

Dignity plc

Third Quarter Trading Update

Continued implementation of growth strategy initiatives

Dignity plc (Dignity, the Company, or the Group), one of the UK's largest national providers of funeral plans and end of life services, provides the following trading update for the 39 week period ended 30 September 2022.

Period Overview

During the third quarter, Dignity's new strategy continues to deliver early promising signs of increases in market share growth despite the previously referenced headcount challenges. That said, underlying revenue and underlying operating profit continued to be impacted by a combination of factors, including fluctuations in the death rate, change in pricing strategy and introduction of a direct cremation service through Dignity's funeral network.

Summary

	39 week period ended 30 September 2022	39 week period ended 24 September 2021	Decrease per cent
Underlying revenue (£million)	204.7	237.0	14
Underlying operating profit (£million)	14.1	43.4	68
Number of deaths	469,000	483,000	3

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 2021 YTD	38.8	34.4	(29.8)	43.4
Impact of:				
Number of deaths	(4.4)	(1.5)	-	(5.9)
Market share	5.0	3.4	-	8.4
Average revenues	(22.0)	(3.7)	-	(25.7)
Cost base changes	(10.4)	(2.3)	6.6	(6.1)
Underlying operating profit – Q3 2022 YTD	7.0	30.3	(23.2)	14.1

Key points

- The Group continues to make good progress in the implementation of its new strategy which, whilst limited somewhat by staff shortages, is delivering early signs of increases in market share growth.
- At the same time, the Group recognises underlying revenue and underlying operating profit continue to be impacted by a combination of factors.
- In line with the Group's mission to drive forward positive change in the sector and become a true market leader with an unrivalled focus on quality, transparency, and choice, it has continued to invest in the business. These investments can be seen through its capital expenditure programme, which prioritises key investment needs across the estate and facilities as well as increased operational and colleague costs with the first phase of its remuneration review now implemented. Since then, the Group has seen improvements in its recruitment challenge and a material improvement in vacancies filled.
- The Group has confirmed the next stage of its at-need funeral pricing strategy, which seeks to provide value for money, through adjustments to a number of attended funeral fees. As part of the Group's local business strategy, it seeks to enable pricing to be set locally based on insight, competitor landscape and business knowledge. Dignity expects that this will raise yields and cover the increases in its cost base which includes increased salary costs, raw materials and energy & utility costs.
- The Group has received a positive response from stakeholders and customers on the innovative new funeral plan proposition launched in August 2022. The first phase of the launch was through online channels only and it has now been extended through the branch network.
- Dignity has also been providing its new funeral plan product to customers of other providers who either have withdrawn from the market or who did not achieve FCA authorisation. Currently around 32,000 such families have decided to take on a new Dignity funeral plan.
- In September 2022, bondholders provided consent to allow the Group to begin deleveraging and subsequently provide the Group with additional financial flexibility as more fully described in the Group's interim results statement.

Kate Davidson, Chief Executive Officer of Dignity plc, commented:

"The third quarter continues to present some of the challenges we faced earlier this year, but with our new strategy well underway we are beginning to see positive indications of our market share growing. It is also promising to see tangible improvements to our workforce as we increase our headcount following the proactive steps we've taken.

"We remain focussed on our long term aims, and we believe that our strategy will deliver sustainable growth and value for shareholders, colleagues and clients alike."

Number of deaths

	2022	2021	Increase/ (decrease) per cent
Quarter 1	166,000	204,000	(19)
Quarter 2	153,000	136,000	13
First half of year	319,000	340,000	(6)
Quarter 3	150,000	143,000	5
Year to date	469,000	483,000	(3)

Although deaths were 19 per cent lower in the first quarter, we have seen higher deaths in the second and third quarters of 13 per cent and five per cent respectively. Deaths for the year to date are therefore three per cent below the prior period. Compared to the five-year average (2015-2019), deaths were higher in the second and third quarters by seven per cent and 14 per cent respectively and six per cent for the year to date. In the first few weeks of quarter four the deaths are circa. 19 per cent above the five-year average. The reason for this spike in the death rate is currently unknown.

The impact of COVID-19 deaths in 2020 and 2021 could possibly mean we experience a fluctuating number of deaths than originally anticipated by the Office of National Statistics ('ONS') in 2022 and 2023.

The impact of these factors has differed in each quarter of the year to date, as shown in the following table:

Funerals

	Q1 £m	Q2 £m	Q3 £m	Total £m
Underlying operating profit – 2021	22.2	9.4	7.2	38.8
Impact of:				
Number of deaths ⁽¹⁾	(10.8)	4.4	2.0	(4.4)
Market share ⁽¹⁾	4.5	(1.4)	1.9	5.0
Average revenues ⁽¹⁾	(6.6)	(8.0)	(7.4)	(22.0)
Cost base changes	(1.5)	(3.5)	(5.4)	(10.4)
Underlying operating profit - 2022	7.8	0.9	(1.7)	7.0

(1) Represents revenue impact

The table above demonstrates the impact of our new pricing strategy, the introduction of direct cremation on average revenues and our increased market share. Although the death rate has had a distorting effect from the pandemic in the first quarter, this has started to reverse in the second and third quarters resulting in reduced revenue of £4.4 million year to date compared to a reduction of £10.8 million in the first quarter.

Total cost base changes include a £1.7 million impact from the loss of rates relief, increases in salary costs of £3.2 million, bad debts of £2.2 million, coffin raw material costs of £0.7 million, utility costs of £0.7 million, depreciation cost of £0.6 million and fuel cost of £0.5 million. Accordingly, the cost to deliver a funeral has increased to £1,925 as an LTM at 30 September 2022 (September 2021 LTM: £1,858).

Funeral market share

In the first three quarters of 2022 the Group conducted 58,200 funerals (September 2021: 59,900) 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 12.3 per cent (September 2021: 11.9 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 2021 and 2022 may not be comparable.

Funeral mix and underlying average income

Funeral type		FY 2021 Actual	Q1 2022 Actual	Q2 2022 Actual	H1 2022 Actual	Q3 2022 Actual
Underlying average revenue (£)	Attended	2,855	2,486	2,439	2,464	2,425
	Unattended	1,063	1,044	1,037	1,041	1,035
	Pre-need	1,959	1,950	1,967	1,958	2,033
	Other (including Simplicity)	904	608	522	668	538
Volume mix (%)	Attended	61	58	59	59	59
	Unattended	3	8	7	7	8
	Pre-need	28	28	28	28	27
	Other (including Simplicity)	8	6	6	6	6
Underlying weighted average revenue (£)		2,394	2,108	2,093	2,115	2,095
Ancillary revenue (£)		154	165	174	155	166
Underlying average revenue (£)		2,548	2,273	2,267	2,270	2,261

The average revenue for funerals has decreased from £2,505 (Q3 2021) to £2,095 (Q3 2022), (excluding the funerals delivered as part of our Safe Hands rescue support the average in Q3 2022 was £2,141 and £2,129 in H1 2022), which can be attributed to a combination of the change in our pricing strategy and the change in mix due to the provision of lower cost funeral options, such as direct cremations. This, combined with reduced volumes, has also impacted the contribution per branch which has decreased to £36,497 as an LTM at 30 September 2022 (September 2021 LTM: £78,571).

Crematoria

	Q1 £m	Q2 £m	Q3 £m	Total £m
Underlying operating profit – 2021	14.6	10.6	9.2	34.4
Impact of:				
Number of deaths ⁽¹⁾	(3.7)	1.5	0.7	(1.5)
Market share ⁽¹⁾	2.2	0.3	0.9	3.4
Average revenues ⁽¹⁾	(0.8)	(2.1)	(0.8)	(3.7)
Cost base changes	(0.9)	(0.1)	(1.3)	(2.3)
Underlying operating profit – 2022	11.4	10.2	8.7	30.3

(1) Represents revenue impact

In the first three quarters of 2022, the Group conducted 57,100 cremations (September 2021: 54,900), representing a market share of 12.2 per cent (September 2021: 11.4 per cent). Average price per cremation has decreased to £863 (September 2021: £891) which reflects an increase in the percentage of direct cremations being performed. Yield per crematoria has decreased to £1,050,000 as an LTM at 30 September 2022 (September 2021 LTM: £1,078,261) and average ancillary revenue (excluding cemetery sales) per cremation has decreased to £169 (September 2021: £189).

Central overheads

	Q1 £m	Q2 £m	Q3 £m	Total £m
Total overheads – 2021	9.7	9.3	10.8	29.8
Impact of:				
Digital activities	(0.2)	(1.5)	(1.7)	(3.4)
Salaries	(0.3)	(0.8)	(1.6)	(2.7)
Other	0.2	(0.8)	0.1	(0.5)
Total overheads – 2022	9.4	6.2	7.6	23.2

Salaries have reduced year-on-year primarily due to the prior period including a performance bonus accrual of £3.0 million (Q3 2021: £2.0 million). Central overheads are expected to reduce further as part of the new strategy.

Funeral plans

Dignity's new sector leading funeral plan product launched in August through a phased approach - initially online, moving to a phased rollout across the funeral branch network. A deliberate decision not to activate marketing was made to test and learn during the launch phase, and we are pleased to report that even with no promotional activity the product has received encouraging feedback. The Group look forward to sharing a performance update for the funeral plan proposition at the time of its full year results.

Dignity has signed a new contract with Sun Life to exclusively offer funeral services provision to customers purchasing a Protected Funeral Payout Plan, further strengthening Dignity's partnership with Sun Life who are one of the largest providers of insurance services in the UK.

Since the launch of regulation, a number of funeral plan providers have withdrawn from the market. The Group has been proactively supporting families affected by this and is offering our new funeral plan product to customers of other providers who did not achieve FCA authorisation. Currently around 32,000 such families have decided to take on a new Dignity funeral plan.

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. During the temporary covenant waiver period that was approved by bondholders in March 2022, any cash transferred into the Securitisation Group can be included within the EBITDA to debt service ratio for the following 12 months. The waiver allows for cash to be transferred at any covenant measurement point up to and including 31 December 2022. £15.1 million was transferred in June 2022 which has resulted in a ratio at September 2022 of 1.69 times (June 2022: 2.11 times). Excluding this cash transfer the ratio at 30 September 2022 was 1.24 times.

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 as at September 2022 was 0.88 times (June 2022: 1.72 times). These combined requirements are known as the Restricted Payment Condition ('RPC'). Given the ratios achieved, the RPC was not met in June or September 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 but otherwise can be used within the Securitisation Group with no restrictions. These covenant calculations use a prescribed definition of EBITDA detailed in the loan documentation and only represents the profit of a subgroup of the Group which is party to the loans (the 'Securitisation Group').

Cash balances

At the end of September 2022, the Trading Group held cash of approximately £29 million, approximately £21 million of which was held by Dignity plc, which is freely available for use as the Group sees fit.

Outlook

The Group set out in more detail company performance in the half year results, but with the unpredictability of the death rate in 2022, the impact of the new strategy implementation, regulatory change and the launch of the new funeral plan proposition, Dignity will continue to refrain from giving guidance.

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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.