For immediate release **11 May 2022**

Dignity plc

First quarter trading update

Dignity plc (Dignity, the Company or the Group), the only end-of-life provider in the UK that is uniquely positioned to provide all the required elements of a funeral service, provides the following updates:

Summary

	13 week period ended 1 April 2022	13 week period ended 26 March 2021 restated	Decrease (per cent)
Underlying revenue (£million)	**73.9**	94.7	22
Underlying operating profit (£million) (1)	**9.0**	27.1	67
Number of deaths	**166,000**	204,000	19

(1) Underlying performance measures throughout this announcement for the 13 week period ended 26 March 2021 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. The decision to include IFRS 16 in the underlying numbers for 2021 was taken after the 2021 first quarter trading update. Therefore, the underlying performance measures reported above in both periods now 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 IFRS, APMs are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the Group. The APMs provided are aligned with those used in the day-to-day management of the Group and allow for greater comparability across periods.

Financial summary

Whilst the impact of the pandemic has made year-on-year comparisons difficult, the early signs of our new strategy are coming through. Increased competitiveness is showing up in across-the-board growth in market share at the cost of average revenue per funeral. The combined effect of the drop in the death rate following the pandemic during a time of strategic change for the Group is what we were protecting against when we sought and agreed the deal with our bondholders. That gives us the ability to pursue the right long-term strategy whatever happens to the death rate this year. It also gives us the time to agree a more long-term solution for the capital structure which we are currently working on. As we said in the Annual Report competitiveness is just one of the aspects of our best proposition strategy and progress is being made on all the others.

Operating performance in the first quarter was weak due to the lower number of deaths than the corresponding period last year and lower average revenues per funeral following the move to more competitive pricing in September 2021. Both funeral market share and crematoria market share grew strongly as the new strategy started to deliver the growth on which it depends. Underlying operating profit by division is summarised in the table below:

	Funerals £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Underlying operating profit – Q1 2021 restated [1]	22.2	14.6	-	(9.7)	27.1
Impact of:					
Number of deaths[2]	(10.8)	(3.7)	-	-	(14.5)
Market share[2]	4.5	2.2	-	-	6.7
Average revenues[2]	(6.6)	(0.8)	-	-	(7.4)
Pre-arranged funeral plan revenue	-	-	(5.5)	-	(5.5)
Net cost base changes	(1.5)	(0.9)	4.7	0.3	2.6
Underlying operating profit – Q1 2022	**7.8**	**11.4**	**(0.8)**	**(9.4)**	**9.0**

(1) Restatement relates to the correction of the application of IFRS 16 in March 2021.

(2) Represents revenue impact

Number of deaths

The absolute number of deaths decreased by approximately 19 per cent to 166,000 from 204,000 in the comparative period last year as a result of COVID-19. The first quarter of 2022 has seen UK deaths being slightly below the five year average (excluding 2020 and 2021).

Funeral operations

Funeral market share

The Group performed 21,200 funerals in the first 13 weeks of the year (Q1 2021: 23,800) 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 12.7 per cent (Q1 2021: 11.5 per cent) of total estimated deaths in Great Britain. The year-on-year growth in market share is attributable to an increase in the Attended Funeral, the Unattended Funeral and the Pre-need Funeral.

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.

Funeral mix and average revenue

	Funeral type	FY 2021 Actual	Q1 2021 Actual Restated[1]	Q4 2021 Actual	Q1 2022 Actual
Underlying average revenue (£)	Attended	2,855	2,903	2,465	2,486
	Unattended	1,063	1,010	1,060	1,044
	Pre-need	1,959	1,943	1,965	1,950
	Other (including Simplicity and 3rd party direct cremations)	904	1,004	790	608
Volume mix (%)	Attended	61	61	61	58
	Unattended	3	1	6	8
	Pre-need	28	29	27	28
	Other (including Simplicity and 3rd party direct cremations)	8	9	6	6
Underlying weighted average (£)		2,394	2,434	2,145	2,108
Ancillary revenue (£)		154	131	135	165
Underlying average revenue (£)		2,548	2,565	2,280	2,273

(1) In September 2021, funeral services introduced an Attended Funeral at prices from £1,595 to £2,495 (excludes extras) across the network and implemented the Unattended Funeral (direct cremation), and the simple funeral was removed (apart from our location in Jersey). As such, the historical full service average and the simple and direct cremation average are no longer comparable. In order to have comparability the full-service and the simple averages have been blended to give a new Attended average and the direct cremation, previously included as simple and direct cremation, has been restated to Unattended to make both comparable.

The new pricing strategy was introduced in early September 2021 and as expected it has caused a decline in our underlying average revenue per funeral compared to prior years. We have also started to perform direct cremations on behalf of third parties, which has resulted in a reduction in the average revenue for the category called "other". Sales of ancillary items such as flowers and memorials continue to improve.

Crematoria operations
The Group conducted 20,800 cremations in the first 13 weeks of the year (Q1 2021: 22,600). While volumes are lower, this reflects the backdrop of a much-reduced death rate compared to Q1 2021 and so market share has increased significantly to 12.6 per cent (Q1 2021 11.1 per cent). The year-on-year growth in market share is attributable to increases in full fee service and direct cremations. As explained above, the increase in the time between registering the death and the funeral taking place could impact on the comparability of the market share calculation.

Pre-need operations
Dignity remains focused on selling high-quality funeral plans, in ways consistent with the strong reputation of the Group and the high standards expected by our customers. During 2021, we ended our relationship with those third-party telephony partners who sold plans on our behalf. We are focused on being ready for the FCA regulation by 29 July 2022.

As a result of the above, sales of pre-arranged funeral plans were low in the first quarter, resulting in active pre-arranged funeral plans of 584,000 compared to 581,000 at December 2021 and 571,000 at the end of March 2021. The Group can claim a marketing allowance from the trusts, for plans sold in the period (up to a maximum amount per plan sold), which historically resulted in a profit in the pre-need division. In 2019, the Group decided to restrict the marketing allowance from the trusts to only recover the costs incurred in the selling of the funeral plans and therefore, the pre-need division has not contributed any profit or loss since 2019. However, as plan sales were low in the first quarter of 2022, the Group has not been able to recover all of the costs incurred in the selling of those funeral plans including £0.5 million of costs associated with the FCA regulation (Q1 2021: £0.1 million) and therefore the underlying operating loss was £0.8 million (Q1 2021: £nil).

We expect the sales of pre-arranged funeral plans to increase during the second half of 2022 and full recovery of costs incurred in the selling of funerals plans to be recovered from the trust.

Central overheads

	Total £m
Total overheads – Q1 2021	9.7
Impact of:	
Digital activities	(0.2)
Other	(0.1)
Total overheads – Q1 2022	**9.4**

Central overheads are expected to reduce further as part of the strategic review. In January 2022, we closed a number of central departments to ensure our central support services are structured in a way that delivers our strategic aims and ambitions. As a consequence, we had to make the difficult decision to make a number of colleagues redundant. We have also suspended some of our marketing and digital activities as we review our business. The full effect of these changes will show as the year goes on.

Capital structure
In February 2022, we sought and were granted in March 2022 a waiver on the application of the covenants on our bonds for 12 months. We took this prudent measure to mitigate the uncertainty and potential for a drop in the death rate following the pandemic.

This waiver allows for an equity cure by Dignity plc should there be a shortfall in EBITDA of the Securitisation Group at any covenant measurement point up to and including 31 December 2022. Any cash transferred into the Securitisation Group during this period is included within the EBITDA for the purpose of calculating the EBITDA to debt service cover ratio for the following 12 months.

It is still our intention to address the capital structure most likely by use of the crematoria portfolio without undermining the integrated nature of the Group. We will make further announcements on this in due course.

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 March 2022 was 1.61 times (March 2021: 2.28 times; December 2021: 2.13 times). As such, the Group had EBITDA headroom of approximately £3.7 million against its financial covenant at the end of March 2022 and no equity cure is required.

Whilst not a covenant, 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 March 2022 was 1.24 times (March 2021: 1.88 times; December 2021: 1.76 times). These combined requirements are known as the Restricted Payment Condition ('RPC'). Given the ratios achieved, the RPC was not achieved at March 2022. Failure to pass the RPC is not a covenant breach and does not cause an acceleration of any debt repayments. 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. 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').

Cash balances
At the end of March 2022, the Group held cash of approximately £50 million, approximately £41 million of which was held by Dignity plc, which is freely available for use as the Group sees fit.

Safe Hands funeral plans goes into administration
FCA regulation of the funeral plan market will be introduced from 29th July 2022. Dignity strongly welcomes this regulation, but we recognise there may be some short-term impact on customers of other funeral plan providers and potentially their loved ones.

A number of plan providers are likely to leave the market as they are unwilling or unable to seek regulatory approval and are unable to transfer their plans to another provider. This will put their customers at risk if action is not taken.

In February 2022, Dignity announced its pledge to offer rescue options to funeral plan providers exiting the market, with a commitment to ensuring that no family or person goes without a funeral due to the transition impacts of the new regulation.

Safe Hands, a medium sized funeral plan provider in the sector, has since entered administration. Dignity plc took immediate action by fulfilling funeral plans for families that require a funeral in the four weeks from Safe Hands entering administration without charge.

Dignity has also now set out an interim plan to provide funeral cover for Safe Hands customers for the next six months if they pass away. This would be at no cost to the family (excluding additional requests). We are also working with the administrators to develop a longer term solution for customers of Safe Hands, which could include offering customers the option of switching to a new Dignity funeral plan.

We continue to work with the regulator and wider industry to mitigate other risks that may emerge within the sector.

Board update
As previously announced, Andrew Judd stood down from the Board on 1 April 2022. The composition and structure of the Board is currently being reviewed and further announcements will be made in due course.

Outlook
COVID-19 has continued to have a distorting impact on the business both in terms of operations and the financial results. The death rate in the UK was significantly higher in the corresponding Q1 period during 2021, making comparisons to previous years difficult. A number of difficult operational changes were implemented in January 2022, including closure/reduction in the size of key central departments, with a view to reset and restructure in line with our new strategy. We are likely to see significant long-term cost savings as a result, however the impact of these changes will take time to manifest in our overall financial position.

As previously indicated, a fuller Group strategy and performance update will be presented at the time of the Group's AGM on 9 June 2022, which investors are encouraged to attend. Shareholders should also refer to the 2021 Annual Report and Accounts for an outline of our new strategy and financial performance over the past year.

Gary Channon, Chief Executive of Dignity, commented:
"Whilst the impact of the pandemic has made year-on-year comparisons difficult, the early signs of our new strategy are coming through. Increased competitiveness is showing up in across-the-board growth in market share at the cost of average revenue per funeral. The combined effect of the drop in the death rate following the pandemic during a time of strategic change for the Group is what we were protecting against when we sought and agreed the deal with our bondholders. That gives us the ability to pursue the right long-term strategy whatever happens to the death rate this year. It also gives us the time to agree a more long-term solution for the capital structure which we are currently working on. As we said in the Annual Report competitiveness is just one of the aspects of our best proposition strategy and progress is being made on all the others.

At this year's AGM, we intend to provide a comprehensive outline of our strategy design and an update on execution therefore I invite and encourage our investors to attend. There will be an opportunity to hear from executives and departments that are delivering vital aspects of our new strategy and to ask questions. I know most AGMs are short, formal and not greatly informative affairs but we aim to put on the sort of AGM that I would like to attend if I was a shareholder.

Once again, I would like to thank our colleagues for their continued dedication and hard work delivering a caring, compassionate and high-quality service to families and communities."

For further information please contact:
Gary Channon, Chief Executive
Dean Moore, Interim Chief Financial Officer
Dignity plc **+44 (0)20 7466 5000**

Chris Lane
Tilly Abraham
Verity Parker
Buchanan **+44 (0)20 7466 5000**
www.buchanan.uk.com dignity@buchanan.uk.com

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 https://www.dignityplc.co.uk/investors/.