

For immediate release

14 May 2018

## Dignity plc

### First quarter results

Dignity plc (Dignity or the Group), the UK's only listed provider of funeral related services, announces its results for the first quarter of 2018.

	<b>13 week period ended 30 March 2018</b>	13 week period ended 31 March 2017	Increase (per cent)
Revenue (£million)	<b>95.1</b>	93.3	2
Underlying operating profit <sup>1</sup> (£million)	<b>37.5</b>	37.4	-
Number of deaths	<b>181,000</b>	167,000	8

<sup>1</sup> Underlying profit is calculated as profit excluding profit (or loss) on sale of fixed assets, acquisition related amortisation and external transaction costs.

On 18 April 2018, the Group released a trading update confirming that trading in the first quarter was significantly ahead of the Board's expectations. As a consequence, the Group confirmed that it believed results for the full year would be ahead of market expectations at that time. The Group has seen full year market expectations increase as a result of that announcement.

Operating profit in the period was driven by a number of factors.

#### *Funeral mix and average income*

In the trading update provided on 19 January 2018, the Group estimated that as a result of the changes to service and pricing, the mix of funerals would change. As subsequently reported, a step change in simple funerals conducted has occurred, as expected, albeit at a lower level than originally anticipated.

	FY 2017 Actual Average (£)	FY 2017 Actual Volume Mix (%)	FY 2018* Board's expectations Average (£)	FY 2018* Board's expectations Volume Mix (%)	Q1 2018 Actual Average (£)	Q1 2018 Actual Volume Mix (%)
Funeral type						
Full service	3,800	60	3,800	44	3,875	55
Simple service	2,700	7	1,965	20	2,100	12
Pre-need	1,650	27	1,650	30	1,680	28
Other	500	6	500	6	580	5
Weighted average	2,945		2,590		2,883	
Ancillary revenue	277		280		212	
Average revenue	3,222		2,870		3,095	

\* As per January 2018 trading update.

The mix in the first quarter was impacted by the changes to pricing not taking place until mid January and the run rate of 15 per cent simple service funerals took approximately two weeks to establish. As such, the first quarter effectively includes one month of the former mix. Consequently, it is likely that the average mix of full service funerals for the remainder of the year will be lower than that seen in the first quarter. This will also be impacted by the ongoing trials, described in more detail below.

### *Death rate*

The absolute number of deaths increased by approximately eight percent to 181,000 from 167,000 in the comparative period last year. Historical data indicates that it is likely that this proportional increase will not continue throughout the remainder of the year. However, the Group believes that it is now likely that the full year will record at least the same number of deaths as last year (590,000).

### *Market share*

The Group performed 21,400 funerals compared to 20,100 in the same period last year, representing a market share of 11.8 per cent and 12.0 per cent respectively. This performance was consistent with the Board's expectations. It is too early to conclude if the service and price changes are slowing the rate of market share decline. Operating performance since the end of March continues to be strong. Whilst too early to be certain, strong market share data in March and April is potentially showing the first signs of incremental benefits from the Group's strategic changes.

### *Directors' remuneration*

As previously announced, the current Executive Directors waived their entitlement to any annual bonus in respect of 2017's financial performance. As this decision was made in 2018, the bonus accrual made in 2017 was released in the first quarter of 2018 and amounted to approximately £1.7 million (including employer's national insurance). This is therefore reflected in the £37.5 million underlying operating profit reported.

### **Ongoing strategic work**

#### *Trials*

At the beginning of April 2018, the Group launched further price and service trials across the country.

Two changes (to service offering and price) are being tested in these trials. Firstly, the Group is trialling a new Limited Service Package. This provides clients at a fixed price of £2,595 plus disbursements, the service available with the Simple Funeral, but with the additional ability to add one or two limousines at an additional cost; a better quality coffin; and certain other services not included in the simple service package. The Group's Simple Funeral remains at the new lower prices of £1,995 (plus disbursements) in England and Wales and £1,695 (plus disbursements) in Scotland. The Group does not plan to test a lower Simple Funeral price assuming no further material changes to market pricing.

The Group is also testing price reductions to its full service offering so that the starting price for a traditional service excluding any limousines is no more than £3,395 plus disbursements.

The trials being conducted are material. In broad terms, one quarter of the Group's portfolio has not had any changes applied; a similar proportion has introduced the Limited Service Funeral package; another quarter has just implemented reductions to full service prices; and the remaining quarter has implemented the new funeral package and reduced prices.

Depending on the results, the Group anticipates tests continuing on this basis at least until the end of June 2018.

Data in April indicates that the trials are generating an average in overall terms approximately £120 less than that seen overall in the first quarter, although it is too early to conclude on whether there is any incremental volume benefit.

#### *Work on operating model*

As outlined in March 2018, the Group has engaged L.E.K. Consulting to work with us in developing our plan for the funeral business. Work is progressing well and the Group will be in a position to report the findings of the funeral operating model review and timetable for implementation of conclusions alongside the Group's interim results on 1 August 2018.

#### *Digital and promotional work*

The Group has started investing further in pay per click advertising to understand the economic benefit that can be derived. In addition, the Group has made technological advances in dealing with enquiries from potential clients in a more efficient and professional way. Whilst already live across the business, formal training at all locations will be completed by the end of June 2018.

The Group also launched in April 2018 an attended direct cremation under its Simplicity Cremations brand. This allows a limited number of people to attend a short committal service at a time and date of the Group's choosing for an additional £250. The Group's direct cremation services are only available online.

### **Other matters**

All other divisions are operating in line with the Board's expectations as at January 2018. The crematoria division performed 19,100 cremations (Q1 2017: 18,500), representing 10.6 per cent (Q1 2017: 11.0 per cent) of all deaths. There can be a period of up to four weeks between death and the funeral service. Consequently, market share calculations over a short period such as the first quarter can be misleading.

During the period, Standard & Poor's lowered the rating of the Group's Secured B Notes to BB from BBB. This has no impact on the financial covenant or any other obligation of the Secured Notes from a Group perspective. 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 recent trading updates, the Group does not have any plans for such an issue in the immediate future. Such an issue would also require the rating of the Secured B Notes by Standard & Poor's to be at least BBB.

Acquisition activity in the period has continued, with the Group completing the acquisition of one funeral location for a consideration of approximately £3.8 million. Further acquisition activity is expected throughout the year. In addition, the Group has opened three satellite locations in the period.

Construction of the Group's new crematorium in Derbyshire is complete and the location will begin operating in the second quarter of 2018. This will bring the Group's crematoria portfolio to 46, with two further locations under construction and due to open in 2019.

There have been no other significant transactions since the period end date.

In April 2018, the Group also published a White Paper calling for stronger regulation of the funeral plan sector to protect customers. The paper proposes the Funeral Planning Authority being given a statutory footing and the requirement for all funeral plan providers to participate. The Group is participating in and co-funding the development of a further piece of research conducted by Fairer Finance looking at how stronger regulation can be delivered in practice. Further details including a copy of the White Paper are available on the Group's investor website.

### **Board succession**

Peter Hindley, who has been Non-Executive Chairman since 2009, has recently indicated to the Board that he would like to retire from the Board in 2019. The process of identifying a Non-Executive Chairman Designate will now commence with a view to the successful candidate joining the Board initially as a Non-Executive Director and ensuring a smooth hand-over period to the Chairmanship role during 2019.

### **Outlook**

The Group has had a positive start to the year however, the Board still believes it is too early to conclude that the trading experienced in the first quarter is indicative of the likely funeral price and volume mix going forwards. The results of the ongoing price and service trials across its entire portfolio are crucial in determining our future market position. However, the data from these trials is still at a very early stage and it is not yet possible to draw any meaningful conclusions. The Board continues to believe that trading during 2018 will be volatile but based on the first quarter results believes that results for the full year will be in line with market expectations following the upgrades made in April.

On 1 August 2018, the Board will be able to update the market as to results of these trials and the operational review being undertaken in conjunction with L.E.K. Consulting.

### **Mike McCollum, Chief Executive of Dignity commented:**

*"While the first quarter produced a much stronger result than we had anticipated when implementing the price changes in January, the current year is all about completing our review of our funeral business and ensuring we provide the excellent service our clients expect from us. We will also continue to demonstrate industry leadership by calling for stronger regulation in the funeral plan sector to protect customers."*

**Market Abuse Regulation**

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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**Notes**

A conference call for analysts and investors will be held at 9:30 am (BST) this morning. To participate in the conference call please contact Buchanan at [dignity@buchanan.uk.com](mailto:dignity@buchanan.uk.com).

A recording of this conference call will subsequently be available at <http://www.dignityfuneralsplc.co.uk>.

Dignity (2002) Limited (the holding company of those companies subject to the securitisation) has today issued reports to the Rating Agencies (Fitch and Standard & Poor's), the Security Trustee and the holders of the Secured Notes issued in October 2014 in connection with the securitisation.

Copies of these reports are available at <http://www.dignityfuneralsplc.co.uk>.