



For immediate release

12 November 2018

Dignity plc

Third quarter trading update

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

	39 week period ended 28 September 2018	39 week period ended 29 September 2017	Increase/ (decrease) per cent
Revenue (£million)	244.2	243.9	-
Underlying operating profit* (£million)	68.6	79.4	(14)
Number of deaths	455,000	440,000	3

* The reasons for the Group's use of alternative performance measures, definitions and where relevant reconciliations, are provided in the section on Non-GAAP alternative performance measures at the end of this announcement.

Financial summary

Operating performance in the third quarter was in line with the Board's expectations, reporting underlying operating profits of £12.2 million, compared to £19.9 million in the same period in 2017. Underlying operating profit for the year to date is summarised as follows:

	13 weeks ended 28 September 2018	13 weeks ended 29 September 2017	39 week period ended 28 September 2018	39 week period ended 29 September 2017
	£m	£m	£m	£m
Underlying operating profit by division				
Funeral division	11.1	15.3	53.2	60.4
Crematoria division	8.8	8.8	32.2	29.7
Pre-need division	(0.3)	1.6	2.5	6.5
Central overheads	(7.4)	(5.8)	(19.3)	(17.2)
Underlying operating profit	12.2	19.9	68.6	79.4

In aggregate, crematoria, pre-need and central overheads generated an underlying operating profit of £1.1 million in the quarter compared to £4.6 million during the same period in 2017. This reduction reflects reduced profitability from pre-need consistent with the reduction in marketing allowances described in the Group's interim results on 1 August 2018, combined with incremental costs arising from the further investment centrally in marketing and digital activities.

Key changes in the profitability of the Group's funeral business are detailed in the table below:

	H1 £m	Q3 £m	YTD £m
Funeral operations			
Underlying operating profit - 2017	45.1	15.3	60.4
Impact of:			
Number of deaths	5.5	(0.8)	4.7
Market share	(1.5)	1.5	-
Lower average incomes	(5.5)	(5.2)	(10.7)
Cost base increases	(3.5)	(0.6)	(4.1)
Acquisition activity	2.0	0.9	2.9
Underlying operating profit - 2018	42.1	11.1	53.2

Number of deaths

Whilst the number of deaths in the year to date increased three per cent to 455,000, the third quarter, as expected, saw the number broadly flat year on year. The Group continues to anticipate 600,000 deaths in 2018.

Market share

Funeral market share continued to show good momentum in the third quarter. The Group performed 55,700 funerals in the first 39 weeks of the year (2017: 52,100), representing a market share of 12.1 per cent (2017: 11.7 per cent). On a comparable basis, excluding any volumes from locations not contributing for the whole of 2017 and 2018 to date (and therefore excluding two further locations closed in the third quarter of 2018), market share was 11.4 per cent compared to 11.3 per cent for the same period in 2017.

Crematoria performed 49,900 cremations in the period (2017: 48,100), representing a market share of 11.0 per cent (2017: 10.9 per cent) for the first 39 weeks of the year.

Funeral mix and average income

As expected, the third quarter witnessed a reduction in average income as a consequence of the ongoing pricing trials. The Group continues to anticipate its average income will be lower in the fourth quarter of 2018 and broadly in line with its original expectation of £2,870. However, this is likely to be achieved as a consequence of a different funeral mix and achievement of different actual averages compared to original expectations.

		FY	FY 2018	Q1	Q2	Q3	H1	Q3
		2017	Board's	2018	2018	2018	2018	2018
	Funeral type	Actual	original	Actual	Actual	Actual	Actual	YTD
			expectations*					Actual
Average revenue (£)	Full service	3,800	3,800	3,875	3,700	3,695	3,800	3,775
	Simple and Limited service	2,700	1,965	2,100	2,340	2,420	2,240	2,315
	Pre-need	1,650	1,650	1,680	1,680	1,720	1,680	1,690
	Other	500	500	580	535	550	560	550
Volume mix (%)	Full service	60	44	55	48	44	52	49
	Simple and Limited service	7	20	12	20	24	15	18
	Pre-need	27	30	28	26	26	27	27
	Other	6	6	5	6	6	6	6
Weighted average Ancillary revenue		2,945	2,590	2,883	2,713	2,688	2,799	2,756
Average revenue		3,222	2,870	3,095	2,938	2,921	3,023	2,995

* As per January 2018 trading update

Marketing and digital activity

The Group continues to expand its digital offering, increasing the amount of online advice and support it offers to consumers and enhancing the digital services it offers to its clients. More than one third of our branches are now trained to offer our Online Funeral Notices service which is proving popular with clients. This provides clients with a convenient way to share details of the funeral arrangements through social media and the internet. It also allows friends and family to arrange flowers and make donations.

The Group's websites are performing well, with more than 1.2 million visits on a year to date basis, up 52 per cent on the same comparable prior year period. Visits to our websites in the third quarter were up 67 per cent on the prior year. Publishing our prices online is still a key priority and we remain on track to achieve this by the end of March 2019.

Update on the transformation plan

The Group's Transformation Director, has spent the weeks since appointment in August setting up the project management office, establishing an appropriately skilled team for the plan's implementation and creating all the necessary detailed processes to ensure the three year plan can be delivered on time and on budget.

The early focus has been on the following areas:

- Establishing the senior leadership team within Funeral Operations including a new national role to focus on Service Delivery;
- Completing a thorough review of the existing IT applications and support model against the requirements of the transformation strategy;
- Commencing trials of the Group's funeral services focused around unbundling the services offered within bespoke funeral arrangements;
- Managing the ongoing development of the brand identity for the Group's Simplicity offering; and
- Finalising a smaller number of larger branch networks in advance of the testing of our new operating model.

Capital structure

The Group's principal source of long-term debt financing continues to be the Secured Notes issued in 2014. The Group's Secured A Notes are rated A by Fitch and Standard & Poor's. On 13 August 2018, Fitch lowered its rating of the Group's Secured B Notes from BBB to BBB-. Standard & Poor's continue to rate the Group's Secured B Notes as BB, following a downgrade from BBB earlier in the year. These downgrades have no impact on the financial covenant or any other obligation of the Secured Notes from a Group perspective.

The Group's primary financial covenant under the Secured Notes (which is applicable to the securitised subgroup of Dignity) requires EBITDA to total debt service to be above 1.5 times. The ratio at 28 September 2018 was 2.88 times.

At the end of September 2018, the Group had cash balances of £70.2 million and the Group's £50.0 million revolving credit facility was undrawn.

IFRS 15, Revenue from contracts with customers

Work continues to understand the impact of IFRS 15 on the accounting for the Group's pre-need business. IFRS 15 does not impact cash flows between the Group and the pre-need trusts. Current analysis indicates that the change in accounting policy could reduce reported operating profits in 2019 by approximately £1.0 million. The Group will provide further guidance when it releases its preliminary results in March 2019.

Acquisitions strategy

The Group has invested £5.4 million acquiring four funeral locations in the year to date. After careful consideration, the Board has concluded that the acquisition of small funeral businesses is at present inconsistent with the Group's strategy and plans for the future. The Group therefore does not anticipate acquiring any further funeral locations in the foreseeable future. Instead, it will concentrate its financial and corporate resources on delivering the transformation plan.

Should opportunities of larger, more established businesses become available, the Group will consider these on a case by case basis. Furthermore, the Group continues to view new crematoria developments as a good use of capital and will therefore continue to develop such opportunities wherever possible.

CMA and HM Treasury

The Group has continued to provide supporting information to the Competition and Markets Authority ('CMA') in relation to its market study of funeral and crematoria services. Given the CMA's timeline of reporting by the end of November, the Group expects it to publish its preliminary findings and views as to whether or not a more in-depth market investigation should be made imminently.

Timings for HM Treasury's consultation on the funeral plan sector are less certain. The Group will continue to work closely with both parties and make further announcements as appropriate.

Major research released on funerals and crematoria

In mid August, the Group published the results of a major research project into funerals. The findings show that nine in ten people expect or assume that funeral directors are already regulated and 80 per cent of participants supported regulation of minimum professional standards. The Group has shared its findings in a report entitled "Time to talk about quality and standards" with the CMA, the Inspector of Funerals in Scotland and the NAFD. This report forms the basis of discussions and debate that the Group is seeking to stimulate on the best way to achieve regulation and higher minimum standards.

The Group has also published the results of a report on UK crematoria, gathered by leading research agency Trajectory, entitled "Cost, Quality, Seclusion and Time; What do UK consumers want from a cremation funeral?". The report findings show that 59 per cent of people felt that 30 minutes for a service was not long enough, yet 13 per cent of crematoria have times of 30 minutes or less and 30 per cent have times of less than 45 minutes. In the report, the Group calls on all crematoria to commit to a minimum time of 45 minutes. Approximately three quarters of Dignity crematoria allocate one hour, with the remainder of locations offering 45 minutes.

Simplicity Cremations

In October, the Group expanded its range of Simplicity Cremation services, providing customers with greater choice in this expanding segment of the market.

The new attended service will provide people with all the practical and essential elements of a cremation, without the obligation to pay for traditional ceremonial elements they may not want. This service does not include a hearse or limousine; there is no personal contact with Dignity staff and no viewing of the deceased. However, clients do get the full time allocation at one of Dignity's 46 crematoria at a time and date of their choosing. The service is available online only at an all inclusive price from £1,895. This is the first service of its type available across the UK.

Appointment of new Chair

The Group continues to seek a new Chair and further announcements will be made in due course.

Outlook

The Group continues to perform in line with current market expectations for the year ended 28 December 2018.

Mike McCollum, Chief Executive of Dignity plc commented:

"We are pleased with how the Group has performed in the period and following these results our expectations for the full year remain unchanged. Our work on the transformation plan is critical and we are encouraged by the progress that has been made in the initial weeks. Alongside the expansion of our digital offerings, we continue to provide a greater choice for consumers and our focus on high standards and excellent client service remains central to our plans for the future. The Group's significant research projects highlight the need for minimum professional standards and support calls for regulation that we have been making for some time."

For more information

Mike McCollum, Chief Executive
Steve Whittern, Finance Director
Dignity plc

+44 (0)20 7466 5000

Richard Oldworth
Chris Lane
Catriona Flint

Buchanan
www.buchanan.uk.com

+44 (0)20 7466 5000
Dignity@buchanan.uk.com

Notes

A conference call for analysts and institutional investors will be held at 9.30 this morning.

Conference call UK Toll: 02034281542
UK Toll Free: 08082370040
Participant PIN code: 35676586#

URL for international dial in numbers:

http://events.arkadin.com/ev/docs/FEL_Events_International_Access_List.pdf

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

Time to talk about quality and standards

Download the full report at <https://www.dignityfunerals.co.uk/media/3002/time-to-talk-about-quality-and-standards-v2.pdf>

Cost, Quality, Seclusion and Time; What do UK consumers want from a cremation funeral?

Download the full report at <https://www.dignityfunerals.co.uk/media/3111/cost-quality-seclusion-and-time-a-report-by-dignity-and-trajectory-200918.pdf>

Non-GAAP alternative performance 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. Underlying measures are those used in the day to day management of the business.

1. 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. Given the planned transformation of the Group's funeral business will result in significant, directly attributable non-recurring costs, these amounts will also be excluded from the Group's underlying profit measures. Non-recurring costs will include external advisers' fees, directly attributable internal costs, including staff costs wholly related to the transformation (such as the Transformation Director and project management office) and direct costs relating to activities terminated part way through the year. 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 and are collectively referred to as 'non-underlying items'.
2. Underlying profit measures (including divisional measures) are calculated as profit before non-underlying items.
3. Underlying earnings per share is calculated as profit on ordinary activities after taxation, before non-underlying items (net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.
4. Cash generated from operations excludes non-underlying items on a cash paid basis.

Forward-looking statements

This announcement 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 announcement 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 announcement 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.