

Dignity plc

Third quarter trading update

Dignity plc (Dignity, the Company, or the Group), the UK's only listed provider of funeral related services, provides the following trading update for the 39 week period to 24 September 2021.

Summary

	39 week period ended 24 September 2021	39 week period ended 25 September 2020 restated	Increase/ (decrease) (per cent)
Underlying revenue (£million)	237.0	234.5	1
Underlying operating profit (£million) ⁽¹⁾	43.4	48.1	(10)
Number of deaths	483,000	498,000	(3)

Prior year adjustment

(1) Underlying performance measures throughout this announcement for September 2020 have been restated to reflect the application of IFRS 16, Leases. This standard was adopted in 2020 using the modified retrospective adoption which meant 2019 comparatives were not restated. As a result, the Group chose to exclude it from its underlying performance measures reported in 2020 in order to retain comparability. Therefore, the underlying performance measures reported above in both periods includes the application of IFRS 16.

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. For this reason, the APMs provided exclude the impact of consolidating the Trusts and the changes which relate to the application of IFRS 15, all of which are considered to mask the underlying trading performance of the Group, as well as non-underlying items comprising certain non-recurring and non-trading transactions.

	Funerals £m	Crematoria £m	Central overheads £m	Group £m
Underlying operating profit – Q3 2020 YTD restated ⁽¹⁾	41.2	33.6	(26.7)	48.1
Impact of:				
Number of deaths	(4.3)	(2.0)	-	(6.3)
Market share	(4.5)	(0.8)	-	(5.3)
Average revenues	8.7	3.3	-	12.0
Cost base changes	(2.3)	0.3	(3.1)	(5.1)
Underlying operating profit – Q3 2021 YTD	38.8	34.4	(29.8)	43.4

(1) Restatement relates to the correction of the application of IFRS 16 in September 2020

Overview

As with the interim results announced on 21 September 2021, this third quarter trading update is presented in a way consistent with the past. To reflect the new strategy as presented at the AGM, we remain on course to change the way we report at the year end.

Solid trading continued into the third quarter, with the death rate 10 per cent ahead of quarter three 2020 but three per cent down for the year to September 2021 versus the equivalent period in 2020. The elevated death rate was the main driver of an increase in underlying profitability within funerals, which reported an increase of £2 million for the third quarter against the prior year (£7.2 million versus £5.2 million). We continued to show a decline in market share in both funerals and crematoria.

There is considerable activity underway within the Group, as mentioned in the interim results statement, impacting all aspects of our business. This is driven by the strategic changes being made as well as preparing for and complying with new and evolving regulations in our industry. This reporting period includes a few weeks of trading with our new pricing, where we have launched competitively priced funeral services in the UK to truly lower the cost of dying for families, but it is still too early to judge and extrapolate the overall effect. Our average revenue per funeral has fallen, and volumes have risen as we expected, but coming as this does at a time of an elevated death rate it is still not possible to apportion the element of that growth that potentially could be attributed to market share, in part because the time between death and funeral has moved in reaction to that volume rise.

The regional restructuring, in which we are organising our businesses into smaller groups to devolve autonomy and the opportunity for decision making and local developments, remains on track and continues as previously described. We are mindful of the impact on our colleagues and potential uncertainty throughout the business, and are therefore doing all we can to mitigate this through increased communication and engagement with our colleagues. Our goal is to complete the restructuring as quickly as we can without disrupting our operations.

Number of deaths

	2021	2020	Increase/ (decrease) (per cent)
Quarter 1	204,000	161,000	27
Quarter 2	136,000	207,000	(34)
First half of year	340,000	368,000	(8)
Quarter 3	143,000	130,000	10
Year to date	483,000	498,000	(3)

Deaths were above the prior year in the first quarter with the second quarter falling below the five-year average (2015-2019). The third quarter saw an increase in deaths from the prior year and an increase above the five-year average. The impact of COVID-19 deaths in 2020 and 2021 could possibly mean we experience a lower number of deaths than originally anticipated by the Office of National Statistics ('ONS') in 2022 and 2023. The Group will not speculate on the most likely outcome.

The impact of these factors has differed 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 – 2020 restated ⁽¹⁾	19.1	16.9	5.2	41.2
Impact of:				
Number of deaths	13.2	(21.4)	3.9	(4.3)
Market share	(3.7)	0.8	(1.6)	(4.5)
Average revenues	(5.4)	11.6	2.5	8.7
Cost base changes	(1.0)	1.5	(2.8)	(2.3)
Underlying operating profit – 2021	22.2	9.4	7.2	38.8

(1) Restatement relates to the correction of the application of IFRS 16 in September 2020

Funeral market share

In the first three quarters of 2021 the Group conducted 57,900 funerals (September 2020: 61,700) 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 11.9 per cent (September 2020: 12.2 per cent) of total estimated deaths in Great Britain.

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, due to COVID-19 and longer delays between the date of registering the death and the date of the funeral being performed, calculations of market share in 2020 and 2021 may not be comparable.

Funeral mix and underlying average income

Funeral type		FY 2020 Actual	Q1 2021 Actual	Q2 2021 Actual	H1 2021 Actual	Q3 2021 Actual
Underlying average revenue (£)	Full service	3,337	3,354	3,441	3,393	3,284
	Simple and direct cremation	1,941	1,929	1,921	1,926	1,876
	Pre-need	1,911	1,943	1,955	1,948	1,980
	Other (including Simplicity)	940	1,004	982	982	873
Volume mix (%)	Full service	39	41	46	43	49
	Simple and direct cremation	25	21	17	20	14
	Pre-need	28	29	28	28	28
	Other (including Simplicity)	8	9	9	9	9
Underlying weighted average revenue (£)		2,397	2,434	2,545	2,478	2,505
Ancillary revenue (£)		125	131	168	150	187
Underlying average revenue (£)		2,522	2,565	2,713	2,628	2,692
Full service volume as a percentage of full, simple and direct cremation (%)		61	66	73	68	78

As demonstrated in the table, overall average revenue in the third quarter of 2021 has decreased compared to the second quarter despite an increase in clients selecting a full service rather than a simple or direct cremation. Sales of ancillary items such as flowers and memorials have increased and are starting to normalise at £187.

Crematoria

	Q1 £m	Q2 £m	Q3 £m	Total £m
Underlying operating profit – 2020 restated ⁽¹⁾	10.8	13.6	9.2	33.6
Impact of:				
Number of deaths	4.3	(7.5)	1.2	(2.0)
Market share	(0.9)	0.5	(0.4)	(0.8)
Average revenues	0.5	4.1	(1.3)	3.3
Cost base changes	(0.1)	(0.1)	0.5	0.3
Underlying operating profit – 2021	14.6	10.6	9.2	34.4

(1) Restatement relates to the correction of the application of IFRS 16 in September 2020

In the first three quarters of 2021, the Group conducted 54,900 cremations (September 2020: 57,500), representing a market share of 11.4 per cent (September 2020: 11.5 per cent).

Crematoria grounds have been fully open for all of 2021 compared to being closed in quarter two of 2020, and consequently sales of memorials in our crematoria grounds totalled £10.6 million (2020: £8.0 million), approximately 33 per cent higher despite cremation volume being five per cent lower. The third quarter movement on average revenue reflects the recouping of memorial sales in the prior year as the crematoria grounds reopened.

Central overheads

	Q1 £m	Q2 £m	Q3 £m	Total £m
Total overheads – 2020 restated ⁽¹⁾	8.5	10.0	8.2	26.7
Impact of:				
Digital activities	0.7	(0.1)	0.3	0.9
IT support fees	0.2	0.2	-	0.4
Salaries	-	(1.1)	1.8	0.7
Other	0.3	0.3	0.5	1.1
Total overheads – 2021	9.7	9.3	10.8	29.8

Salaries have increased in quarter three compared to the prior year primarily due to a performance bonus of £2.0 million. We have made this accrual for bonuses, but they will be very dependent on trading in quarter four. Central overheads are expected to reduce as part of the strategic review.

Pre-need operations

Active pre-arranged funeral plans (including insurance backed arrangements) were approximately 582,000 at the end of September, compared to 580,000 at the end of June 2021. This slow growth reflects the impact of ending our telephony relationships as previously advised and the associated impact of the much higher cancellation rate with those plans. We expect that effect to tail off by the end of the year.

Pre-need regulation

Our work on preparing for the new FCA regulatory regime continues. We expect to formally submit our application in November 2021. We have also reached an initial agreement with the trustees of our funeral plan trusts on our proposal to merge them into a new FCA compliant trust in time for the new regulations taking effect in July 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 2021 was 2.11 times (June 2021: 2.12 times). The Group therefore had EBITDA headroom of approximately £21 million against its financial covenants at the end of September 2021.

In addition, in order for the Group to transfer excess cash 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 2021 was 1.72 times (June 2021: 1.74 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.

Cash balances

At the end of September 2021, the Trading Group held cash of approximately £68 million, approximately £48 million of which was held by Dignity plc, which is freely available for use as the Group sees fit.

Board update

We continue to seek the additional directors required to make us code compliant by the time of the next Annual Report. The search for a permanent CFO and Non-executive Director continues to progress and we will make further announcements as and when appointments are made.

Outlook

We have been preparing for what might happen this winter so that we are ready to serve society the way we have throughout the pandemic, which is with a quiet and understated professionalism that masks the enormous and heroic efforts that go on behind the scenes. The more I have learned the greater my admiration and I hope one day we will get to share some of that. We do not know what this winter will bring but we are determined that every family trusting Dignity with their loved ones will be well served.

Quarter four is going to be important for us but is still hard to predict. Some of the moving parts will become clearer and allow us to model the impact of them on the Group's financial position. Given that uncertainty, we will continue to refrain from giving guidance.

Gary Channon, Chief Executive, commented:

"There is a huge amount of positive change going on at Dignity as we position ourselves to be a growing and thriving business that serves families for their end-of-life needs. I am really pleased with the progress so far and the general enthusiasm with which this is being tackled internally. We will have a lot more to say at the year end and look forward to sharing an update then."

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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.