we have the financial and management strength to meet these challenges head on.**

**Steve Whittern**  
Finance Director

**Q** How long do you think it will take to see the reaction in volume terms to the new pricing?

We anticipate it will be towards the end of 2018 before we start to see a realistic picture.

**Q** Will dividends be protected?

The dividend cover should still be comfortable at the reduced level of earnings.

**Q** How long will there be a price freeze for?

We anticipate that this will be for 2018, but will keep this under review.

**Q** What implications does this new pricing model have on your cost base?

It is premature at this stage to say. The new price points will depress margins but until we understand our ability to improve our volumes and have thoroughly reviewed how we operate we cannot take a firm view.

**Q** What scope is there for cost savings and driving efficiencies through the business?

There will be opportunities for efficiencies which we expect to be able to quantify going into 2019.

**Q** How much more investment is required in order to improve Dignity's online position?

In order to promote the new prices and the business generally, we expect to spend an additional £2 million in 2018 in digital and other promotional activities. This additional cost will reoccur in future years and may increase in future years.

**Q** Over what timescale will you judge whether this new strategy has been successful?

We should have reasonable evidence of the funeral market's reaction towards the end of 2018.

Q&A



## Board of Directors

A strong, balanced and experienced Board.

Our Board members provide a strong and complementary mix of skills and experience and together are committed to building the long-term success of the Group.

### Peter Hindley

Non-Executive Chairman



### Peter Hindley

Non-Executive Chairman



**Appointed to the Board: 2004**

#### Background and experience:

Peter has extensive experience of the industry having been appointed Chief Executive of Plantsbrook Group plc in 1991. He subsequently led a management buy out of Dignity in 2002. The Company was then floated on the Stock Exchange in 2004. Peter became Non-Executive Chairman in January 2009. Before entering the funeral service industry, Peter held a number of senior positions in retailing. Peter was appointed Chairman of the Steering Committee of the French funerals group OGF, SA in January 2014.



### Mike McCollum

Chief Executive

**Appointed to the Board: 2004**

#### Background and experience:

Mike joined Dignity's former parent, SCI, in 1995 from KPMG Corporate Finance in London. As Finance Director he was part of the management team that guided the Group through the leveraged buy out in 2002 and IPO in 2004. He was appointed Chief Executive in 2009. He has a law degree from Birmingham University, is a solicitor and also holds an MBA from Warwick University.

#### External appointments:

Non-Executive Director of CVS Group plc.



### Steve Whittern

Finance Director

**Appointed to the Board: 2009**

#### Background and experience:

Steve joined the Group in 1999 from KPMG. He was appointed Finance Director at the beginning of 2009, having spent the previous two years as Financial Controller, being responsible for the Group's finance function. Steve has led the three refinancings and Returns of Cash since 2010, and the debt and equity funding for the Yew Acquisition in 2013. Steve is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a mathematics degree from Warwick University.

#### External appointments:

Senior Non-Executive Director of Medica Group PLC.



### Richard Portman

Corporate Services Director

**Appointed to the Board: 2006**

#### Background and experience:

Richard joined SCI from HSBC to be Chief Accountant in 1999. Following the IPO, Richard was appointed as Company Secretary and became Corporate Services Director in 2006. Richard is a Fellow of the Institute of Chartered Accountants in England and Wales, holds a geography degree from Birmingham University, is a Companion of the Chartered Management Institute and is a Member of the Investor Relations Society. He is also one of the Trustees of the Dignity Welfare Trust.

#### External appointments:

None.

## Board of Directors continued



**Jane Ashcroft CBE**  
Non-Executive Director

A N R

#### Appointed to the Board: 2012

##### Background and experience:

Jane is Chief Executive of Anchor, a leading provider of services to older people and has held a number of senior positions since joining them in 1999. She is also Non-Executive Director of Care England and of the National Housing Federation, Vice Chair of the Associated Retirement Community Operators and was previously a Non-Executive Director of Stroud & Swindon Building Society. A graduate of Stirling University, she is a Fellow of the Institute of Chartered Secretaries & Administrators, a Member of the Chartered Institute of Personnel and Development, a Trustee of Silver Line and was created a CBE in the 2014 New Years honours list.



**David Blackwood**  
Senior Non-Executive Director

A N R

#### Appointed to the Board: 2015

##### Background and experience:

David is a Non-Executive Director, and Audit Chair of Scapa Group plc, and has previously served as a member of the Cabinet Office Audit and Risk Committee and the Board for Actuarial Standards. He was Chief Financial Officer of Synthomer plc for seven years, stepping down in 2015, prior to which he held a number of senior roles with ICI plc. He is a member of the Institute of Chartered Accountants in England and Wales and a Fellow of the Association of Corporate Treasurers (FCT). David became Senior Non-Executive Director of Dignity on 31 January 2018.



**Mary McNamara**  
Non-Executive Director

A N R

#### Appointed to the Board: 2017

##### Background and experience:

Mary McNamara is a Non-Executive Director and Chairman of the Remuneration Committee of One Savings Bank plc. She is also Senior Independent Director and Chairman of the Remuneration Committee for Motorpoint Group plc. Previously she was the Chief Executive of the Commercial Division for Close Brothers Bank. Prior to this Mary worked for GE for 17 years with leadership roles across the Consumer and Commercial Finance business.

#### Board composition, balance and tenure

The Board now comprises, after the recent retirements, six Directors and the Non-Executive Chairman. There are the same number of independent Non-Executive Directors and Executive Directors which the Board considers to be an appropriate and effective combination and also complies with the Code in respect of FTSE 250 listed companies.

#### Key to Committee membership

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Green background denotes Committee Chairman.

#### Executive and Non-Executive Directors



■ Executive Directors  
■ Non-Executive Directors  
■ Non-Executive Chairman

#### Non-Executive Tenure



■

## Executive Management Team

The Executive Management Team consists of the Executive Directors and Senior Managers.



**Mike McCollum**  
Chief Executive

[Full biography on page 25](#)



**Steve Whittern**  
Finance Director

[Full biography on page 25](#)



**Richard Portman**  
Corporate Services Director

[Full biography on page 25](#)

### The role of the Executive Management Team

The Executive Management Team is responsible for managing the detailed day to day tasks required to implement the strategy set by the Board.



**Steve Wallis**  
Commercial Director

Steve joined what is now Dignity in 1996. His key areas of responsibility include Group digital, pricing and proposition, marketing and external affairs. Steve is also responsible for the Group's pre-need business and contact centre operations. Steve is a Fellow of the Institute of Direct and Digital Marketing.



**Alan Lathbury**  
Business Development Director

Alan joined what is now Dignity in 1999. He is a Fellow of the Chartered Institute of Management Accountants and holds an MBA in Business and Finance. His principle areas of responsibility are Business Development of Crematoria, through acquisition of existing crematoria, building of new greenfield location crematoria and through partnerships with local authorities to manage existing bereavement services.



**Andrew Judd**  
Director of Funeral Operations

Andrew joined what is now Dignity in 1996. He is responsible for all aspects of the Group's day to day provision of funeral services through a nationwide network of employees, funeral locations and associated facilities.

Andrew has progressed through a variety of roles within both the Co-operative Group and independent sectors. He holds a degree from Wolverhampton University in Economics and Business and holds additional professional qualifications in both Funeral Service Management and Funeral Directing. He has held office in both the British Institute of Funeral Directors and National Association of Funeral Directors. He is President for NAFD Western Counties Area Federation.



**Steve Gant**  
Crematoria Director

Steve joined what is now Dignity in 1988. His key areas of responsibility are Dignity's Crematoria and Cemetery Business. He began his career in the crematoria industry in 1983 and assumed management of the crematorium division in 2003. Steve currently sits on the Executive for the Federation of Burial and Cremation Authorities ('FBCA') and is part of the National Cremation Working Group for the Ministry of Justice, consulting on the revision and update of the Cremation Acts.



## Financial record\*

## Summarised consolidated income statement

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Revenue					
Funeral services	221.8	217.8	212.6	184.4	176.2
Crematoria	74.0	67.5	63.1	55.2	53.8
Pre-arranged funeral plans	28.2	28.3	29.6	29.3	26.7
	324.0	313.6	305.3	268.9	256.7
Underlying operating profit					
Funeral services	79.5	79.0	76.8	66.3	60.8
Crematoria	40.0	37.6	34.6	29.1	27.4
Pre-arranged funeral plans	8.0	8.5	7.8	7.4	6.7
Central overheads	(22.9)	(23.4)	(20.5)	(17.9)	(16.5)
	104.6	101.7	98.7	84.9	78.4
Underlying finance costs	(26.9)	(26.9)	(27.0)	(30.6)	(28.9)
Finance income	0.1	0.4	0.5	4.2	3.4
Underlying profit before tax	77.8	75.2	72.2	58.5	52.9
Taxation	(13.8)	(15.8)	(15.5)	(13.1)	(12.9)
Underlying profit after tax	64.0	59.4	56.7	45.4	40.0
Underlying earnings per share (pence)	128.3p	119.8p	114.8p	85.8p	72.1p
Operating profit	98.0	97.7	95.5	82.9	75.1
Profit/(loss) after tax	57.8	57.2	56.9	(55.0)	40.4
Basic earnings per share (pence)	115.8p	115.3p	115.2p	(104.0p)	72.8p

## Key performance indicators

	2017	2016	2015	2014	2013
Total estimated number of deaths in Britain (number)	590,000	590,000	588,000	550,000	560,000
Number of funerals performed (number)	68,800	70,700	73,500	65,600	68,000
Funeral market share** (per cent)	11.5%	11.8%	12.3%	11.7%	11.9%
Number of cremations performed (number)	63,400	59,500	57,700	53,400	55,500
Crematoria market share (per cent)	10.7%	10.1%	9.8%	9.7%	9.9%
Active pre-arranged funeral plans (number)	450,000	404,000	374,000	348,000	323,000
Cash generated from operations (£million)	115.4	121.1	125.2	104.4	94.2

## Net debt

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Net amounts owing on Secured Notes per financial statements	(565.1)	(573.9)	(586.5)	(594.6)	(403.0)
Add: unamortised issue costs on Secured Notes	(0.6)	(0.7)	(0.7)	(0.7)	(16.3)
Gross amounts owing on Secured Notes per financial statements	(565.7)	(574.6)	(587.2)	(595.3)	(419.3)
Net amounts owing on Crematoria Acquisition Facility per financial statements	-	(15.7)	(15.7)	(15.6)	(15.6)
Add: unamortised issue costs on Crematoria Acquisition Facility	-	(0.1)	(0.1)	(0.2)	(0.2)
Gross amounts owing	(565.7)	(590.4)	(603.0)	(611.1)	(435.1)
Accrued interest on Secured Notes	(0.3)	(0.3)	(12.8)	(5.7)	(14.3)
Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility	(0.2)	(0.1)	(0.1)	-	-
Cash and cash equivalents	49.3	67.1	98.8	86.5	79.3
Net debt	(516.9)	(523.7)	(517.1)	(530.3)	(370.1)

## Financial record\* continued

## Summarised consolidated balance sheet

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
<b>Non-current assets</b>					
Goodwill and intangible assets	385.5	358.1	328.2	276.5	250.4
Property, plant and equipment	248.0	235.4	200.6	192.3	183.6
Financial and other assets	14.3	11.3	10.3	10.4	12.7
	647.8	604.8	539.1	479.2	446.7
<b>Current assets</b>					
Cash and cash equivalents – excluding collateralisation of Liquidity Facility	49.3	67.1	98.8	86.5	79.3
Cash and cash equivalents – collateralisation of Liquidity Facility	–	–	–	–	63.0
Cash and cash equivalents	49.3	67.1	98.8	86.5	142.3
Other current assets	45.6	43.1	38.3	36.5	34.4
	94.9	110.2	137.1	123.0	176.7
<b>Total assets</b>	742.7	715.0	676.2	602.2	623.4
Current liabilities	70.0	75.1	82.7	60.6	143.6
Non-current liabilities	626.3	643.4	637.4	634.1	437.6
<b>Total liabilities</b>	696.3	718.5	720.1	694.7	581.2
Equity attributable to shareholders	46.4	(3.5)	(43.9)	(92.5)	42.2
<b>Total equity and liabilities</b>	742.7	715.0	676.2	602.2	623.4

## NOTES

\* This information has been extracted from the current and previous Annual Reports and accordingly does not constitute audited information.

\*\* Market share excluding funerals performed in Northern Ireland.

\*\*\* In 2014, the Group refinanced its capital structure. Prior to 17 October 2014, the Group had on various occasions issued Class A Secured Notes due for final repayment in 2023 ('Old Class A Notes') and Class B Secured Notes due for final repayment in 2031 ('Old Class B Notes' and together with the Old Class A Notes, the 'Old Notes'). On 17 October 2014, the Group issued £238,904,000 Class A Secured 3.5456% Notes due 2034 ('New Class A Notes') and £356,402,000 Class B Secured 4.6956% Notes due 2049 ('New Class B Notes' and together with the New Class A Notes, the 'New Notes'). For the purpose of the financial record, the various classes of these notes are referred to as the Secured Notes. Elsewhere in this Corporate Profile, Secured Notes and associated references refers to the New Notes, as these were the only notes in issue in 2015, 2016 and 2017.

## Contact details and advisers

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### Company Secretary:

Richard Portman FCA


### Registered Number:

4569346

### Registrars:

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### Legal Advisers:

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Victoria Square House  
Victoria Square  
Birmingham B2 4DL

## Key dates

<b>14 March 2018</b>	Preliminary announcement of 2017 results
<b>7 June 2018</b>	Annual General Meeting
<b>29 June 2018</b>	2018 financial half year end
<b>29 June 2018 (subject to shareholder approval)</b>	Payment of 2017 final dividend
<b>1 August 2018 (provisional)</b>	Announcement of interim results
<b>26 October 2018 (provisional)</b>	Payment of 2018 interim dividend
<b>28 December 2018</b>	Financial period end

**Note:**  
Please note all future dates are subject to change

## Forward-looking statements

This Corporate Profile and the Dignity plc investor website may contain certain 'forward-looking statements' with respect to Dignity plc ("Company") and the Group's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Group operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'will', 'would', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates' or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the Group operates; changes in the legal, regulatory and competition frameworks in which the Group operates; changes in the markets from which the Group raises finance; the impact of legal or other proceedings against or which affect the Group; changes in accounting practices and interpretation of accounting standards under IFRS, and changes in interest and exchange rates.

Any forward-looking statements made in this Corporate Profile or the Dignity plc investor website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to in this statement. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing in this Corporate Profile or on the Dignity plc investor website should be construed as a profit forecast or an invitation to deal in the securities of the Company.





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WITH DISTINCTION

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