For immediate release **9 November 2020**

Dignity plc

Third quarter update

Dignity plc (Dignity, the Company, or the Group), the UK's only listed provider of funeral related services, provides the following updates:

Summary

	39 week period ended 25 September 2020	39 week period ended 27 September 2019	Increase/ (decrease) (per cent)
Underlying revenue (£million)	**234.5**	225.4	4
Underlying operating profit (£million)	**44.2**	47.9	(8)
Number of deaths	**498,000**	432,000	15

Alternative performance measures ('APMs')
All measures marked as underlying in the table above and throughout this announcement are alternative performance measures. The Board believes that whilst statutory reporting measures provide financial performance of the Group under GAAP, APMs are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the business. The APMs provided are aligned with those used in the day-to-day management of the business and allow for greater comparability across periods.

	Funerals £m	**Crematoria £m**	**Central overheads £m**	**Group £m**
Underlying operating profit – Q3 2019 YTD	40.8	29.6	(22.5)	47.9
Impact of:				
Number of deaths	20.1	6.9	-	27.0
Market share	4.7	1.4	-	6.1
Average incomes	(25.2)	(3.8)	-	(29.0)
Cost base changes	(1.9)	(1.6)	(4.3)	(7.8)
Underlying operating profit – Q3 2020 YTD	**38.5**	**32.5**	**(26.8)**	**44.2**

Overview

2020 is proving to be a unique and challenging year, with the impact of COVID-19 on our daily lives likely to continue for many months to come. For people losing loved ones at this time, their ability to grieve and to gain closure remains adversely impacted. The Board is grateful for the constant dedication of our staff, whichever role they perform in the business, as they respond appropriately to each client they support, sometimes in extreme circumstances.

Whilst COVID-19 features heavily in our planning into early 2021, inevitably leading to some delays, we have not lost sight of the numerous other areas that demand our attention:

- the root and branch strategic review will now continue through to a conclusion in the second quarter of 2021;
- the refocusing of the investment management strategy for the pre-need trusts will conclude later this year;
- the CMA market investigation Final Decision Report ('FDR') is due no later than 27 March 2021; and
- we are preparing for regulation of the pre-need funeral plan industry by the Financial Conduct Authority ('FCA').

Strategic review
As the detailed, branch-by-branch review of every aspect of the Group is conducted, two other lines of defence are designed to support ongoing activities:

- the first is already complete: the restructure of certain operating assets to enable their profits to be included in our securitisation covenants will develop additional EBITDA headroom, of approximately £10 million, by the middle of 2021; and

- secondly, we have identified operating efficiencies that when completed, will serve to reduce our ongoing operating costs by in excess of £8 million on an annualised basis, with all measures implemented by the end of March 2021.

This additional covenant headroom will provide the platform upon which the Group can execute its conclusions from the broader root and branch review, realising further economic savings, creating a combination of compelling propositions and price points and introducing new ways of working, leveraged off the strength of its existing resources. A key part of this will be further proposition and pricing trials, which the Group expects to recommence later this year. This detailed review will take time and has been delayed to allow the business to focus its energies on addressing the pandemic. Whilst an update will be provided at the Group's preliminary results in March 2021, the full conclusions and detail of the review will be launched at the Group's interim results in July 2021.

Number of deaths

	2020	2019	Increase/ (decrease) (per cent)
Quarter 1	**161,000**	159,000	1
Quarter 2	**207,000**	141,000	47
First half of year	**368,000**	300,000	23
Quarter 3	**130,000**	132,000	(2)
Year to date	**498,000**	432,000	15

Following the terrible impact of COVID-19 in the second quarter this year, the number of deaths in the third quarter was broadly flat on the prior year. The final quarter of 2019 witnessed 152,000 deaths and deaths in October were broadly flat on the prior year. The Group will not speculate on the most likely outcome for the remainder of the year, however it is possible that the tragic events of 2020 may mean 2021 and 2022 could experience a lower number of deaths than in 2019.

The impact of the environment the Group operates in differs in each quarter of the year to date, as shown in the following tables:

Funerals

	Q1 £m	Q2 £m	Q3 £m	Total £m
Underlying operating profit – 2019	18.4	12.1	10.3	40.8
Impact of:				
Number of deaths	0.8	19.5	(0.2)	20.1
Market share	1.1	3.3	0.3	4.7
Average incomes	(1.4)	(17.6)	(6.2)	(25.2)
Cost base changes	(1.4)	(1.1)	0.6	(1.9)
Underlying operating profit – 2020	**17.5**	**16.2**	**4.8**	**38.5**

Funeral market share

In the first three quarters of 2020 the Group conducted 61,700 funerals (September 2019: 52,100) in the United Kingdom. Just over one per cent of the funerals in each period were performed in Northern Ireland. Excluding Northern Ireland, these funerals represented approximately 12.2 per cent (September 2019: 11.9 per cent) of total estimated deaths in Great Britain. Year-on-year growth in market share is primarily attributable to growth in Simplicity and pre-arranged funeral plans. Market share of full, simple and limited funerals was broadly flat year-on-year.

Whilst funerals divided by estimated deaths is a reasonable measure of Dignity's market share, the Group does not have a complete national presence and consequently, this calculation can only ever be an estimate. Allied to this, market share is calculated based on a fixed assumption of one week between the registration of the death and the date of the funeral. Therefore, calculations of market share, particularly over shorter periods, may not be comparable.

Average funeral income

	Funeral type	**FY 2019 Actual**	**Q1 2020 Actual**	**Q2 2020 Actual***	**H1 2020 Actual***	**Q3 2020 Actual**
Underlying average revenue (£)	Full service	3,578	3,521	3,080	3,341	3,308
	Simple and limited service	2,047	1,972	1,953	1,956	1,897
	Pre-need	1,846	1,894	1,869	1,880	1,921
	Other (including Simplicity)	770	888	992	987	811
Volume mix (%)	Full service	52	50	26	37	40
	Simple and limited service	14	14	37	26	25
	Pre-need	27	29	28	28	27
	Other (including Simplicity)	7	7	9	9	8
Underlying weighted average (£)		2,699	2,648	2,136	2,360	2,381
Ancillary revenue (£)		231	175	49	101	174
Underlying average revenue (£)		2,930	2,823	2,185	2,461	2,555
Full service volume as a percentage of full, simple and limited (%)		79	78	41	59	62

Note: In the Group's interim results, other average revenue were incorrectly quoted as £1,212 for Q2 2020 and £1,205 for H1 2020. The above table shows the correct amounts. The overall underlying weighted average and underlying average revenue were correctly stated.

Subsequent to the end of the quarter, October witnessed a full service average of approximately £3,350, with 44 per cent of all funerals being full service and the ratio of full service to full, simple and limited increasing to 68 per cent. As a result, the underlying weighted average for October was approximately £2,480 compared to £2,381 in the third quarter of 2020.

As a result of the crisis, the Group decided to temporarily withdraw the provision of limousines in the interests of the welfare of its staff and clients. Other choices such as church services also stopped being possible during this time. Following the installation of Perspex dividing screens, the Group's limousines are now available to clients and as is well documented in Government announcements, places of worship have now reopened. Client choices and therefore average income are likely to vary more by region in the coming months depending on the local restrictions in place.

Crematoria

	Q1 £m	Q2 £m	Q3 £m	Total £m
Underlying operating profit – 2019	10.9	9.9	8.8	29.6
Impact of:				
Number of deaths	0.4	7.0	(0.5)	6.9
Market share	0.3	0.6	0.5	1.4
Average incomes	(0.7)	(3.6)	0.5	(3.8)
Cost base changes	(0.6)	(0.5)	(0.5)	(1.6)
Underlying operating profit – 2020	**10.3**	**13.4**	**8.8**	**32.5**

In the year to date, the Group conducted 57,500 cremations (September 2019: 48,500), representing a market share of 11.5 per cent (September 2019: 11.2 per cent). The increase in market share can be attributed to direct cremations.

With crematoria grounds being allowed to fully reopen, the Group has seen approximately 50 per cent of the £3 million memorial sales that it would have anticipated making in the second quarter being recouped in the third quarter, beyond usual levels of activity.

Central overheads

	Q1 £m	Q2 £m	Q3 £m	Total £m
Total overheads – 2019	7.6	7.0	7.9	22.5
Impact of:				
Digital activities	0.4	0.6	0.2	1.2
Salaries	0.6	2.1	0.4	3.1
Other	(0.2)	0.3	(0.1)	-
Total overheads – 2020	**8.4**	**10.0**	**8.4**	**26.8**

Central overheads are expected to reduce as part of the strategic review.

Pre-need operations

The Group remains optimistic on its ability to grow its pre-arranged funeral plan business. Active pre-arranged funeral plans (including insurance backed arrangements) were approximately 550,000 at the end of September, compared to 537,000 at the end of June 2020. This reflects sales activity improving in the third quarter and at a level higher than the equivalent prior year period.

The pre-need trustees are actively reviewing the investment strategy of the pre-need trusts, focused on providing the Group with greater certainty over amounts to be paid when funerals are performed in a rolling five year period (by retaining cash or high grade bonds to cover these liabilities), together with implementing an overall investment strategy with lower aggregate fund management and execution costs. These changes to the investment strategy are expected to be implemented before the end of the year, which will materially reduce the overall costs of managing the trusts' investments, enhancing the capacity for future revenue growth.

Pre-need regulation

Earlier in the year, HM Treasury indicated that as a result of COVID-19, the government now intends that the secondary legislation bringing funeral plan firms within the remit of the FCA will be laid before parliament in the fourth quarter of 2020 and that this date will be kept under review. The intention is for the FCA regulatory framework to come fully into force 18 months after the legislation is made.

The Group welcomes FCA regulation of the sector and is planning for regulation to be effective by the middle of 2022.

Capital structure

Secured Notes

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 2020 was 2.03 times (June 2020: 2.15 times). The Group therefore had EBITDA headroom of approximately £18 million against its financial covenants at the end of September 2020.

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 2020 was 1.63 times (June 2020: 1.72 times). These combined requirements are known as the Restricted Payment Condition ('RPC'). In the interests of clarity, failure to pass the RPC would not be a covenant breach and would not cause an acceleration of any debt repayments. Furthermore, any cash not permitted to be transferred whilst the RPC is not achieved will be available to be transferred at a later date once the RPC requirement is achieved.

On 31 July 2020, Standard & Poor's lowered their rating of the Group's Class B Secured Notes from BB- to B+. This change of rating has no impact on the day-to-day operations of the Secured Notes.

Revolving Credit Facility

The Group's £10 million revolving credit facility remains undrawn and is available until July 2021, with the option to renew, subject to the bank's consent at the time, by a further year.

Cash balances

At the end of September 2020, the Trading Group held cash of approximately £64 million, approximately £51 million of which was held by Dignity plc, which is freely available for use as the Group sees fit. As the Group has paused the Transformation Plan, dividends and crematoria developments, use of this balance is expected to be limited. Alongside this, the Group continues to plan to preserve operating cash generated through the management of its cost base. Therefore, given the Group had already taken the decision to temporarily suspend dividend payments, in practical terms, failure of the RPC would not have a material impact on the day-to-day operation of the Group.

CMA

On 13 August 2020, the CMA released the Provisional Decision Report ('PDR') for its funeral market investigation, with final responses due before 30 October 2020 and a timetable that should see the Final Decision Report ('FDR') issued well before the final deadline of 27 March 2021.

Consistent with its collaborative approach throughout the investigation, the Group has responded to the PDR comprehensively in writing and also attended a CMA Remedies Hearing. Dignity welcomes the CMA's provisional decision that price control remedies would not be reasonable and practicable in the short to medium term and is pleased that the CMA support Dignity's view on the need for quality regulation alongside information and transparency remedies. The Group believes the latter are necessary to provide any consumer with an acceptable level of quality and should apply to all market participants.

As part of the CMA market investigation, Dignity commissioned Cushman & Wakefield in May 2019 to undertake an independent valuation of the 41 freehold or long-leasehold crematoria properties within the Dignity portfolio. The five crematoria owned by local authorities but managed and operated by Dignity were excluded from the valuation report. The rationale for commissioning this one-off report was to assist the CMA in its market investigation by providing information as to the Direct Replacement Cost of each of crematoria owned by Dignity as well as providing an estimate as the Cost of Replacement of the Land or an alternative land use valuation.

The independent valuation was commissioned specifically to assist with the CMA's market investigation informed by this approach applied in previous market investigations. As such it is subject to certain limitations and based on a number of conservative assumptions (which are detailed as an appendix to this announcement). Strictly subject to the foregoing, Cushman & Wakefield have estimated that the replacement costs for the land and buildings at these 41 crematoria to be in the region of £461 million. The report also estimates that the alternative use land valuation at these 41 sites is approximately £374 million. This compares to a net book value of approximately £44 million at the time of the report in September 2019.

Board update

The Group has deferred its search for a new Chief Executive Officer to align with the learning's from both our strategic review and the CMA investigation in July 2021. In the interim Clive Whiley, who has extensive change management experience, will continue as Executive Chairman working closely with the existing executive management team.

Outlook

The Group, alongside the rest of the industry, continues to work closely with the cabinet office to navigate a safe course through the pandemic. Given the continuing uncertainties facing the business, and consistent with its position at the time of its Interim Results, the Group is not providing guidance on 2020 and beyond. The Group remains focused upon the strategic review in order to develop a sustainable growth plan for the business, leaving it ready to respond to whatever challenges are presented by its markets and other external factors.

Clive Whiley, Executive Chairman of Dignity, commented:

"I am pleased with the progress Dignity has made in my first year as Chairman. During that time, we have played a crucial role in the country's fight against COVID-19, whilst simultaneously challenging ourselves to do things better, collaborate constructively in the CMA's market investigation, deal with continued fierce competition and finally start the work that will see our long held call for pre-need regulation become a reality.

We still have a long way to go and the strategic review will take time to ensure we are prepared for every eventuality.

Ultimately it will take a combination of the serious pricing and product trials, alongside competitor reactions and the CMA final outcome, to define a strategy that harnesses the full capacity and bandwidth of our business, where we remain determined to grow market share without further dilution for shareholders."

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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 www.dignityfunerals.co.uk/corporate.

Appendix: assumptions supporting Cushman & Wakefield valuation

Basis of preparation

The independent valuation to assist with the market investigation is subject to the terms of engagement agreed and entered into between Dignity and Cushman & Wakefield dated 31 May 2019.

The net book value disclosed in this announcement was not provided by Cushman & Wakefield.

Cushman & Wakefield expressly disclaims any reliance, duty or responsibility to any other party than Dignity in respect of the whole or any part of the independent valuation commissioned.

Establishing the Cost of Replacing the Land

Identified what planning consent would likely be achieved, disregarding the existing use where appropriate and then valued based upon planning guidance received.

Where a site has been identified as having residential development potential we have reviewed the relevant local plans and have provided guidance on likely densities, affordable housing ratios and potential local authority tariffs (Community Infrastructure Levy and Section 106 contributions). We have then created a bespoke development appraisal which essentially focuses on the potential value of the completed development and the costs associated with completing the development, in order to establish the residual value of the land. All of the development appraisals and resulting residual values have been reviewed by Partners within the C&W residential valuation team.

Where a site has been identified as having limited development potential due to being located within the Green Belt or comprising protected open / amenity space within the local plan we have referred to comparable transactions of agricultural land or sales of amenity land in order to establish the potential value.

We are aware that when a vendor becomes aware that crematorium operators are interested in acquiring land, they will often seek to achieve a premium ahead of the Market Value. It should be noted that we have not applied a crematorium premium when pricing land based upon agricultural, commercial or residential transactions.

Cost of Replacing the Existing Buildings

All of the Properties were inspected and a desktop measurement exercise was completed to establish the floor areas for all buildings situated on the respective sites.

Having established the floor areas, reference was made to the BCIS mean rate for the principal buildings on each site, namely: crematoriums, chapels and administration buildings. The BCIS mean rate is effectively an average cost to replace the respective building and is provided on a per square foot basis. BCIS is an industry wide accepted database and the costs detailed are based upon average contract data sourced by BCIS.

In addition to establishing the cost to re-construct the building an allowance has been made for demolition costs and external works, including: hard landscaping in the form of roads, footpaths, fencing, gates and car parking.

Once the cost to replace a modern equivalent building has been established this is depreciated to reflect the age of the existing building and in particular, physical deterioration, functional obsolescence and economic obsolescence. In order to make this adjustment we have estimated the remaining economic life of the asset and adopted a straight-line approach deducting the same amount for depreciation for each year of the estimated life. This approach is in accordance with RICS Professional Guidance Note: Depreciated replacement cost method of valuation for financial reporting 1st edition, November 2018.

All of the costs incorporated are exclusive of VAT.

Excluded items

It should be noted that in estimating the cost to replace the building we have not included the following items:

- Plant and Machinery – In particular the cost associated with replacing the cremators.
- Fixtures and fittings – Including but not limited internal fitout, audio visual equipment and security systems.
- Costs associated with installing utilities and services at the property – For example drainage, gas, electricity and sewage.
- Landscaping works to replace memorial gardens etc.
- In addition to the above our calculations do not include the costs associated with securing planning consent or other professional / legal fees.