

Dignity plc

Third quarter trading update

Dignity plc (Dignity, the Company or the Group), the UK's only listed provider of funeral related services, announces its trading update for the third quarter of 2019.

	39 week period ended 27 September 2019	39 week period ended 28 September 2018	Decrease (per cent)
Underlying revenue (£million)	225.4	244.2	8
Underlying operating profit (£million)	47.9	68.6	30
Number of deaths	432,000	455,000	5

Alternative performance measures

All measures marked as underlying in the table above and throughout this announcement are alternative performance measures. The reasons for the Group's use of alternative performance measures are provided in the section on 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, driven by robust funeral market share and average income in line with the Board's expectations. Operating performance in the year to date was consistent with the Board's expectations allowing for the significantly lower number of deaths, particularly in the first half of the year. Underlying operating profit by division is summarised in the table below:

	13 weeks ended 27 September 2019 £m	13 weeks ended 28 September 2018 £m	39 weeks ended 27 September 2019 £m	39 weeks ended 28 September 2018 £m
Underlying operating profit by division				
Funeral division	10.3	11.1	40.8	53.2
Crematoria division	8.8	8.8	29.6	32.2
Pre-need division	-	(0.3)	-	2.5
Central overheads	(7.9)	(7.4)	(22.5)	(19.3)
Underlying operating profit	11.2	12.2	47.9	68.6

Number of deaths

	2019	2018	Increase/ (decrease) (per cent)
First quarter	159,000	181,000	(12)
Second quarter	141,000	143,000	(1)
Third quarter	132,000	131,000	1
Year to date	432,000	455,000	(5)
Fourth quarter	n/a	144,000	n/a
Full year	n/a	599,000	n/a

As the table illustrates, the third quarter of 2019 witnessed deaths broadly comparable to the same period in 2018. If the number of deaths remained one per cent higher than the previous year in the fourth quarter, then 2019 would witness a total of 577,000 deaths; 3.7 per cent lower than the previous year and the lowest number of deaths since 2014.

Based on updated data released in October 2019, the Office for National Statistics ('ONS') has increased its forecasted number of deaths from 2020 by approximately 20,000 per year, increasing from approximately 600,000 in 2020 to approximately 740,000 in 2040.

Funeral operations

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

Funeral operations	H1 £m	Q3 £m	YTD £m
Underlying operating profit – 2018	42.1	11.1	53.2
Impact of:			
Number of deaths	(7.0)	1.0	(6.0)
Market share	(2.0)	(0.9)	(2.9)
Average incomes	(4.4)	0.1	(4.3)
Cost base changes	1.6	(0.9)	0.7
Acquisition activity	0.2	(0.1)	0.1
Underlying operating profit – 2019	30.5	10.3	40.8

Funeral market share

Funeral market share continued to show a positive response to the Group's updated service offering and price points introduced since January 2018. The Group performed 52,100 funerals in the first 39 weeks of the year (2018: 55,700). Excluding funerals performed in Northern Ireland, this represented a market share of 11.9 per cent (2018: 12.1 per cent). On a comparable basis market share was 11.8 per cent compared to 12.0 per cent for the same period in 2018 and compared to 11.8 per cent for the whole of 2018 and 11.8 per cent for the first half of 2019. This compares favourably to the two years of significant market share decline witnessed in 2016 and 2017.

Average income

As demonstrated in the table below, average income per funeral in the third quarter was in line with the Board's expectations of £2,940. The Group continues to expect average income for the remainder of the year to remain at this level. The Board continues to assess the impact of its trials and its tailored funeral option is now expected to be rolled out across the business during 2020.

Funeral type		Q1 2019 Actual	Q2 2019 Actual	H1 2019 Actual	Q3 2019 Actual	Q3 2019 YTD Actual
Underlying average revenue (£)	Full service	3,542	3,585	3,558	3,608	3,571
	Simple and limited service	2,159	2,000	2,089	2,000	2,063
	Pre-need	1,826	1,789	1,806	1,879	1,828
	Other (including Simplicity)	773	734	756	772	756
Volume mix (%)	Full service	52	53	52	52	52
	Simple and limited service	14	13	14	14	14
	Pre-need	27	28	28	27	27
	Other (including Simplicity)	7	6	6	7	7
Underlying weighted average (£)	2,691	2,705	2,694	2,717	2,693	
Ancillary revenue (£)	213	233	225	227	234	
Underlying average revenue (£)	2,904	2,938	2,919	2,944	2,927	

Funeral type		Q1 2018 Actual	Q2 2018 Actual	H1 2018 Actual	Q3 2018 Actual	Q3 2018 YTD Actual	Q4 2018 Actual	FY 2018 Actual
Underlying average revenue (£)	Full service	3,875	3,700	3,800	3,695	3,775	3,590	3,735
	Simple and limited service	2,100	2,340	2,240	2,420	2,315	2,435	2,350
	Pre-need	1,680	1,680	1,680	1,720	1,690	1,750	1,705
	Other (including Simplicity)	580	535	560	550	550	610	570
Volume mix (%)	Full service	55	48	52	44	49	43	48
	Simple and limited service	12	20	15	24	18	24	19
	Pre-need	28	26	27	26	27	27	27
	Other (including Simplicity)	5	6	6	6	6	6	6
Underlying weighted average (£)	2,883	2,713	2,799	2,688	2,756	2,637	2,734	
Ancillary revenue (£)	212	225	224	233	239	260	239	
Underlying average revenue (£)	3,095	2,938	3,023	2,921	2,995	2,897	2,973	

Crematoria operations

Key changes in the profitability of the Group's crematoria business are detailed in the following table:

Crematoria operations	H1 £m	Q3 £m	YTD £m
Underlying operating profit – 2018	23.4	8.8	32.2
Impact of:			
Number of deaths	(2.4)	0.2	(2.2)
Market share	0.8	(0.1)	0.7
Average incomes	(0.6)	(0.2)	(0.8)
Cost base changes	(0.5)	-	(0.5)
Acquisition activity	0.1	0.1	0.2
Underlying operating profit – 2019	20.8	8.8	29.6

Crematoria performed 48,500 cremations in the year to date (2018: 49,900), representing a market share of 11.2 per cent (2018: 11.0 per cent) for the first 39 weeks of the year.

Where possible, the Group is delaying the construction of its new crematoria pending the outcome of the Competition and Markets Authority ('CMA') investigation.

Pre-need operations

Active pre-arranged funeral plans were approximately 514,000 at the end of the period (September 2018: 478,000; December 2018: 486,000). Although a broadly similar number of plans were sold in each period, there was a slight increase in the number of trust based plans sold, offset by a reduction in the number of insurance based plans sold compared to the prior year. These plans continue to represent future potential incremental business for the funeral division.

Central overheads

As indicated in the Group's preliminary results issued in March 2019 the Group anticipates central overheads to be 25 to 30 per cent higher than in 2018. This reflects continued investment anticipated in the Transformation Plan.

Marketing and digital activity

Marketing activity continues, with a focus on maintaining and further developing the Group's improved digital presence. The Group has also recently run new campaigns advertising Simplicity.

Transformation Plan update

Activity in the third quarter has been focused on all aspects of the Transformation Plan. Crucially, the Group is due to launch trials of new ways of working and operational management in three pilot networks imminently. As part of this work, the Group is consulting with approximately 60 employees who currently work in those areas to identify the most appropriate roles for them on a case by case basis. The Group will provide a further update in its preliminary results.

The first technology changes to support the strategy have been introduced: the pilot networks will be supported with a new resource management solution, mobile technology for client facing funeral arrangers is being trialed and a new telephony solution has been implemented in our Client Support Centre.

Competition and Markets Authority investigation

On 28 March 2019, the CMA confirmed its widely anticipated full market investigation into the funeral and crematoria sector. Dignity welcomes the investigation and is cooperating fully with the CMA. In particular, it has established a strong working group of internal and external resource and will seek to focus on these key areas:

- Quality of service provided to meet customer needs;
- Regulation of the industry to protect customers; and
- Capital employed in the crematoria.

The Group has continued to engage with the CMA to provide it with detailed information on the Group's operations in the at-need funeral and crematoria markets and its wider observations on these markets more generally. The Group looks forward to the publication of the CMA's working papers in due course.

HM Treasury

There are no further developments to report since the Group's interim results. The Group continues to anticipate regulation of pre-arranged funerals and is preparing accordingly.

Secured Notes 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 September 2019 was 2.04 times (September 2018: 2.88 times; December 2018: 2.55 times). In addition, in order for the Group to transfer excess from the securitisation group to Dignity plc, it must achieve both a higher EBITDA to total debt service ratio of 1.85 times and achieve a Free Cash Flow to total debt service (a defined term in the securitisation documentation) of at least 1.4 times. This latter ratio at September 2019 was 1.52 times (September 2018: 2.29 times; December 2018 1.98 times). These combined requirements are known as the Restricted Payment Condition ('RPC'). Given the ratios achieved, the RPC was achieved at September 2019. These covenant calculations use a prescribed definition of EBITDA detailed in the loan documentation and only represents the profit of a sub group of the Group which is party to the loans (the 'securitisation group'). EBITDA for this calculation uses the last twelve months ('LTM') results and can be reconciled to the Group's statutory operating profit as follows:

	Q3 YTD 2019	LTM 27 Sept 2019
	£m	£m
EBITDA per covenant calculation - securitisation group	55.0	69.0
Add: EBITDA of entities outside securitisation group	8.7	11.7
Add: Non cash items ^(a)	(0.9)	(1.4)
Underlying operating profit before depreciation and amortisation – Group	62.8	79.3
Underlying depreciation and amortisation	(14.9)	(19.8)
Non-underlying items	(13.4)	(20.4)
Effect of IFRS 15	(1.4)	(1.4)
Operating profit	33.1	37.7

Notes

(a) The terms of the securitisation require certain items (such as pensions) to be adjusted from an accounting basis to a cash basis.

Outlook

The Board's expectations for 2019 remain unchanged from the time of the interim results in July. Operating performance in 2020 will rely heavily on the number of deaths, which may or may not revert to higher levels witnessed in previous years compared to the 576,000 seen in the last twelve months to September 2019. In addition, following the appointment of Clive Whiley as Chairman, the Board is also reviewing its current strategy in the context of the current challenges within the industry.

Mike McCollum, Chief Executive of Dignity, commented:

"I am pleased with the Group's progress so far this year. Although deaths are lower, market share remains robust, the Transformation Plan remains on track and our journey to build a more modern technologically enabled business that offers clients a high-quality service at a variety of price points remains firmly intact."

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Conference call details

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

UK Toll-Free: 08003589473

UK Toll: +44 3333000804

Participant PIN Code: 34580588#

URL for international dial in numbers: http://events.arkadin.com/ev/docs/NE_W2_TF_Events_International_Access_List.pdf

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

Non-GAAP measures

(a) 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 non-underlying items which comprise certain non-recurring or non-trading transactions and the effects of IFRS 15.

Calculation of underlying reporting measures

Underlying revenue and profit measures (including divisional measures) are calculated as revenue and/or profit before non-underlying items and the effect of IFRS 15.

Underlying earnings per share is calculated as profit after taxation, before non-underlying items (net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.

Underlying cash generated from operations excludes non-underlying items on a cash paid basis.

(b) Effects of IFRS 15

On adoption of IFRS 15 on 29 December 2018 the Group no longer separately recognises revenue for pre-need marketing activities as all pre-need activities are deemed to relate to a single performance obligation, being the performance of a funeral.

To aid a user of the financial statements, for the foreseeable future, the Group has amended its definition of underlying revenue and underlying operating profit so that the effects of adopting IFRS 15 are removed.

(c) Non-underlying items

Non-underlying items

The Group's underlying measures of profitability exclude:

- amortisation of acquisition related intangibles;
- external transaction costs;
- profit or loss on sale of fixed assets;
- Transformation Plan costs (see below);
- operating and competition review costs;
- one-off costs in respect of the defined benefit pension obligations;
- trade name write-off and impairments;
- Group's share of profit or loss of associated undertakings; and
- the taxation impact of the above items together with the impact of taxation rate changes.

Non-underlying 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.

Transformation Plan costs

Given the on-going transformation of the Group's business will result in significant, directly attributable non-recurring costs over the period of the Transformation Plan, these amounts are excluded from the Group's underlying profit measures and treated as a non-underlying item.

These costs will include, but are not limited to:

- external advisers' fees;
- directly attributable internal costs, including staff costs wholly related to the Transformation (such as the Transformation Director and project management office);
- costs relating to any property openings, closures or relocations;
- rebranding costs;
- speculative marketing costs; and
- redundancy costs.

(d) Funeral market share

Comparable funeral market share excludes any volumes from locations not contributing for the whole of 2018 and 2019 to date and therefore excludes eight locations closed in 2018 and a further nine locations closed in 2019.

Forward-looking statements

This announcement and the Dignity plc investor website may contain certain 'forward-looking statements' with respect to Dignity plc ("the 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 above. 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.

Other information

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>.