

**InvoCare Limited**

**Monday, 30<sup>th</sup> August 2021**

## **Positive profit recovery and strategic momentum**

### **HY2021 FINANCIAL HIGHLIGHTS**

- Statutory Revenue up 13% to \$260.9 million
- Operating Revenue<sup>1</sup> up 13% to \$257.3 million
- Operating EBITDA<sup>2</sup> up 31% to \$63.6 million, with a return to positive operating leverage
- Operating EBIT up 46% to \$39.4 million
- Reported Profit After Tax attributable to shareholders of InvoCare Limited of \$44 million, compared to a Reported Loss After Tax of \$18 million in the prior corresponding period (PCP)
- Continued positive improvement in capital management metrics with leverage ratio of 1.1x, strong cashflow conversion of 102% and ROCE r12<sup>3</sup> of 10.4%, up 1.8 points on FY20
- Operating EPS of 14.4 cents, up 57%
- Interim fully franked dividend of 9.5 cents per share

### **Overview**

InvoCare Limited (ASX:IVC, InvoCare or the Group) has reported a statutory profit after tax attributed to shareholders ("Reported Profit") of \$44 million for the six months ended 30 June 2021 (the half), a turnaround from the \$18 million loss reported in the PCP.

With a strengthened leadership team in place guiding the business on its next phase and the successful control of COVID community transmission in most markets leading to an easing of restrictions in the half, the financial results delivered by the Group are evidence of the operational performance capability of the business when conditions allow.

The return to a reported profit for the period is attributed to the strong growth in core operating earnings as well as a robust recovery in the mark-to-market (MTM) valuation of Prepaid Funds Under Management (FUM). The improvement in operating earnings enabled the Group to deliver an Operating EPS of 14.4 cents, 57% above the PCP.

During the half the Group announced InvoCare's reinvigorated Purpose and Strategy. Our Purpose - *Honouring life, celebrating memories for generations*, reflects the expanded role we play in meeting the needs of our client families. Our Strategy aligns our efforts across five pillars: people (customer and team), operational excellence, core growth, new and innovative growth platforms, and sustainable leadership.

InvoCare's CEO, Mr Olivier Chretien said, "While the operating conditions have not fully returned to pre-COVID levels, it is pleasing to see how resilient the business and our people continue to be, and the operational performance they can deliver when conditions allow." Mr Chretien added, "We shared our strategy with investors in May, and we have hit the ground running, with a number of key achievements during the period. Our initial focus has been on further strengthening our business foundations, and we are pleased with the momentum that our teams have established in the half."

### **Dividend**

The Directors have determined to pay a fully franked interim dividend of 9.5 cents per share, representing a dividend payout ratio of 66%, within the Group's preferred dividend payout range.

<sup>1</sup> See page 5 for definitions of these non-IFRS 'Operating' financial measures

<sup>2</sup> EBITDA = Earnings before business acquisition costs, gain/loss on lease modification/termination, interest, tax, depreciation, and amortisation

<sup>3</sup> r12 = rolling 12-month basis

The interim dividend is payable on 7<sup>th</sup> October 2021 to shareholders who were on the Company's register as at 3<sup>rd</sup> September 2021, the record date for the interim dividend. The Dividend Reinvestment Plan (DRP) continues to operate in respect of the interim dividend. No discount will apply<sup>4</sup>.

### **Operational Performance Review**

The business saw continued recovery in the value of its funeral case average, up 6.7% with a return to pre-COVID levels in Australia and New Zealand, continued growth in memorialisation sales in the Cemeteries & Crematoria business and a strong contribution from the enlarged Pet Cremations business. This has driven the 13% increase in Operating revenue to \$257.3 million, with acquisitions executed in H2 2020 contributing \$14.4 million. Cost control has been a particular feature in the half and is reflected in some of the improved profit metrics, including 31% growth in Operating EBITDA to \$63.6 million and a return to positive operating leverage. The high quality of service provided by our teams continues to be reflected in ongoing improvement in the Group's Net Promoter Score (NPS), which at +79.3 is the highest result in three years.

#### **Australia**

##### **Funerals**

Operating revenue has grown in all markets with a 6.6% increase in operating revenue overall attributed primarily to a 6.7% increase in funeral case average, while volumes were in line with the PCP. This return to pre-COVID funeral case averages has come while restrictions on funeral attendees were eased and continues to demonstrate our customers' preference for the 'gathering' element of a funeral. This came with an associated increase in spend on products and services, and a reduction observed in direct cremation activity in the period. A strong focus on controlling costs has meant that top line growth has been realised in earnings, with Operating EBITDA up 44% to \$37.5 million, and a pleasing return to positive operating leverage.

The continuing hard work, agility, and dedication of our frontline workforce was clearly recognised by client families, with a very strong NPS of +79.7, the highest for the Australian Funerals business in recent years.

##### **Pre-paid Funerals**

Strong growth in equity returns (including dividends) and property investment revaluations has resulted in a \$38.6 million increase in prepaid contract asset valuations at the balance date, which compares to a loss of \$29.3 million recognised in the PCP<sup>5</sup>. This, combined with the normal financing cost adjustments made to prepaid contract liabilities of \$10.6 million, resulted in a net \$28 million MTM gain for the first half. Importantly, FUM asset headroom<sup>6</sup> remains strong at \$98 million.

##### **Cemeteries & Crematoria**

The Australian Cemeteries & Crematoria business continues to deliver strong growth in memorialisation sales, up 12% on the PCP, with growth across NSW and Queensland memorial parks, the latter demonstrating the benefits of the Allambe remedial works undertaken in prior years. The easing of restrictions and return to more traditional service levels has seen a 9.7% increase in burials in the half. Together with memorialisation, this drove an overall 13% increase in Operating Revenue to \$64.8 million and 12% growth in Operating EBITDA to \$31.8 million for the period. This includes \$8.6 million in relation to the unwind of deferred revenue and costs recognised upon adoption of AASB 15 in 2018.

The focus of our employees on delivering a high quality of service was rewarded with a record NPS of +74.1.

##### **Pet Cremations**

The Pet Cremations business benefited from the scale and expertise provided by the acquisitions executed in the second half of 2020 with a first half Operating EBITDA contribution of \$3.6 million, comparing favourably to a \$(0.3) million operating loss in the PCP. Pleasingly, the combined business is operating comfortably ahead of business case expectations.

<sup>4</sup> Share issuance under DRP to be satisfied by on-market purchases

<sup>5</sup> It is for this reason the Company has historically distinguished its results on an operating versus non-operating basis to exclude the impact of such material movements. See page 5 for reconciliation of operating to non-operating earnings.

<sup>6</sup> Calculated as prepaid funds under management (FUM) assets less prepaid contract liabilities

**International**

Like the Australian funerals business, the New Zealand business has experienced continued recovery in funeral case average values to pre-COVID levels. The increase in funeral case average is a key driver of the 5.8% increase in Operating Revenue to \$26.3 million, despite a 1.3% decline in volumes, with a large contribution in sales growth from two of the main metropolitan markets, Auckland and Wellington, which were hard hit by restrictions in the PCP. This result, combined with a tight control of costs has led to improved Operating EBITDA, up 21% to \$5.3 million.

The Singaporean funerals market continued to be negatively impacted by prolonged funeral attendance restrictions as the authorities grappled with another wave of COVID infections. In response, the introduction of packages for client families has proven successful, leading to a 6.7% increase in funeral case volume but flat funeral case average values. The contribution of Singapore earnings to the Australian based Group in the half has also been impacted by the depreciation of the Singapore Dollar for most of the period. On a local currency basis, Operating Revenue for the Singaporean business increased 3.4% to S\$9.5 million and Operating EBITDA increased 4.1% to S\$4.5 million (declined 9.3% and 8.6% on an AUD basis respectively).

**Balance Sheet strength and liquidity**

The Group continues to benefit from a strong balance sheet and the actions taken in the prior year at the height of COVID, ending the period with \$131.2 million of cash, net debt of \$124.7 million and a strong operating cash flow result translating to a cash conversion ratio of 102%.

As part of the reset of the Group's strategy to 2025, a review of the Group's financing structure and tenure of the Group's debt facilities was undertaken. As previously disclosed on 27<sup>th</sup> August 2021, InvoCare successfully renegotiated its Syndicated Debt Facility as follows:

- InvoCare will repay the fully drawn A\$67.5 million, NZ\$50 million and S\$35 million Facility A Term Loans on 23 September 2021 and this term facility will subsequently be cancelled;
- The limit of its Facility B, Multi-Currency Revolving Cash Advance facility will be increased from A\$200.0 million to A\$275.0 million;
- The tenor of Facility B will be extended to the end of August 2024 (the facility was previously due to expire in February 2023); and
- A simplified and more favourable common pricing grid has been agreed with all syndicate lenders.

This amended debt facility provides the Group with balance sheet flexibility to support the business during the execution of its strategy and management is pleased with the strength of support from the four banks in the syndicate and their continued confidence in the Group.

**Strategy & Outlook*****New Strategy: Raising the bar******Customer led, people empowered***

InvoCare prides itself on maintaining the quality of its service standards to inspire advocacy. Our *Your Say* employee engagement survey was conducted in the half, which gave us actionable feedback on employee experience and opportunities to further lift engagement and alignment going forward, while our Voice of Customer scorecard is being enhanced.

***Operational excellence***

Investments in shared service centres, completion of the 'NBO' program, the ERP project in Cemeteries & Crematoria and the implementation of a new payroll system will be key focus areas over the second half.

***Stronger core growth/New growth platforms***

The partnership and strategic investment in Memories Group Limited announced earlier this month enables InvoCare to offer digital memorialisation services to its client families.

Leveraging the Group's leading position in private memorial parks, a multi-year community burial agreement was signed in the half, supporting the specific cultural needs of this cohort of community groups in New South Wales for many years to come and highlighting the importance of our inclusive offerings, which will be an area of ongoing focus.

The Group will also continue to leverage its national footprint in pet cremations with national supply agreements with key veterinary groups.

***Sustainable leadership***

After strengthening the Executive Leadership Team with the addition of Executive General Managers dedicated to Health, Safety & Sustainability and Stakeholder Engagement respectively, capability investments have been made in Safety, Stakeholder Engagement, Compliance, IT and Project & Change Management, important foundational roles required by the business in order to execute on strategy.

A number of initiatives are underway to strengthen our position as we aspire to lead in the industry in terms of sustainability, innovation and community engagement.

***Outlook<sup>7</sup>***

The emergence of the COVID Delta strain in June 2021 and the associated government response in Australia is expected to lead to a softening of the funeral services sector once again in the second half of 2021, but the extent and persistence remain uncertain. On this basis we continue to not provide earnings guidance for the full year.

Notwithstanding the short-term headwinds, the Group remains confident about the long-term potential of the business, with future growth supported by population and ageing trends in its markets.

Mr Chretien said, "The persistent and sudden impacts of COVID restrictions on consumer confidence and our operating model, as evidenced in the past two months, will continue to restrict our businesses and people in realising the Group's full potential, but our first half results demonstrate the strength of this organisation when conditions permit. I wish to thank our employees in Australia, New Zealand and Singapore for their exceptional commitment, care, and service to our client families, in what is a challenging and fast changing environment. Our focus will be on what we can control, and we remain extremely confident in our team's capability and the Group's potential in maintaining the momentum on this phase of our strategy of *Raising the bar.*"

*This announcement has been authorised by the Board of InvoCare Limited.*

**-ENDS-**

**BACKGROUND**

InvoCare, headquartered in Sydney, is a leading provider of funeral services in Australia, New Zealand, and Singapore, and operates private memorial parks and crematoria in Australia and New Zealand. It is also a leading provider of pet cremation services in Australia.

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<sup>7</sup> Refer to page 5 for information regarding forward looking statements

**Attachment: Summary of Group Financial Performance**

	Operating 1H21 \$000	Non- Operating 1H21 \$000	Statutory 1H21 \$000	Operating 1H20 \$000	Non- Operating 1H20 \$000	Statutory 1H20 \$000	Change* %
<b>Revenue</b>	257,343	3,512	260,855	227,955	2,369	230,324	<b>13%</b>
Expenses	(193,793)	(2,882)	(196,675)	(179,402)	(3,230)	(182,632)	<b>8%</b>
<b>EBITDA</b>	<b>63,550</b>	<b>630</b>	<b>64,180</b>	<b>48,553</b>	<b>(861)</b>	<b>47,692</b>	<b>31%</b>
Depreciation & Amortisation	(24,953)	(6)	(24,959)	(20,677)	(6)	(20,683)	21%
Business acquisition costs	(714)	-	(714)	(858)	-	(858)	(17%)
Gain/(loss) on lease modifications/terminations	1,493	-	1,493	-	-	-	n/a
Asset sales gains/(loss)	-	5,780	5,780	-	1,306	1,306	-
Net gain/loss on prepaid contracts	-	27,994	27,994	-	(39,534)	(39,534)	-
<b>EBIT</b>	<b>39,376</b>	<b>34,398</b>	<b>73,774</b>	<b>27,018</b>	<b>(39,095)</b>	<b>(12,077)</b>	<b>46%</b>
Net finance costs	(8,585)	(527)	(9,112)	(11,417)	(2,609)	(14,026)	(25%)
Tax	(10,190)	(10,567)	(20,757)	(3,944)	12,134	8,190	158%
Non-controlling interest	(49)	-	(49)	(92)	-	(92)	(47%)
<b>NPAT attributable to ordinary equity holders of InvoCare Limited</b>	<b>20,552</b>	<b>23,304</b>	<b>43,856</b>	<b>11,565</b>	<b>(29,570)</b>	<b>(18,005)</b>	<b>78%</b>
<b>EPS (cents per share)</b>	<b>14.4</b>	<b>16.3</b>	<b>30.7</b>	<b>9.2</b>	<b>(23.6)</b>	<b>(14.4)</b>	<b>56%</b>
<b>Interim Dividend (cents)</b>	<b>9.5</b>	<b>-</b>	<b>9.5</b>	<b>5.5</b>	<b>-</b>	<b>5.5</b>	<b>73%</b>

\*: % change relates to movement in Operating columns

**Operating vs Non-Operating classification:**

InvoCare results are reported under Australian Equivalent International Financial Reporting Standards (AIFRS). This release includes certain non-IFRS measures including reference to Operating/Non-Operating measures of profitability and associated performance measures that are used internally to assess the performance of the business.

InvoCare considers Operating EBITDA and NPAT as key performance measures. These measures are considered to provide more useful indications of the Group's recurring earnings base and exclude the impact of significant items such as material impairments, asset sales gains/losses and costs of restructuring operations. Operating measures also exclude the impact of accounting for the Group's Funds Under Management and Prepaid Funeral business which requires net gains and losses from undelivered prepaid contracts to be included in Reported profit; these gains and losses are non-cash and do not impact on InvoCare's business operations.

**Forward looking information:**

This document contains certain forward-looking statements which can be identified by the use of the words "expect", "anticipate", "estimate", "intend", "believe", "guidance", "should", "could", "may", "will", "predict", "plan" and other similar expressions. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. These forward-looking statements, opinions and estimates are based on assumptions and contingencies that are subject to change without notice and involve known and unknown risks and uncertainties and other factors that are beyond the control of InvoCare, its directors and management and which may cause actual outcomes to differ materially from those expressed or implied in this document. Undue reliance should not be placed on these forward-looking statements. Except as required by law or regulation (including the ASX Listing Rules) InvoCare undertakes no obligation to update any forward-looking statements.