



# **Full Year Results 2014**

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

## Financial highlights – 52 Weeks to 26 December 2014

	52 week Period ended 26-Dec 2014	52 week Period ended 27-Dec 2013	Increase per cent
Revenue (£million)	<b>268.9</b>	256.7	5
Underlying operating profit <sup>(a)</sup> (£million)	<b>84.9</b>	78.4	8
Underlying profit before tax <sup>(a)</sup> (£million)	<b>58.5</b>	52.9	11
Underlying earnings per share <sup>(b)</sup> (pence)	<b>85.8</b>	72.1	19
Cash generated from operations <sup>(c)</sup> (£million)	<b>104.4</b>	94.2	11
Operating profit (£million)	<b>82.9</b>	75.1	10
(Loss)/profit before tax (£million) <sup>(d)</sup>	<b>(67.7)</b>	49.6	n/a
Basic earnings per share (pence) <sup>(d)</sup>	<b>(104.0)</b>	72.8	n/a
Interim dividend paid in the period <sup>(e, f)</sup> (pence)	<b>6.49</b>	-	n/a
Final dividend proposed in the period <sup>(g)</sup> (pence)	<b>13.01</b>	11.83	10
Return of Cash (£million)	<b>64.4</b>	61.9	4

(a) Underlying profit is calculated as profit (or loss) excluding profit (or loss) on sale of fixed assets, external transaction costs and exceptional items

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

(c) Cash generated from operations excludes external transaction costs and pension contributions made from the proceeds of debt issues

(d) As previously announced, non-cash charges resulting from the refinancing during the period have led to a reported statutory loss

(e) The interim dividend represents the interim dividend that was declared and paid in the period out of earnings generated in the same period

(f) An interim dividend was not paid separately in 2013, but was instead included within the £1.08 Return of Cash per Ordinary Share paid in August 2013

(g) The final dividend in 2014 is the proposed dividend expected to be approved at the annual general meeting on 11 June 2015. The 2013 final dividend is the dividend declared and paid in 2014

## Overview for the period

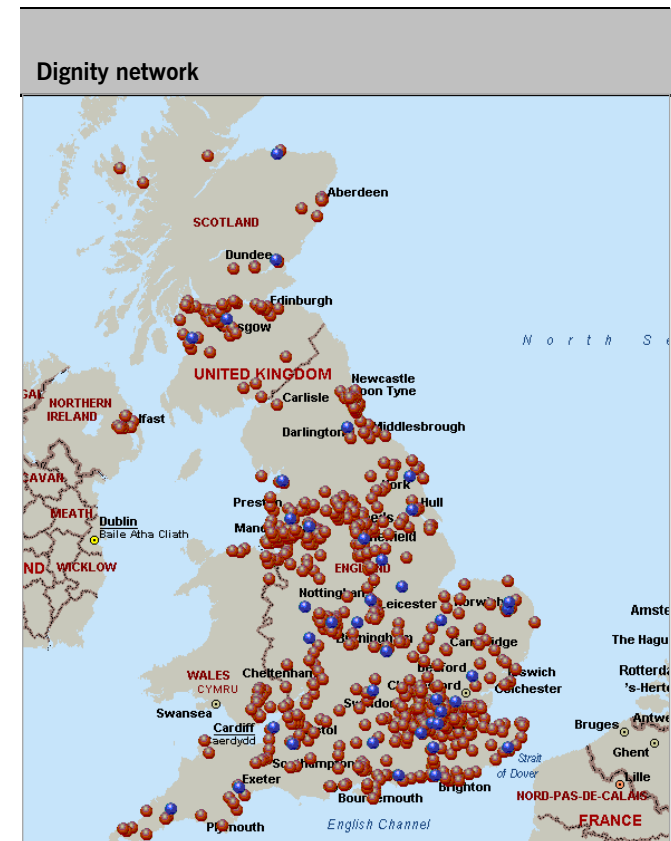
- Capital structure refinanced with new 35 year investment grade secured debt, reducing annual debt service obligations (principal and interest) from approximately £40 million to approximately £33 million per annum
- As previously announced, non-cash charges resulting from this refinancing have led to a reported statutory loss
- £64.4 million of cash returned to shareholders (£1.20 per share) following this refinancing
- Eleventh consecutive year of operating profit growth since flotation in 2004
- Strong operating performance by all three operating divisions
- Profits continue to be converted to cash
- Customer satisfaction remains at very high levels, with 99 per cent of families saying we met or exceeded their expectations and 98 per cent saying they would recommend us
- £24.7 million invested in funeral acquisitions, adding a further 30 funeral locations to the Group's portfolio
- Four satellite locations opened within the funeral business
- Memorial sales remain robust
- Another strong year of pre-arranged funeral plan sales, with unfulfilled pre-arranged funeral plans increasing to 348,000

## Refinancing and return of capital to shareholders

- The Group completed a refinancing of its securitised debt structure on 17 October 2014
- As a result the Group's annual cash debt service obligations (principal and interest) reduced from circa £40 million per annum to circa £33 million per annum
- The proposals reset the structure to a similar level (in terms of leverage, ratings and duration) to the original issuance in 2003
- Net proceeds were approximately £80 million. Approximately £5 million was used to terminate existing hedging arrangements and circa £10 million was retained for acquisitions
- The remaining amount of circa £64 million (£1.20 per share) was returned to shareholders in November 2014
- The mark to market impact of the transaction resulted in an exceptional non-cash charge to the income statement of £102.6 million
- The transaction as a whole resulted in a total exceptional charge to the income statement of £124.2 million (being the mark to market of the notes, the write off of old and new issue costs, and the closing out of the swap)

## Dignity: Company Overview

- Dignity's operations are focused on three businesses:
  - Funeral services
    - 718 funeral locations (Dec 2014)
    - 65,600 funerals in 2014
    - 12% of deaths in Britain in 2014
    - 65% of operating profit in 2014
  - Crematoria
    - 39 locations (Dec 2014)
    - 53,400 cremations in 2014
    - 10% of deaths in Britain in 2014
    - 28% of operating profit in 2014
- Pre-arranged funerals
  - 348,000 plans outstanding (Dec 2014)
  - Marketed through affinity partners and Dignity branches
  - 7% of operating profit in 2014



● Funeral services ● Crematoria

## Business Model

### Solid Core Business

- Stable industry
- Strong position in a fragmented industry
- High barriers to entry
- Quality and consistency of service
- Scale efficiencies
- Cash generative



### Growth Drivers

- Average spend per funeral
- Additional locations
- Pre-arranged funerals



### Objective

- Steady growth **within existing resources**



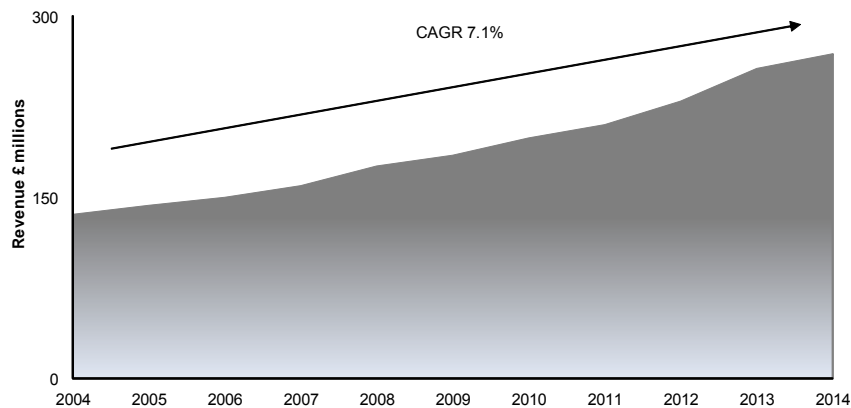
- Financial leverage
- Slow amortising fixed rate debt



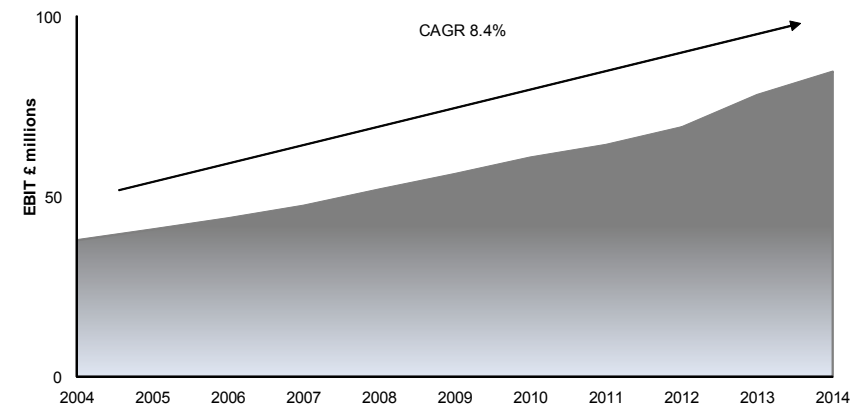
- Leverage means that above translates into **geared growth in earnings**

# The company has performed strongly since IPO

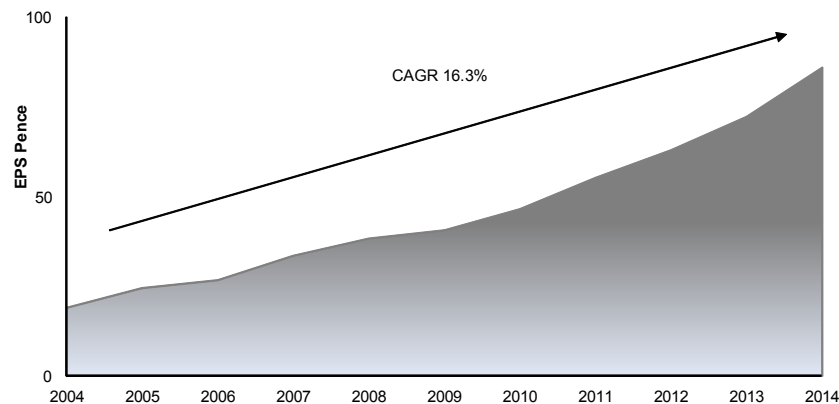
**Historic Revenue**



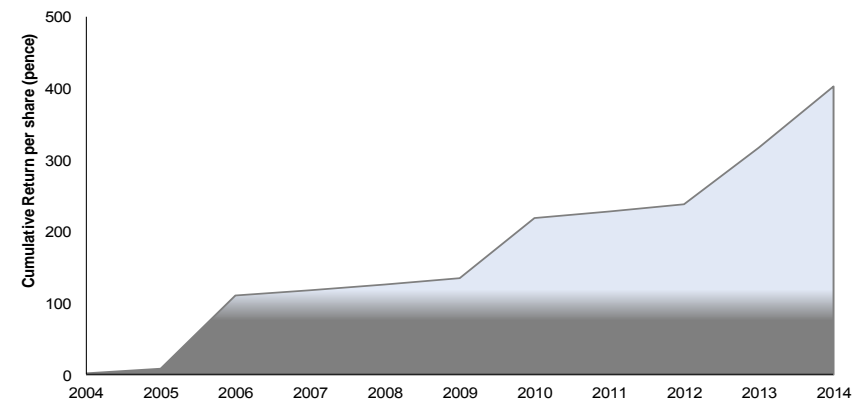
**Historic EBIT**



**Historic EPS**



**Total monies returned to shareholders on cumulative basis  
(dividend and return of value)**

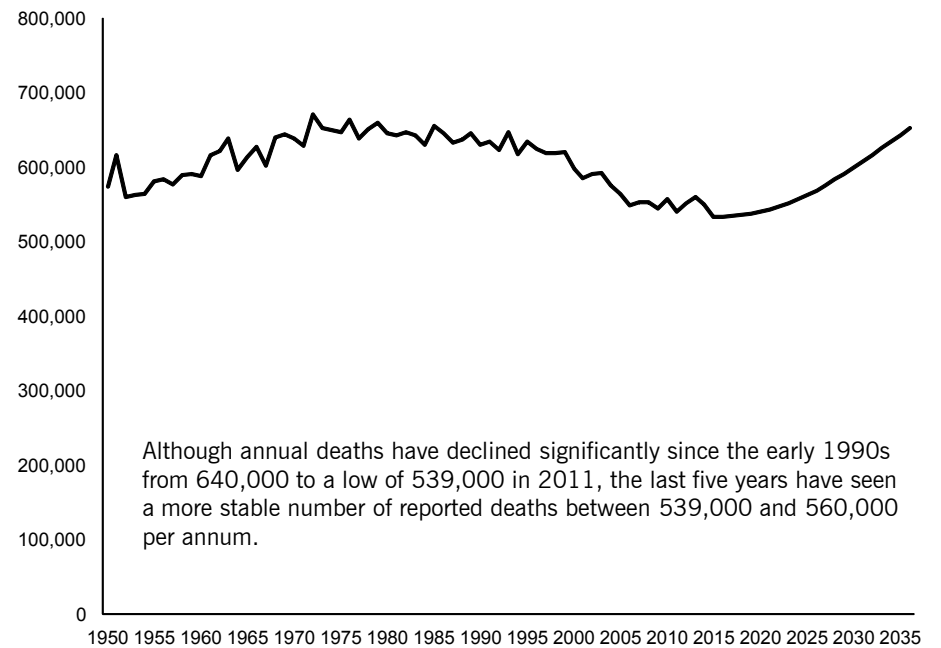


2004 EPS is estimated and assumes IPO occurred at the beginning of the year.

## Deaths and Volumes

	52 wks 26-Dec 2014	52 wks 27-Dec 2013	% change
<b>Est. Deaths (Great Britain)</b>	550,000	560,000	(1.8)%
<b>Funeral</b>			
Funeral volume (United Kingdom)	65,600	68,000	(3.5)%
Market Share (Great Britain)	11.7%	11.9%	
Average revenue per funeral	£2,811	£2,588	8.6%
<b>Cremation</b>			
Cremation volume	53,400	55,500	(3.8)%
Market Share	9.7%	9.9%	
Average cremation fee	£773	£715	8.1%
Average memorial & other revenue	£262	£254	3.1%
Average revenue per cremation	£1,035	£969	6.8%

### Deaths in Great Britain



Source: Office of National Statistics (ONS)



## High barriers to entry

### Funeral Services

- Over 72% of people choose a funeral arranger based on personal experience or recommendation (source: OFT 2001)
- 92% of people approach just one funeral director (source: OFT 2001)

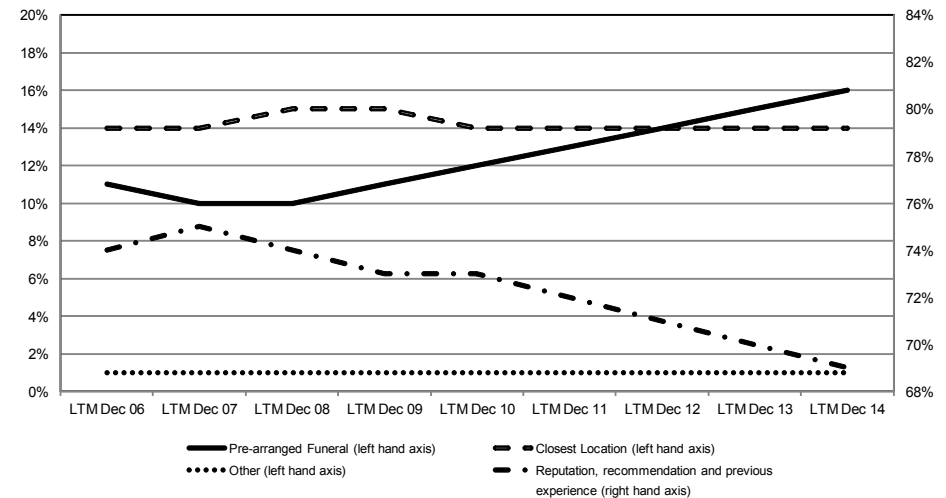
### Crematoria

- Criteria for new crematoria are very demanding:
  - Must show proof of need
  - Public resistance to new builds
  - Relatively high building costs – at least £4 million

### Pre-arranged funerals

- Nationwide presence key for life insurers / insurance firms for affiliate programmes

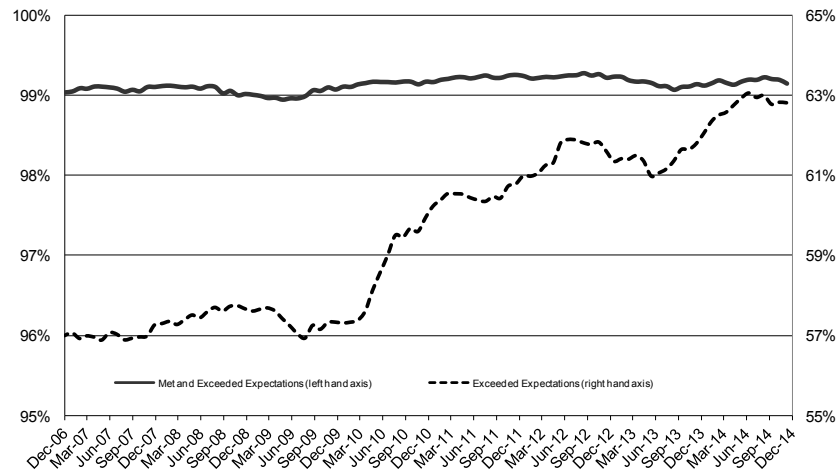
### Source of business



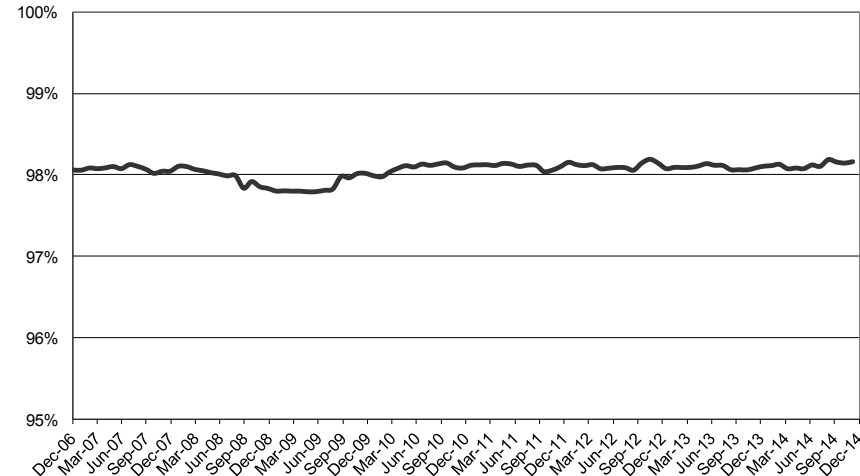
Source: Dignity surveys

# Funeral Services – Customer satisfaction is key

**Percentage of customers who believe we met and exceeded their expectations (12 month rolling average)**



**Percentage of customers willing to recommend Dignity's services (12 month rolling average)**

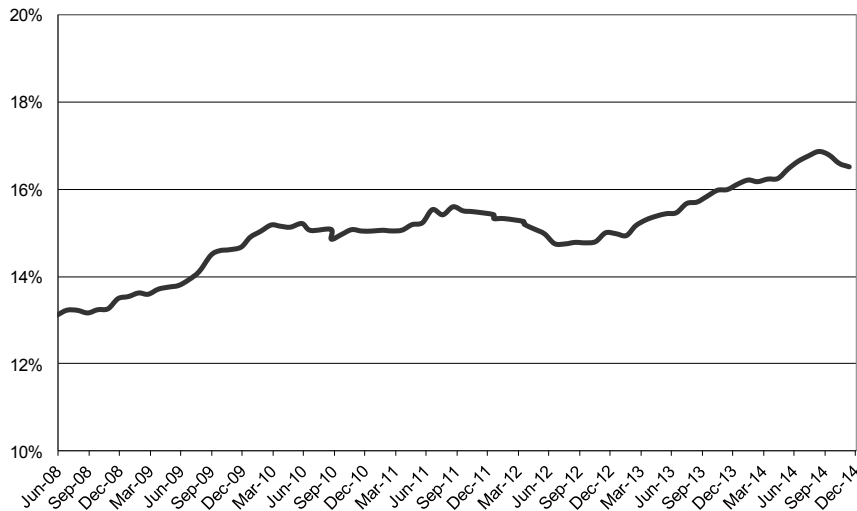


- We have received over 161,000 responses to our client surveys in the last five years
- The survey is completed by the family after they have received the final invoice

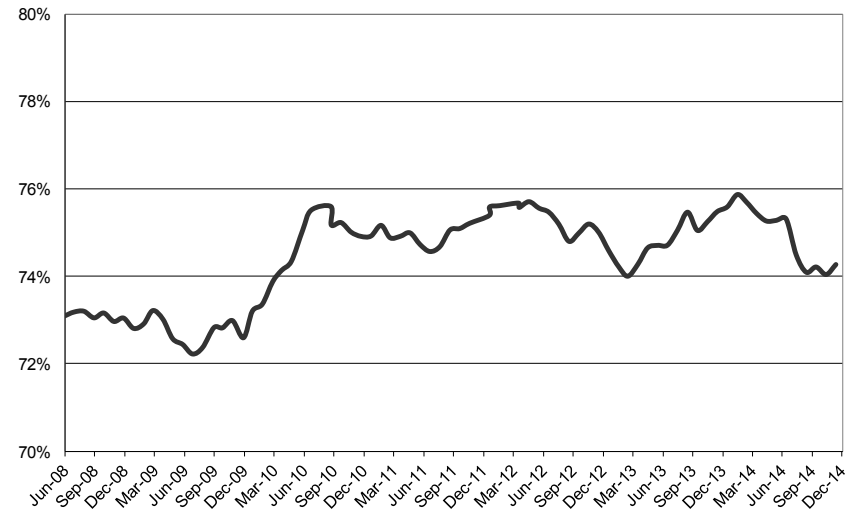
- On average over the last 5 years:
  - approximately 60% have said we exceeded their expectations
  - approximately 90% would definitely recommend Dignity's services
- Maintaining this level of service is of key importance as approximately 71% of the Group's funeral business has come from reputation and recommendation over the same period

# Funeral Services – Customer satisfaction is key

Percentage of customers who thought the cost was higher than expected (12 month rolling average)



Percentage of customers who thought the cost was higher than expected but would still definitely recommend us (12 month rolling average)



- As average income has increased with time, the percentage of people who say the invoice was more expensive than expected has increased slightly
- However, the proportion of those people who would nonetheless definitely recommend is 74%

## Funeral Services – Additional locations

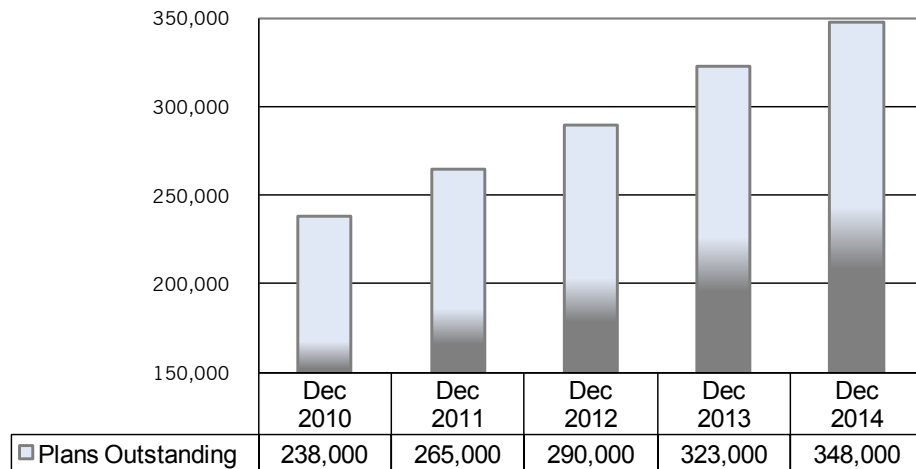
<b>Number of locations at December 2013</b>	<b>690</b>
Acquisitions - Leasehold	22
Acquisitions - Freehold / Long Leasehold	8
Satellite openings - Leasehold	4
Branch closure - Leasehold	(5)
Branch closure - Freehold	(1)
<b>Number of locations at December 2014</b>	<b>718</b>

- The Group has acquired 30 funeral locations and has opened four satellite locations in the year
- These acquisitions represent a net investment of £24.7 million

## Crematoria developments

- The Group is currently seeking planning permission for four separate locations in the UK
- One of these locations has had initial planning permission denied and the Group is considering its options
- During the period, the Group's appeal on a further planning application has been denied and as a result, the Group has ceased to pursue this location
- Cemetery development at Brentwood has started, further land has been acquired in East London for future cemetery development and a new cemetery application has been submitted at an existing Dignity Crematorium in Basingstoke
- As at December 2014, the Group operates 39 crematoria compared to 22 at the beginning of 2008
- The Group continues to identify further locations suitable for new crematoria and is also continuing to seek partnerships with local authorities

## Pre-arranged funeral plans



- We sell pre-arranged funeral plans to attract people who would not otherwise have used a Dignity funeral location
- Plans outstanding continue to grow
- These are marketed through affinity partners, IFAs and Dignity branches
- Dignity expects to perform the majority of these funerals
- Age UK remains a key affinity partner
- Monies are paid into independent trust funds which invest them into index linked gilts, cash, investment grade bonds and other inflation linked investments
- Efficient sales activity has translated into strong operational performance

## 8.3% increase in underlying operating profit

- Operational leverage helped to generate an 8% increase in underlying operating profit

	52 wks 26-Dec 2014	52 wks 27-Dec 2013	% change
<b>Revenue (£m)</b>			
Funeral services	184.4	176.2	4.7%
Crematoria	55.2	53.8	2.6%
Pre-arranged funeral plans	29.3	26.7	9.7%
<b>Revenue</b>	<b>268.9</b>	<b>256.7</b>	<b>4.8%</b>
<b>Operating Profit (£m)</b>			
Funeral services	66.3	60.8	9.0%
Crematoria	29.1	27.4	6.2%
Pre-arranged funeral plans	7.4	6.7	10.4%
Central overheads	(17.9)	(16.5)	8.5%
<b>Underlying Operating Profit</b>	<b>84.9</b>	<b>78.4</b>	<b>8.3%</b>
(Loss) on sale of fixed assets	(0.3)	(0.1)	
External transaction costs	(1.7)	(3.2)	
<b>Operating Profit</b>	<b>82.9</b>	<b>75.1</b>	<b>10.4%</b>
Underlying operating profit margin			
<i>Funeral services</i>	36.0%	34.5%	
<i>Crematoria</i>	52.7%	50.9%	
<b>Underlying Operating Profit Margin</b>	<b>31.6%</b>	<b>30.5%</b>	

## 19.0% increase in underlying earnings per share

- The tap issue in 2013 and refinancing in 2014 resulted in a slightly higher net finance cost
- The underlying exceptional tax rate has reduced to 22.5%
- The number of shares has reduced following the Return of Cash to shareholders
- At the year end the shares in issue were 49.2 million
- This combined to give a 19% increase in underlying EPS

	52 wks 26-Dec 2014	52 wks 27-Dec 2013	%
Revenue (£m)	268.9	256.7	
<b>Underlying Operating Profit (£m)</b>	<b>84.9</b>	<b>78.4</b>	<b>8.3%</b>
Underlying net finance costs (£m)	(26.4)	(25.5)	
<b>Underlying Profit before tax (£m)</b>	<b>58.5</b>	<b>52.9</b>	<b>10.6%</b>
Taxation (£m)	(13.1)	(12.9)	
<b>Underlying Earnings (£m)</b>	<b>45.4</b>	<b>40.0</b>	<b>13.5%</b>
Weighted average number of ordinary shares in issue during the period (million)	52.9	55.5	
<b>Underlying EPS (pence)</b>	<b>85.8p</b>	<b>72.1p</b>	<b>19.0%</b>

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



## Accounting profits convert to cash

- Cash generation remains strong
- The Group has generated sufficient free cash to fund:
  - Ongoing acquisitions of additional funeral and crematoria locations
  - Debt service
  - Dividends

	52 wks 26-Dec 2014 Profit	52 wks 26-Dec 2014 Cash	52 wks 27-Dec 2013 Profit	52 wks 27-Dec 2013 Cash
<b>EBITDA</b>	<b>98.4</b>		<b>90.9</b>	
<b>Cash generated from operations</b>		<b>104.4</b>		<b>94.2</b>
<i>Depreciation and Amortisation</i>	(13.5)		(12.5)	
<i>Vehicle replacement programme and improvements to locations</i>		(14.1)		(14.2)
<b>Underlying Operating Profit</b>	<b>84.9</b>		<b>78.4</b>	
<b>Operating cash flow after capital expenditure</b>		<b>90.3</b>		<b>80.0</b>
<i>Underlying net finance costs</i>	(26.4)		(25.5)	
<i>Net finance payments</i>		(28.4)		(27.1)
<b>Underlying Profit before Tax</b>	<b>58.5</b>		<b>52.9</b>	
<b>Cash generated before tax</b>		<b>61.9</b>		<b>52.9</b>
<i>Tax on underlying earnings</i>	(13.1)		(12.9)	
<i>Tax paid</i>		(6.9)		(10.9)
<b>Underlying earnings</b>	<b>45.4</b>		<b>40.0</b>	
<b>Cash after tax</b>		<b>55.0</b>		<b>42.0</b>
<b>Underlying earnings per share</b>	<b>85.8p</b>		<b>72.1p</b>	
<b>Cash per share</b>		<b>104.0p</b>		<b>75.7p</b>

## Main source of debt funding continues to be from securitisation

- Following the exchange offer and issue of new notes in 2014:
  - £595.3 million principal outstanding publicly traded investment grade securitised debt in issue, £238.9 million issued at circa 3.5% and £356.4 million issued at circa 4.7%, overall cost circa 4.2%
    - Principal amortises over life of loans and is scheduled to be repaid by 2049, therefore **NO REFINANCING OR ROLLOVER OF FACILITIES REQUIRED**
    - Interest rate on outstanding principal is fixed for the life of the loans
    - Certain covenants to preserve cash flows for benefit of bondholders
    - Total annual debt service (principal and interest) now circa £33 million (previously circa £40 million)
  - £15.8 million Crematoria Acquisition Facility
    - This debt was refinanced in February 2013 and is now repayable in February 2018
    - The interest rate is fixed or capped at approximately 3.3% pre-tax

## Net debt

	26-Dec 2014 £m	27-Dec 2013 £m
Net amounts owing on Old Notes	-	(403.0)
Net amounts owing on New Notes	(594.6)	-
Add: unamortised issue costs	(0.7)	(16.3)
<b>Gross amounts owing on Secured Notes</b>	<b>(595.3)</b>	<b>(419.3)</b>
Net amounts owing on Crematoria Acquisition Facility	(15.6)	(15.6)
Add: unamortised issue costs on Crematoria Acquisition Facility	(0.2)	(0.2)
<b>Gross amounts owing</b>	<b>(611.1)</b>	<b>(435.1)</b>
Accrued interest on Secured Notes	(5.7)	(14.3)
Cash and cash equivalents <sup>(1)</sup>	86.5	79.3
<b>Net debt</b>	<b>(530.3)</b>	<b>(370.1)</b>

(1) Cash held as collateral for the Liquidity Facility in 2013 has been excluded as it does not meet the definition of cash and cash equivalents in IAS 7.

- At the balance sheet date, the market value of Secured Notes was £643.2 million compared to a balance sheet value of £595.3 million

## Delivering on our strategy

Strategy	Action
Deliver high customer satisfaction	98% of our customers would recommend our services and 99% said we have met or exceeded their expectations
Strong management of core portfolio, average income and operating costs	Revenue has increased 5% Underlying operating profit has increased 8%
Additional funeral locations	30 funeral locations acquired in the year 4 satellite funeral locations opened in the year
Develop, manage and acquire new crematoria	Further locations being identified and partnerships sought with local authorities
Increasing backlog of pre-arranged funeral plans	Plans outstanding grew to 348,000

## Outlook

“The Group has continued to perform strongly, delivering operational performance ahead of consensus estimates. This performance was underpinned by our ongoing commitment to outstanding customer service, further investment in our business and continued tight cost control.

2015 has started strongly and the Board’s expectations for the year remain positive and unchanged.”

Mike McCollum  
Chief Executive

## Forward looking statements

- Certain statements in this presentation are forward-looking. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

# Appendices

# Appendix 1

## Income statement analysis of new capital structure

	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 £m	2029 £m	2030 £m	2031 £m	2032 £m
<b>Income Statement Costs - prior to refinancing</b>	24.3	23.6	22.7	22.0	20.9	19.9	18.8	17.6	16.2	14.8	13.0	11.0	9.0	6.7	4.3	1.9	-	-
<b>New capital structure</b>																		
Interest on Class A & B Notes	25.0	24.7	24.4	24.1	23.7	23.4	23.1	22.7	22.3	21.9	21.5	21.1	20.7	20.2	19.8	19.3	18.8	18.3
<b>Income statement costs - after refinancing</b>	<b>25.0</b>	<b>24.7</b>	<b>24.4</b>	<b>24.1</b>	<b>23.7</b>	<b>23.4</b>	<b>23.1</b>	<b>22.7</b>	<b>22.3</b>	<b>21.9</b>	<b>21.5</b>	<b>21.1</b>	<b>20.7</b>	<b>20.2</b>	<b>19.8</b>	<b>19.3</b>	<b>18.8</b>	<b>18.3</b>

	2033 £m	2034 £m	2035 £m	2036 £m	2037 £m	2038 £m	2039 £m	2040 £m	2041 £m	2042 £m	2043 £m	2044 £m	2045 £m	2046 £m	2047 £m	2048 £m	2049 £m
<b>Income Statement Costs - prior to refinancing</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>New capital structure</b>																	
Interest on Class A & B Notes	17.7	17.2	16.5	15.7	14.9	14.0	13.1	12.1	11.1	10.1	9.0	7.8	6.6	5.3	4.0	2.6	1.1
<b>Income statement costs - after refinancing</b>	<b>17.7</b>	<b>17.2</b>	<b>16.5</b>	<b>15.7</b>	<b>14.9</b>	<b>14.0</b>	<b>13.1</b>	<b>12.1</b>	<b>11.1</b>	<b>10.1</b>	<b>9.0</b>	<b>7.8</b>	<b>6.6</b>	<b>5.3</b>	<b>4.0</b>	<b>2.6</b>	<b>1.1</b>

- In addition to the costs detailed above, the Group incurred circa £2 million of additional net interest expense in 2014 which is anticipated to reoccur
- Issue costs totalling £0.7 million were capitalised and will be amortised over the life of the notes
- The Group has 49.2 million shares in issue following the transaction



## Appendix 2

### Cash flow analysis of new capital structure

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Cash cost - prior to refinancing</b>	40.1	40.3	40.5	40.5	40.5	40.8	41.1	41.4	41.0	39.1	40.9	38.7	36.6	40.7	37.9	35.2	-	-
<b>New capital structure</b>																		
Interest on Class A & B Notes	25.0	24.7	24.4	24.1	23.7	23.4	23.1	22.7	22.3	21.9	21.5	21.1	20.7	20.2	19.8	19.3	18.8	18.3
Principal repayments on Class A & B Notes	8.2	8.5	8.8	9.2	9.5	9.8	10.2	10.5	10.9	11.3	11.7	12.1	12.6	13.0	13.5	14.0	14.5	15.0
<b>Cash cost - after refinancing</b>	<b>33.2</b>	<b>33.2</b>	<b>33.2</b>	<b>33.3</b>	<b>33.2</b>	<b>33.2</b>	<b>33.3</b>	<b>33.2</b>	<b>33.2</b>	<b>33.2</b>	<b>33.2</b>	<b>33.2</b>	<b>33.3</b>	<b>33.2</b>	<b>33.3</b>	<b>33.3</b>	<b>33.3</b>	<b>33.3</b>
	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
<b>Cash cost - prior to refinancing</b>																		
<b>New capital structure</b>																		
Interest on Class A & B Notes	17.7	17.2	16.5	15.7	14.9	14.0	13.1	12.1	11.1	10.1	9.0	7.8	6.6	5.3	4.0	2.6	1.1	-
Principal repayments on Class A & B Notes	15.5	16.1	16.9	17.7	18.5	19.4	20.3	21.3	22.3	23.3	24.4	25.5	26.7	28.0	29.3	30.7	32.1	-
<b>Cash cost - after refinancing</b>	<b>33.2</b>	<b>33.3</b>	<b>33.4</b>	<b>33.4</b>	<b>33.4</b>	<b>33.4</b>	<b>33.4</b>	<b>33.4</b>	<b>33.4</b>	<b>33.4</b>	<b>33.4</b>	<b>33.3</b>	<b>33.3</b>	<b>33.3</b>	<b>33.3</b>	<b>33.3</b>	<b>33.2</b>	



# **Full Year Results 2014**

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