InvoCare Limited and subsidiaries

Appendix 4D (rule 4.2A)

Half year report

For the half year ended 30 June 2021

Results for announcement to the market
(All comparisons to half year ended 30 June 2020)

	Jun 2021 $'000	Up/(down) $'000	Movement %
Revenue from continuing operations	260,855	30,531	13.3
Operating earnings after income tax attributable to ordinary equity holders of InvoCare Limited*	20,552	8,987	77.7
Net profit from ordinary activities after income tax attributable to ordinary equity holders of InvoCare Limited	43,856	61,861	343.6
Net profit after income tax attributable to ordinary equity holders of InvoCare Limited	43,856	61,861	343.6

* *This is non-IFRS financial information and is reconciled to statutory profit in the Financial Report (Refer to Directors' report in the Half Year Financial Report attached).*

Dividend information

	Amount per share cents	Franked amount per share cents	Franking credit %
2021 Interim dividend	9.5	9.5	100

Dividend dates

For 2021 interim dividend to be paid, the dividend dates are as follows.

Record date	3 September 2021
Payment date	7 October 2021

The Company's Dividend Reinvestment Plan (DRP) will operate for the 2021 interim dividend by acquiring shares on market at no discount. Shares will be transferred to participants in accordance with the DRP Rules. The last time for the receipt of an election notice to participate in the DRP is 5:00pm on 6 September 2021.

Eligible shareholders may lodge their DRP elections electronically by logging onto InvoCare's share registry, Link Market Services, via their website at https://investorcentre.linkmarketservices.com.au and clicking on the link to Investor Login. Further information about the DRP may be found at https://www.invocare.com.au/investor-relations/for-shareholders/

Net tangible assets

	Jun 2021 $	Jun 2020 $
Net tangible asset per ordinary share	2.53	2.68

Net tangible assets include the net impact of the right of use assets and the corresponding lease liabilities accounted for under the requirements of AASB 16 Lease.

Other information

During the reporting period, InvoCare Limited:

- had no change in investment in subsidiaries; and
- had no material interest in associates or joint ventures.

Additional Appendix 4D disclosure requirements can be found in the half year financial report of InvoCare Limited for the half year ended 30 June 2021. This report is also to be read in conjunction with the Annual Report of InvoCare Limited for the year ended 31 December 2020 and any public announcements made by InvoCare Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

This report is based on the consolidated financial statements which have been reviewed by Deloitte Touche Tohmatsu.

INVOCARE LIMITED AND SUBSIDIARIES

ABN: 42 096 437 393

HALF YEAR FINANCIAL REPORT

For the half year ended 30 June 2021

Financial report content

Your directors present their report together with the financial statements of the consolidated entity consisting of InvoCare Limited (the Company) and its subsidiaries (InvoCare or the Group) for the half year ended 30 June 2021 (HY2021).

Directors

The Directors of the Company at any time during or since the end of the half year are as follows. Directors were in office for the entire period unless otherwise stated.

- Bart Vogel (Chairman)
- Olivier Chretien (Chief Executive Officer and Managing Director, appointed 4 January 2021)
- Keith Skinner
- Megan Quinn
- Richard Davis
- Kim Anderson (appointed 11 May 2021)

Former directors

- Martin Earp (resigned 4 January 2021)
- Robyn Stubbs (resigned 1 February 2021)
- Jackie McArthur (retired 28 May 2021)

Company overview and principal activities

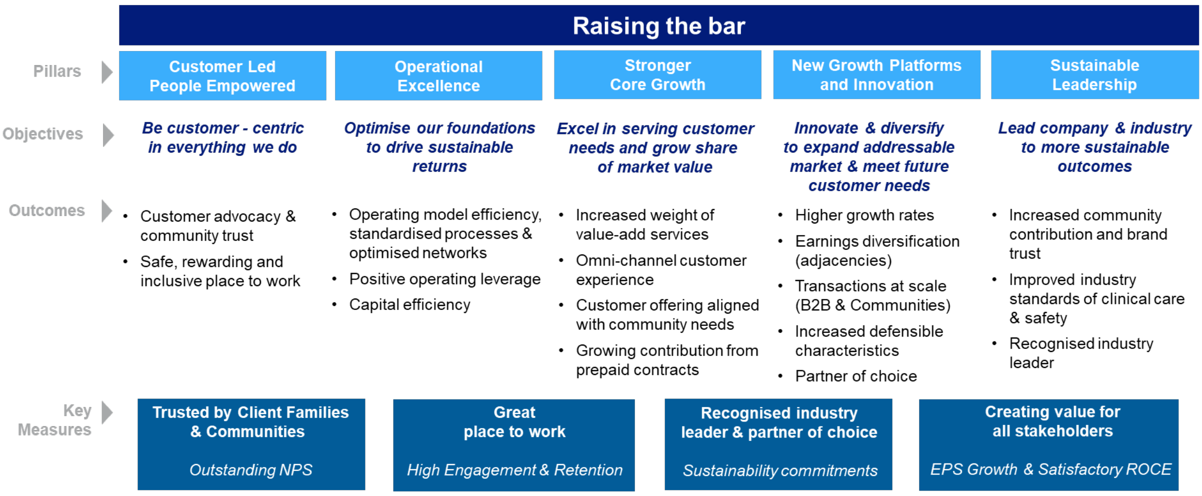
InvoCare Limited (listed on the Australian Securities Exchange, ASX:IVC), headquartered in Sydney, is a leading provider of at-need and pre-need funeral services in Australia, New Zealand and Singapore operating a portfolio of national and local brands in its network of over 300 locations. It also owns and operates 17 private memorial parks providing burial, memorialisation and cremation services. Following acquisitions in 2020, InvoCare is now also a leading provider of pet cremation services in Australia.

Operating and financial review

InvoCare business strategy reset

On 12 May 2021, InvoCare announced to shareholders its reset strategy to 2025, which is designed to deliver on its purpose of 'Honouring life, celebrating memories for generations'.

In resetting the strategy, an opportunity was identified to first, extract greater value from the business InvoCare has today, and then, use this as a strong and sustainable foundation for growth. There are five pillars to the strategy, the objectives, targeted outcomes and key measures of success are outlined for each below:



Customer led, people empowered

This first pillar is about being customer-centric in everything that we do and empowering our frontline teams. By better engaging and empowering our people we can maintain our exceptional Net Promoter Score (NPS) and generate customer advocacy, while building a great, safe, and inclusive place to work.

With a high proportion of sales driven through referrals, InvoCare prides itself on constantly working to raise the quality of its service standards, as reflected in the NPS, which is +79.3 at the end of HY2021, the highest result in 3 years.

InvoCare's Your Say Employee Engagement survey was conducted in the first half of 2021, giving our employees a forum to provide feedback on what we are doing well, and where there are areas for improvement. Insights from the survey are being cascaded across the business, with teams building targeted action plans in support of the feedback provided.

With continued investment in the development of local leaders, InvoCare successfully launched the Evolve Management Development Program. In partnership with Harvard University, this program delivers targeted development content aligned to the key capabilities needed by frontline managers. Around 60 of our local leaders will have participated in the program by the end of 2021.

Operational excellence

This pillar considers the Group's operating model, network performance, costs and capital discipline. The Group has focused on rejuvenating its funeral facilities as part of the network and brand optimisation (NBO) facilities upgrade program in recent years, a program that is due for completion in the next 12 months. The Group will now focus on execution of a more streamlined operating model to extract efficiencies. The Group has also started developing its use of information technology to enhance our customer service offerings via digital platforms.

The Group commenced a review of its syndicated debt facility at the end of the June 2021, which completed in August 2021. This is a key step to ensuring the Group has access to a flexible funding arrangement that will support the execution of the five-year strategy. Its nature as a revolving cash advance facility is also intended to bring discipline to the Group's cash management activities.

Stronger core growth

Each business will be focusing on its share of value by expanding the range of services offered to client families – rather than focusing on market share in volume (i.e. cases) only. This includes a renewed focus on pre-paid funerals to underwrite future long-term growth in the Funeral services business.

New growth platforms and innovation

The fourth strategic pillar aims at expanding the Group's addressable market into higher growth adjacencies. This includes expanding the pet cremations business and positioning the Group to create value for customers along their lifetime journey.

This will include investment in adjacencies, with the aim to become a partner of choice notably through more business-to-business (B2B) opportunities, and a drive to innovate, including through digital channels. The aim is to make the InvoCare business portfolio more defensible, through harder to replicate standards or investment in scarce assets; this will include looking at property options, particularly in the Cemeteries & Crematoria business.

The Group recently announced that a subscription agreement has been signed with the digital memorialisation company Memories Group Limited. This strategic partnership and investment is a key step forward in realising the Group's aspirations in digital innovation, aligned with its vision of honouring life and celebrating memories of a loved one, which in this case are digital.

Work has commenced in leveraging the Group's leading position in private memorial parks with a significant multi-year burial agreement signed in HY2021 with a cohort of local community groups in NSW, supporting the burial needs of those community groups for many years to come, and demonstrating that expanding our connection across all community groups is pivotal for an ever-changing demographic in Australia.

The Group has also commenced leveraging its national footprint in pet cremations with national supply agreements signed with key veterinary groups in HY2021.

Sustainable leadership

Finally, the fifth pillar is InvoCare's commitment to sustainable industry leadership. The Group is redoubling its efforts on sustainability, which, in addition to broad environmental and sustainability goals, involves a clear focus on safety and standards of care and clinical excellence. Furthermore, our people are fundamental to customer advocacy and the Group continues its focus on diversity and talent development and on creating a support centre of excellence to support frontline staff.

In terms of environmental sustainability, the Group believes in the need to reduce the long-term impact of operations on the environment. InvoCare already offers client families some eco-friendly product options, but there is more that can be done in this area. Management will also look at the Group's physical networks of funeral homes, operational centres, crematoria and memorial parks to ensure that it not only works to reduce potential environmental impacts, but also manages them in ways that enhance and restore environmental values.

And lastly, garnering community trust in InvoCare brands and being a valued member of society's 'care' infrastructure is important to ensure this broader ecosystem actively directs their stakeholders to InvoCare. The Group's good commercial reputation is therefore vital for long-term company sustainability. In all of its commercial and financial dealings the Group strives to ensure its decision making, and behaviour meets community expectations, compliance obligations and strategic risk management objectives as the Group pursues its fiduciary responsibility to shareholders for delivering sustained profitability.

In the Group's FY2020 results release the Group announced the strengthening of the InvoCare Executive Leadership Team with the addition of an Executive General Manager dedicated to health, safety and sustainability, Grace Westdorp and an Executive General Manager dedicated to stakeholder engagement, Fergus Kelly. Both have been in their positions for most of the first half of 2021 and have commenced strategic reviews of their areas of responsibility.

The Group's Lost Time Injury Frequency Rate (LTIFR) for the period was 11.8, a 2% improvement on the prior corresponding period (PCP). During the period the Group has undertaken a refresh of capability in the safety team and has established a new Health and Safety strategy.

The Group's 2020 Sustainability Report was released in March 2021 and it has again been assessed as 'leading' by the Australian Council of Superannuation Investors (ACSI).

Review of financial performance

To grow earnings per share and total shareholder returns, we seek to complement operational execution of our strategy with financial discipline, strong portfolio management, balance sheet strength and cash flow generation. Set out below is a description of these areas and the financial tools we use to measure success:

- Financial discipline – Focus on cost control and efficiency to drive positive operating leverage
- Balance sheet strength – Maintain funding flexibility and disciplined capital management to support growth aspirations
- Portfolio management – Acting decisively on the allocation of capital and managing returns from investments
- Cash flow generation – Pursue working capital efficiency and realisation of profits into cash to reinvest in the business

The Group's performance in these areas during the HY2021 is set out on the following pages. The prior corresponding period is the half year ended 30 June 2020.

Generating long term shareholder returns

InvoCare seeks to optimise shareholders returns through earnings per share (EPS) and dividend growth which, if delivered, should support share price performance.

The Board determined a fully franked interim dividend of 9.5 cents per share for the HY2021, representing a dividend payout ratio of 66% of Operating EPS, within the Group's preferred payout range.

	Half year ended		
	30 Jun 2021 cents	30 Jun 2020 cents	Movement %
Basic earnings per share (EPS)	**30.7**	(14.4)	313.2
Operating EPS	**14.4**	9.2	56.5
Interim dividend	**9.5**	5.5	72.7
Dividend payout ratio (%)	**66%**	60%	6 ppts

Profit performance for HY2021

Until June, Australia and New Zealand had controlled community transmission of COVID-19 (COVID), allowing for an easing in government-imposed restrictions on funeral attendee limits in most markets. While New Zealand continues to manage the virus, the emergence of the Delta Strain in Singapore and Australia has resulted in the reinstatement of restrictions.

Despite recent outbreaks of COVID, the Group delivered Operating net profit after tax of $20.6 million in HY2021, a 78% improvement on the PCP driven by an increase in funeral case average in Australia and New Zealand, continued growth in memorialisation sales in the Group's Cemeteries & Crematoria business and a strong contribution from the pet cremations businesses acquired in the second half of 2020.

Reported profit for the half year attributable to shareholders of $43.9 million reflects the benefit of a net $28.0 million gain arising from the mark-to-market accounting for pre-paid funeral contracts with a $38.6 million unrealised gain on the revaluation of pre-paid funds under management (FUM) offset by a $10.6 million increase in the associated provision for pre-paid contract liabilities. It should be noted that the provision for pre-paid contract liabilities has increased in line with the estimated change in costs to fulfil the contracts. Further details are provided in the Pre-paid funerals section later in this report.

Operating results for HY2021

InvoCare considers Operating earnings before interest, tax, depreciation and amortisation and business acquisition costs (Operating EBITDA) and Operating earnings before interest and tax (Operating EBIT) as key performance measures.

Operating EBITDA, EBIT and net profit after income tax exclude the following items:

- The financial impacts of the pre-paid funerals business
- Other non-operating activities, including asset sale gains/losses, impairment losses and restructuring costs, as relevant
- Net finance costs associated with the pre-paid funerals business; and
- The income tax effect of the above items

A reconciliation of operating to statutory financial results is included on page 13.

Set out in the table below is the operating result and key performance metrics:

	Half year ended		
	30 Jun 2021 $'000	30 Jun 2020 $'000	Movement %
Revenue	**257,343**	227,955	12.9
Expenses	**(193,793)**	(179,402)	(8.0)
EBITDA	**63,550**	48,553	30.9
Depreciation and amortisation	**(24,953)**	(20,677)	(20.7)
Business acquisition costs	**(714)**	(858)	16.8
Net gain on lease modifications/terminations	**1,493**	-	-
EBIT	**39,376**	27,018	45.7
Net finance costs	**(8,585)**	(11,417)	24.8
Profit before income tax	**30,791**	15,601	97.4
Income tax expense	**(10,190)**	(3,944)	(158.4)
Non-controlling interests	**(49)**	(92)	46.7
Operating net profit after income tax attributable to equity holders of InvoCare Limited	**20,552**	11,565	77.7
Operating EPS (cents per share)	**14.4**	9.2	56.5
OPEX to sales %*	**51%**	54%	3 ppts
EBITDA margin (%)	**25%**	21%	4 ppts
EBIT margin (%)	**15%**	12%	3 ppts

* *For calculating OPEX to sales %, OPEX represents operating expenses excluding finished goods, consumables and funeral disbursements costs*

The operating revenue result reflects a return to pre-COVID funeral case averages with the ability to provide a full range of service offerings in Australia and New Zealand for the majority of the HY2021 and continued growth in memorialisation sales in the Group's Cemeteries & Crematoria business. In addition, acquisitions executed in second half (H2) 2020 contributed $14.4 million to the increase with the pet cremations business delivering a strong performance, exceeding expectations.

Cost control and a focus on OPEX to sales % has continued in the HY2021, as reflected in some of the improved profit metrics. $9.8 million of the $14.4 million increase in operating expenses is driven by the inclusion of the H2 2020 acquisitions. The underlying $4.6 million increase in operating expenses includes increases in finished goods, consumables and funeral disbursements reflecting increased sales activity. The strong financial performance has also driven higher sales commissions in the Cemeteries & Crematoria business and an increase in accrual run rate for both short-term and long-term incentives for employees in HY2021 compared to the PCP, where payout assumptions were dampened by COVID uncertainty. Cost savings have also been achieved in advertising, motor vehicles and other expenses, including professional fees.

Depreciation and amortisation expense increased $4.3 million or 21% on the PCP driven by increased depreciation of leasehold improvements arising from completed NBO projects and amortisation of capitalised IT costs relating to the implementation of the Oracle Cloud ERP system in the prior year and the contribution from the acquired businesses. In addition, the relocation of the North Sydney Support Office in HY2021 required the acceleration of depreciation of $1.1 million relating to leasehold improvements which could not be relocated to the new office.

Net finance costs have declined $2.8 million reflecting the benefit of lower borrowings in HY2021 and improved leverage ratio reducing interest rate margin charged following the capital raising conducted in the PCP.

Operating revenue by region

	Half year ended		
	30 Jun 2021 $'000	30 Jun 2020 $'000	Movement %
By region			
Australia	**221,723**	192,827	15.0
New Zealand	**26,340**	24,902	5.8
Singapore	**9,280**	10,226	(9.3)
Total	**257,343**	227,955	12.9

Operating EBITDA and EBIT by region

	Operating EBITDA			Operating EBIT		
Half year ended	30 Jun 2021 $'000	30 Jun 2020 $'000	Movement %	30 Jun 2021 $'000	30 Jun 2020 $'000	Movement %
By region						
Australia	**53,799**	39,264	37.0	**33,094**	20,982	57.7
New Zealand	**5,337**	4,460	19.7	**2,412**	1,826	32.1
Singapore	**4,414**	4,829	(8.6)	**3,870**	4,210	(8.1)
Total	**63,550**	48,553	30.9	**39,376**	27,018	45.7

Operating results by revenue type*

Half year ended 30 June 2021	Funeral services $'000	Cemeteries & Crematoria $'000	Pet Cremations $'000	Support costs $'000	Total $'000
Case volumes (number)	**22,092**	**10,571**			**32,663**
Revenue	**177,643**	**66,009**	**13,691**	**-**	**257,343**
EBITDA	**46,839**	**32,223**	**3,649**	**(19,161)**	**63,550**
EBITDA margin (%)	**26%**	**49%**	**27%**	**-**	**25%**
EBIT	**30,820**	**29,222**	**2,248**	**(22,914)**	**39,376**
Half year ended 30 June 2020					
Case volumes (number)	22,077	10,923			33,000
Revenue	168,389	58,808	758	-	227,955
EBITDA	34,904	28,823	(312)	(14,862)	48,553
EBITDA margin (%)	21%	49%	(41%)	-	21%
EBIT	20,225	25,788	(663)	(18,332)	27,018

* *Funeral services include the financial results of the Australian, New Zealand and Singaporean funeral businesses. Cemeteries & Crematoria includes the financial results of Australian and New Zealand memorial parks.*

Australia

Funeral services

The Australian funeral services business has delivered a strong result driven by a return to pre-COVID funeral case averages. As restrictions on funeral attendees were eased, the 'gathering' element of funerals has gained in prominence with increased spend on higher service funerals, and direct cremation activity reducing.

Operating revenue has grown in all markets with a 6.6% increase in revenue attributed primarily to a 6.7% increase in funeral case average, and volumes materially in line with the PCP.

A strong focus on controlling costs has meant that this top line growth has been realised in net operating profit with a 5 ppts improvement in OPEX to sales % to 44%, Operating EBITDA up 44.1% to $37.5 million and a return to positive operating leverage.

In terms of strategic achievements:

- The continuation of high-quality service has been reflected in the business' NPS score of +79.7, a 1.8 ppt increase from the PCP, and arises from nearly 3,000 survey responses
- Delivered 12 NBO projects in the HY2021 and 1 shared service centre in Cairns
- Go-live of ERP platform enhancement project (Compass 2.0), involved enhancements to functionality for funeral arrangers to increase flexibility, automation of procurement process, greater transparency and efficiencies when working with funeral packages
- Commenced work on Network Optimisation Strategy to enable successful migration from an NBO focus to network cluster and portfolio performance view
- Commenced brand value proposition activities as part of 'stronger core growth' strategic pillar starting with the Value Cremations brand. The frontline teams worked with the marketing team to refresh the brand's visual identity, website, and business model, which were launched in the period.

Pre-paid funerals

The easing of restrictions across Australia in HY2021 has led to an increased opportunity for sales in the pre-paid funerals business with pre-paid contract volumes growing 20% compared to the PCP, although the percentage of at need funerals conducted that were prepaid has remained static at 14%.

The key financial impact of this business on the Group profit and loss is the movements from the revaluation of pre-paid FUM and pre-paid contract liabilities, the results of which are captured as non-operating profit and loss items.

Strong growth in equity returns (including dividends) and property investment revaluations has resulted in an unrealised gain of $38.6 million in assets managed by the independently controlled funds at 30 June 2021, compared to an unrealised loss of $29.3 million in the PCP. The weighting of the portfolio has also increased towards cash in HY2021, which includes dividend proceeds and settlement of equity investment sales that are awaiting reinvestment.

The volatility in the mark-to-market revaluations is primarily the reason that the Group has historically distinguished its results on an operating versus non-operating basis to exclude the impact of such material, non-cash movements.

The headroom between the pre-paid FUM and contract liabilities (defined as pre-paid contract assets less liabilities) remains healthy at $97.8 million as at 30 June 2021.

A strategic review of the pre-paid funerals business is planned for the year, but initial focus in HY2021 has been on implementing an Australian Financial Services Licence (AFSL) to ensure compliance with revised ASIC guidance for the industry, which previously provided exemptions from the requirement to hold such a licence for providers of funeral services facilities.

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 HY2021. This sales growth combined with growth in memorialisations drove an overall increase in Operating revenue of 13% (or $7.2 million) against the PCP.

Associated sales commission expense growth and an increased focus on safety and compliance and park grounds maintenance has tempered the impact of top line growth, resulting in a slight 1 ppt increase in OPEX to sales % to 37% in this business and 12% growth in Operating EBITDA to $31.8 million.

The New Zealand Cemeteries & Crematoria business results for HY2021 were consistent with the PCP, with Operating revenue of $1.2 million and Operating EBITDA of $0.4 million (1.7% increase on the PCP).

AASB 15 deferred revenue and cost unwinds contributed $11.4 million and $8.6 million to Operating revenue and Operating EBITDA respectively (HY2020: $9.6 million and $7.3 million).

In terms of strategic achievements:

- The business delivered its highest ever NPS score of +74.1, 5.4 points higher than the PCP and a reflection of the increased focus on servicing client families
- The opportunity of working with religious and community groups on long term partnership and reservation agreements is a key strategy of New Growth Platforms. A continued focus on deepening relationships with local religious communities resulted in the signing of a significant multi-year burial agreement with a cohort of local community groups in New South Wales in HY2021.

Pet cremations

The pet cremations business in Australia continued to grow with strong contribution from the two acquired pet cremations businesses, contributing $12.5 million to Operating revenue growth and $3.8 million to Operating EBITDA, exceeding expectations in HY2021.

In terms of strategic achievements:

- First step in operational excellence strategy undertaken with establishment of national leadership team in the pet cremations business. The business is now focusing on the integration of the recent acquisitions operating platforms into one consistent approach. This will take place over the next 12 months.
- Investments were made in two new pet cremators in Western Australia and Victoria in the period to increase operational capacity
- The business continues to pursue product and service innovation opportunities with the 'Patch & Purr' e-commerce site launched in HY2021. This allows customers to book their pet cremations online as well as purchase various urns and memorabilia
- Management continue to pursue national agreement opportunities, leveraging the division's scale. National supply agreements have been signed with key veterinary groups in HY2021.

New Zealand

Like the Australian funeral services business, the New Zealand business has experienced continued recovery in case average to pre-COVID levels, a key driver of the 5.8% increase in Operating revenue on the PCP as volumes declined 1.3%. Case averages increased, with a return to higher service funerals, and growth in catering revenue with a large contribution in sales growth particularly evident in two of the main metro markets (Auckland and Wellington), which were hardest hit by COVID restrictions in the PCP.

A tight control of costs has led to improved OPEX to sales % to 49% and a return to positive operating leverage, with Operating EBITDA increasing 20% to $5.3 million.

The New Zealand market continues to be somewhat fragmented and despite growth in certain metropolitan markets in HY2021, all markets continue to see increased competition from low-cost operators. A Network Review has commenced in New Zealand.

In terms of strategic achievements:

- The hard work and dedication of our New Zealand employees to support their client families through a high level of service is reflected in the NPS score growing by 2 ppts in HY2021 to +86
- Focus of leadership has been on retention and recruitment of staff and focusing the business on safety. This has included simplifying the management of safety incidents, investments in its learning and development program, development of action plans to address Your Say Employee Engagement Survey feedback and a review of hours worked to assist with retention
- Three NBO projects were underway in HY2021 and completed in August 2021, one of which was the establishment of a Simplicity branch in Richmond in the north of the South Island. Another four projects are expected to complete by the end of 2021

Singapore

The contribution of Singapore earnings in Australian dollars to the Group in HY2021 has been impacted by the depreciation of the Singapore dollar below AUD$1 equivalent for most of the period (average foreign currency exchange rate down 11% on the PCP).

On a local currency basis, Operating revenue for the Singaporean business increased 3.4% to S$9.5 million (declined 9.3% on an Australian dollar basis). Whilst the Singaporean funerals market continues to be negatively impacted by prolonged funeral attendance restrictions as the Singaporean government grapples with another wave of COVID infections, the introduction of packages for client families has proved successful. While this increase in consumer preference for funeral packages (including direct cremations) has increased funeral case volume by 6.7% on the PCP, funeral case average has not returned to pre-COVID levels (declined 0.8% compared to the PCP) as higher service, catered wakes and gatherings are not permitted by authorities.

An increase in headcount to meet the increased volume of service (including to service the Singaporean police contract commencing 1 July 2021) has resulted in a 1 ppt increase in OPEX to sales % to 32% but disciplined cost control in other areas has meant that top line growth has been realised in net operating profit with Operating EBITDA increasing 4.1% to S$4.5 million (declined 8.6% on an Australian dollar basis).

Support costs

Support costs are measured across three categories:

- Support – Corporate – the costs of corporate support functions such as Finance/HR/Legal, listed company costs and the offices of the CEO and CFO
- Support – Field – this includes the costs of the marketing teams, field HR support, Safety & Sustainability, Procurement and Property & Facilities teams
- Support – IT – the costs of the in-house IT support team and centralised technology costs, such as the software licence fees for Microsoft and Oracle platforms

Of the $4.3 million increase in support costs in HY2021 compared to the PCP, $1.0 million of this is attributed to the increase in accrual rates for long-term incentives for the Group. There has also been a $0.4 million increase in short term incentive accrual rates for Support – Corporate employees, with COVID uncertainty in the PCP reducing accrual run rates in HY2020.

Support – IT costs increased by $1.3 million due to the impact of capability investments in the IT team, including the appointment of a CITO and a $1.0 million increase in software licence expense driven by the ERP roll out and increasing digital investments.

The remaining increase in support costs is primarily attributed to the impact of capability investments made in Safety and Sustainability, Stakeholder Engagement, Compliance and Project and Change Management, important foundational investment roles required by the business to execute on 'Operational efficiencies' and 'Sustainable Leadership' strategic objectives.

Portfolio management

Decisive action to invest, restructure or divest non-core operations while fulfilling the Group's investment and strategic priorities is vital to managing InvoCare's portfolio of operations.

Whilst there were no material acquisitions in HY2021, the Group disposed of three locations, two in Australia and one in New Zealand for combined proceeds of $9.4 million giving rise to a net gain on disposal of non-current assets recognised through non-operating profit of $5.8 million. These disposals are a consequence of NBO related activities and Network Optimisation Strategy reviews by both businesses.

Balance sheet

InvoCare continues to maintain a strong balance sheet with a disciplined focus on working capital management. The Group's capital employed excluding net debt items is comprised of the following.

Total capital employed at reporting date

	30 Jun 2021 $'000	31 Dec 2020 $'000	Movement %
Trade and other receivables	**81,089**	82,582	(1.8)
Inventories	**42,957**	44,117	(2.6)
Trade and other payables	**(57,546)**	(60,514)	4.9
Net working capital	**66,500**	66,185	0.5
Property, plant and equipment	**467,081**	464,277	0.6
Intangibles	**246,609**	243,515	1.3
Net pre-paid funds under management/contract liabilities	**97,777**	71,822	36.1
Deferred selling costs	**36,871**	37,712	(2.2)
Deferred contract assets	**2,761**	4,066	(32.1)
Net right of use asset and lease liabilities[a]	**(11,334)**	(11,346)	0.1
Deferred revenue	**(132,515)**	(137,718)	3.8
Net tax items	**(45,443)**	(34,513)	(31.7)
Other items[b]	**(36,527)**	(34,632)	(5.5)
Total capital employed	**691,780**	669,368	3.3
Net debt	**(124,741)**	(137,468)	9.3
Net assets	**567,039**	531,900	6.6
Average working capital % of sales[c]	**13%**	14%	(1 ppt)
ROCE %[d]	**10.4%**	8.6%	1.8 ppts

a *Excludes certain finance leases which are considered 'debt-like' and included in net debt balance*

b *Includes assets held for sale, other financial assets, derivative financial instruments, provisions for employee entitlements and contingent consideration*

c *Represents the average working capital for the reporting period (average of opening and closing) divided by revenue for the same period*

d *ROCE = Operating EBIT (rolling 12-month) / (average Total equity + average Net debt)*

Disciplined working capital management, the continued improvement in collection of trade receivables and the decrease in inventory from sale of developed crypts and memorials drove an improvement in working capital relative to 31 December 2020. This and the improved sales performance has also driven a 1 ppt improvement in average working capital % of sales to 13%.

The business has continued to invest capital in property, plant and equipment arising primarily from the NBO program, and increases in intangibles arising from the continued capitalisation of software development costs, driving an increase in both compared to December 2020 net of depreciation and amortisation.

The net $28.0 million favourable mark-to-market revaluation of pre-paid FUM in HY2021 is the largest movement in capital employed in HY2021, driving the 36.1% increase in net pre-paid funds under management/contract liabilities. It is also the main driver of an $10.9 million increase in net deferred tax balances (from an increase in deferred tax liabilities associated with the pre-paid FUM balances).

Despite a 3.3% increase in total capital employed, on a rolling 12-month basis the Group's ROCE has improved, increasing 1.8 ppts to 10.4% compared to the year ended 31 December 2020. This reflects the strong growth in Operating EBIT in HY2021 compared to the PCP.

Net debt at reporting date

	30 Jun 2021 $'000	31 Dec 2020 $'000	Movement %
Cash and cash equivalents	**131,151**	118,781	10.4
Borrowings	**(246,355)**	(246,039)	(0.1)
Finance lease liabilities	**(9,537)**	(10,210)	6.6
Net debt	**(124,741)**	(137,468)	9.3
Total shareholders' equity	**567,039**	531,900	6.6
Leverage ratio* (times)	**1.1**	1.3	0.2
Interest cover ratio* (times)	**11.2**	8.3	2.9

* *Leverage and Interest cover ratios for the HY2021 are calculated on a rolling 12-month basis.*

Strong cash generation and an improved cash position has driven a 9.3% reduction in the Group's net debt as at 30 June 2021 to $124.7 million. This has also contributed to a further improvement in the Group's debt metrics.

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. On 27 August 2021, InvoCare successfully entered into binding documentation to amend and extend its Syndicated Debt Facility. Under the amendment, agreed with syndicated lenders, InvoCare will:

- Repay the fully drawn A$67.5 million, NZ$50.0 million and S$35.0 million Facility A Term Loans on 23 September 2021 and this term facility will subsequently be cancelled
- Increase the limit of its Facility B, Multi-Currency Revolving Cash Advance facility from A$200.0 million to A$275.0 million
- Extend the tenor of Facility B to the end of August 2024 (the facility was previously due to expire in February 2023)
- A simplified and more favourable common pricing grid, which has been agreed with syndicate lenders

From 27 August 2021, the Group has access to $375.0 million of loan facilities as follows:

- $100.0 million Note Purchase Agreement with Metlife, fully drawn at 30 June 2021 and due for repayment in February 2028
- $275.0 million Syndicated Debt Facility Agreement supported by ANZ, Westpac, Mizuho and SMBC providing available funds through a Multi-Currency Revolving Cash Advance facility, with a tenor of three years to the end of August 2024

The financial covenant ratios included on the debt facilities differ from the calculations included in the table above as they are calculated on an adjusted Operating EBITDA basis (primarily to include the proforma earnings contributions from acquisitions and to adjust for costs arising from restructuring initiatives). The covenant target ratios are as follows:

- Leverage ratio (being net debt to adjusted Operating EBITDA) must be no greater than 3.5 times
- Interest cover ratio (being adjusted Operating EBITDA to net interest adjusted to remove interest related to AASB 16 Leases) must be greater than 3.0 times

The above ratios continued to be met as of 30 June 2021.

To maintain certainty over cash flows, the Group also has financial risk management policies limiting exposure to interest rate fluctuations. As at 30 June 2021, 58% (31 December 2020: 58%) of the debt principal was at fixed interest rates through using either floating to fixed interest rate swaps or fixed rate debt (notably the $100.0 million Note Purchase Agreement).

Due to the level of stability of Singaporean interest rates and its quantum, Singapore dollar debt is not covered by interest rate swaps. Additionally, due to low volatility of interest rates and the refinancing recently undertaken, the Group's Treasury policy is currently under review. Currently no new interest rate swaps have been taken out and existing swaps in place have been allowed to expire.

The foreign currency drawings naturally hedge InvoCare's investments in the Singapore and New Zealand markets.

Cash flows

InvoCare aims to use cash generated from operations to pay down borrowings, fund capital expenditure and bolt-on acquisitions and distribute dividends to shareholders.

Abridged cash flow

	Half year ended		
	30 Jun 2021 $'000	30 Jun 2020 $'000	Movement %
Operating EBITDA	**63,550**	48,553	30.9
Net change in working capital	**(10,608)**	(6,890)	(54.0)
Net finance costs paid	**(7,254)**	(12,432)	41.7
Tax paid	**(10,488)**	(7,151)	(46.7)
Operating cash flows	**35,200**	22,080	59.4
Acquisitions	**(1,503)**	-	-
Divestments/sale of assets	**9,353**	3,959	136.2
Capital expenditure	**(23,540)**	(28,010)	16.0
Net funds from pre-paid contracts	**11,888**	5,304	124.1
Investing cash flows	**(3,802)**	(18,747)	79.7
Dividends paid	**(10,084)**	-	-
Equity raise (net of issue costs)	**-**	270,912	(100.0)
Net draw down/repayment of borrowings	**-**	(106,761)	100.0
Net lease payments	**(9,020)**	(6,210)	(45.2)
Other	**-**	(70)	100.0
Financing cash flows	**(19,104)**	157,871	(112.1)
Change in cash held	**12,294**	161,204	(92.4)
Cash conversion %*	**102%**	98%	4 ppts

* *Cash conversion % is calculated as per table below*

The Group ended the period with cash on hand of $131.2 million. Stronger sales in HY2021, disciplined focus on cash collections and a reduction in finance costs paid has led to growth in operating cash flows of 59%. This has also led to improved cash conversion as more earnings were converted into cash.

Net investing cash outflows for the HY2021 of $3.8 million includes proceeds of $9.4 million from the disposal of certain properties as part of our ongoing portfolio management activities.

Capital expenditure (CAPEX) of $23.5 million in HY2021 included $8.2 million of NBO related expenditure and $5.8 million of IT related projects. The remainder relates primarily to annual maintenance CAPEX of the Group's facilities and other plant and equipment purchases.

Net financing cash flows includes the impact of the $10.1 million payment of the 2020 final dividend and the payment of principal elements of the Group's leased assets, being property and motor vehicles.

Cash conversion % calculation

	Half year ended	
	30 Jun 2021	**30 Jun 2020**
	$'000	**$'000**
Operating cash flows	**35,200**	22,080
Add back: Net finance costs paid	**7,254**	12,432
Add back: Tax paid	**10,488**	7,151
Net funds from pre-paid contracts	**11,888**	5,304
Other cash flows related to pre-paid contracts	**118**	514
Ungeared, tax free operating cash flows	**64,948**	47,481
Operating EBITDA	**63,550**	48,553
Cash conversion %	**102%**	98%

The cash conversion ratio calculation and the line items as shown in the table above are all non-IFRS information, however, all financial data is based on the information disclosed in the consolidated financial statements and notes to the financial statements and follow the recognition requirements of Australian Accounting Standards.

2021 Outlook

As noted in this report, successful control of COVID community transmission in most markets in HY2021 led to easing of restrictions, with the financial results evidence of the operational performance opportunities of this business when conditions allow.

The emergence of the COVID Delta strain in June 2021 and protracted and intermittent lockdowns throughout most of Australia and now most recently in New Zealand is expected to lead to a softening of the funeral services sector. There is a likely short-term impact on funeral case averages and sales opportunities at memorial parks, but the extent and persistence remain uncertain. Additionally, funeral case volumes remain below pre-COVID levels, with a minimal flu season expected in Australia

On this basis we continue to not provide earnings guidance for the full year.

Notwithstanding these short-term headwinds, the Group remains confident about the long-term potential of the business:

- Underlying population growth and ageing trends in Australia, New Zealand and Singapore
- Strong growth platform, with experienced teams, quality national/local brands, asset base, and leading market positions
- Expected benefits from optimising network, expanding into growth segments and adjacent markets, including Pet Cremations
- Positive momentum in execution of the '*Raising the bar*' phase of our five year strategy

Reconciliation of financial information

InvoCare's results are reported under Australian Accounting Standards. This report and associated market releases include 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 Operating profit after income tax 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 and the impact of accounting for the Group's funds under management and pre-paid funerals business. Accounting standards require net gains and losses from undelivered pre-paid contracts to be included in reported profit; these gains and losses are non-cash and do not impact on InvoCare's core business operations.

The table below presents a reconciliation of statutory results as disclosed in the consolidated statement of comprehensive income and operating results in Note 1 Operating segments.

	Half year ended 30 Jun 2021			Half year ended 30 Jun 2020		
	Operating results	Non-operating results	Statutory results	Operating results	Non-operating results	Statutory results
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	**257,343**	**3,512**	**260,855**	227,955	2,369	230,324
Expenses	**(193,793)**	**(2,882)**	**(196,675)**	(179,402)	(3,230)	(182,632)
EBITDA	**63,550**	**630**	**64,180**	48,553	(861)	47,692
Depreciation and amortisation	**(24,953)**	**(6)**	**(24,959)**	(20,677)	(6)	(20,683)
Business acquisition costs	**(714)**	**-**	**(714)**	(858)	-	(858)
Net gain/(loss) on pre-paid contracts	**-**	**27,994**	**27,994**	-	(39,534)	(39,534)
Net gain on lease modifications/terminations	**1,493**	**-**	**1,493**	-	-	-
Asset sales gain/(loss)	**-**	**5,780**	**5,780**	-	1,306	1,306
EBIT	**39,376**	**34,398**	**73,774**	27,018	(39,095)	(12,077)
Net finance costs	**(8,585)**	**(527)**	**(9,112)**	(11,417)	(2,609)	(14,026)
Income tax (expense)/benefit	**(10,190)**	**(10,567)**	**(20,757)**	(3,944)	12,134	8,190
Non-controlling interests	**(49)**	**-**	**(49)**	(92)	-	(92)
Net profit/(loss) after income tax attributable to equity holders of InvoCare Limited	**20,552**	**23,304**	**43,856**	11,565	(29,570)	(18,005)
EPS (cents per share)	**14.4**	**16.3**	**30.7**	9.2	(23.6)	(14.4)
OPEX to sales %	**51%**		**52%**	54%		55%
EBITDA margin (%)	**25%**		**25%**	21%		21%
EBIT margin (%)	**15%**		**28%**	12%		(5%)

The table above summarises the key reconciling items between net profit after tax attributable to InvoCare's equity holders and Operating EBITDA and EBIT. The Operating EBITDA and EBIT information included in the table above has not been subject to any specific audit or review procedures by the auditor but has been extracted from the accompanying financial report.

As well as impairments and gains or losses arising from disposals of assets, items included in the non-operating column include the financial consequences of all activities related to the administration and financial impacts of the pre-paid funerals business. This has resulted in normalisation adjustments to revenue and operating expenses to reflect the exclusion of the financial impact of this business.

The Directors also consider that the presentation of all activities related to the mark-to-market fair value movements in the independently controlled funds under management and pre-paid contract liabilities as non-operating in nature and therefore these are also excluded from Operating EBIT and Operating profit after income tax. This is considered to provide a better reflection of InvoCare's core business performance and results. It also removes volatility from the reported profit and loss that arises from the fair value activities required by accounting standards on these pre-paid funerals business related assets and liabilities.

Subsequent events

Other than the following matters, no other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

- On 11 August 2021, InvoCare announced a strategic investment and commercial partnership with a global market leader in digital memorisation, Memories Group Limited, to offer customer-focussed online memorial products to InvoCare's client families
- On 27 August 2021, InvoCare entered into binding documentation to amend and extend its Syndicated Debt Facility
- On 30 August 2021, the Board determined an interim dividend

Refer to Note 11 Events after reporting period for further details of the above matters.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after the Directors' Report.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars (where rounding is applicable) in accordance with that instrument.

Signed in accordance with a resolution of the Board of Directors.

Bart Vogel

Director

Sydney

30 August 2021

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30 August 2021

The Board of Directors
InvoCare Limited
Level 5, 40 Mount Street
North Sydney NSW 2060

Dear Board Members

InvoCare Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of InvoCare Limited.

As lead audit partner for the review of the financial statements of InvoCare Limited for the half-year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Sandeep Chadha

Sandeep Chadha
Partner
Chartered Accountants

Introduction

This financial report is for the half year ended 30 June 2021 and comprises of the consolidated financial statements of InvoCare Limited (the Company) and its subsidiaries (together referred to as InvoCare or the Group).

InvoCare Limited (ABN 42 096 437 393) is a for-profit listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5, 40 Mount Street
North Sydney NSW 2060

A description of the nature of the Group's operations and its principal activities is included in the Directors' Report.

This half year financial report was authorised for issue by the Directors on 30 August 2021. The Directors have the power to amend and reissue the financial report.

This half year financial report of the Group does not include all information required for annual financial statement presentation in accordance with International Financial Reporting Standards (IFRS). Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Financial report content

INVOCARE LIMITED AND SUBSIDIARIES

Consolidated financial statements

Consolidated statement of comprehensive income

For the half year ended 30 June 2021

	Notes	Half year ended 30 Jun 2021 $'000	30 Jun 2020 $'000
Revenue from continuing operations	2	**260,855**	230,324
Finished goods, consumables and funeral disbursements		**(61,649)**	(56,661)
Employee benefits expense		**(94,203)**	(85,233)
Advertising and public relations expenses		**(8,796)**	(10,174)
Occupancy and facilities expenses		**(11,878)**	(11,109)
Motor vehicle expenses		**(4,828)**	(4,565)
Technology expenses		**(6,748)**	(6,276)
Other expenses		**(8,573)**	(8,614)
		64,180	47,692
Depreciation and amortisation expenses	3	**(24,959)**	(20,683)
Loss on disposal of a business		**(278)**	-
Finance costs	3	**(9,589)**	(14,389)
Interest income		**477**	363
Net gain/(loss) on undelivered pre-paid contracts	6	**27,994**	(39,534)
Acquisition related costs		**(714)**	(858)
Net gain on lease modifications/terminations		**1,493**	-
Net gain on disposal of non-current assets		**6,058**	1,306
Profit/(loss) before income tax		**64,662**	(26,103)
Income tax (expense)/benefit		**(20,757)**	8,190
Net profit/(loss) after income tax from continuing activities		**43,905**	(17,913)
Net profit/(loss) after income tax for the half year		**43,905**	(17,913)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges, net of tax		**420**	(1,026)
Total realised loss on early settlement of interest rate swaps reclassified to profit or loss		**-**	2,473
Net changes to cash flow hedges, net of tax		**420**	1,447
Changes in foreign currency translation reserve, net of tax		**(136)**	(1,427)
Other comprehensive income for the half year, net of tax		**284**	20
Total comprehensive income/(loss) for the half year, net of tax		**44,189**	(17,893)
Profit/(loss) is attributable to:			
Equity holders of InvoCare Limited		**43,856**	(18,005)
Non-controlling interests		**49**	92
		43,905	(17,913)
Total comprehensive income/(loss) for the period is attributable to:			
Equity holders of InvoCare Limited		**44,140**	(17,985)
Non-controlling interests		**49**	92
		44,189	(17,893)

	Notes	Half year ended 30 Jun 2021 cents	31 Jun 2020 cents
Earnings per share for profit/(loss) attributable to the ordinary equity holders of InvoCare Limited			
Basic earnings per share	4	**30.7**	(14.4)
Diluted earnings per share	4	**30.7**	(14.4)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 30 June 2021

	Notes	As at 30 Jun 2021 $'000	31 Dec 2020 $'000
Assets			
Current assets			
Cash and cash equivalents		**131,151**	118,781
Trade receivables		**39,269**	38,757
Other receivables		**17,839**	13,710
Inventories		**42,957**	44,117
Pre-paid contract funds under management	6	**52,764**	50,268
Assets held for sale		**-**	2,788
Deferred selling costs	7	**6,325**	3,644
Deferred contract assets		**1,992**	1,541
Total current assets		**292,297**	273,606
Non-current assets			
Trade receivables		**23,138**	29,445
Other receivables		**843**	670
Other financial assets		**4**	4
Property, plant and equipment		**467,081**	464,277
Right of use asset		**150,281**	144,368
Pre-paid contract funds under management	6	**589,347**	562,863
Intangibles		**246,609**	243,515
Deferred selling costs	7	**30,546**	34,068
Deferred contract assets		**769**	2,525
Total non-current assets		**1,508,618**	1,481,735
Total assets		**1,800,915**	1,755,341
Liabilities			
Current liabilities			
Trade and other payables		**57,546**	60,514
Contingent considerations		**9,264**	9,265
Lease liabilities		**19,265**	19,465
Derivative financial instruments		**213**	600
Current tax liabilities		**1,431**	1,874
Pre-paid contract liabilities	6	**44,951**	44,685
Deferred revenue	7	**31,101**	28,632
Provision for employee entitlements		**16,346**	16,613
Total current liabilities		**180,117**	181,648
Non-current liabilities			
Contingent considerations		**7,709**	7,909
Borrowings	8	**246,355**	246,039
Lease liabilities		**151,887**	146,459
Derivative financial instruments		**337**	548
Deferred tax liabilities		**44,012**	32,639
Pre-paid contract liabilities	6	**499,383**	496,624
Deferred revenue	7	**101,414**	109,086
Provision for employee entitlements		**2,662**	2,489
Total non-current liabilities		**1,053,759**	1,041,793
Total liabilities		**1,233,876**	1,223,441
Net assets		**567,039**	531,900
Equity			
Contributed equity	9	**497,278**	497,005
Reserves		**11,139**	9,977
Retained profits		**57,267**	23,495
Parent entity interests		**565,684**	530,477
Non-controlling interests		**1,355**	1,423
Total equity		**567,039**	531,900

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half year ended 30 June 2021

	Attributable to equity holders of InvoCare Limited						
Half year ended 30 June 2021	**Contri-buted equity $'000**	**Share-based payment reserve $'000**	**Hedging reserve $'000**	**Foreign currency translation reserve $'000**	**Retained profits $'000**	**Non-controlling interests $'000**	**Total equity $'000**
Balance at 1 January 2021	**497,005**	**3,296**	**(755)**	**7,436**	**23,495**	**1,423**	**531,900**
Total comprehensive income/(loss) for the half year	**-**	**-**	**420**	**(136)**	**43,856**	**49**	**44,189**
Transactions with owners in their capacity as owners:							
Dividends paid (Note 5)	**-**	**-**	**-**	**-**	**(10,084)**	**(117)**	**(10,201)**
Employee share plan shares vested during the half year	**273**	**(273)**	**-**	**-**	**-**	**-**	**-**
Employee shares – value of services	**-**	**1,151**	**-**	**-**	**-**	**-**	**1,151**
Balance at 30 June 2021	**497,278**	**4,174**	**(335)**	**7,300**	**57,267**	**1,355**	**567,039**

Half year ended 30 June 2020							
Balance at 1 January 2020	219,826	2,055	(2,854)	8,527	68,169	1,256	296,979
Total comprehensive income/(loss) for the half year	-	-	1,447	(1,427)	(18,005)	92	(17,893)
Transactions with owners in their capacity as owners:							
Reclassification of equity settled share based payments	-	112	-	-	-	-	112
Employee share plan shares vested during the half year	48	(16)	-	-	-	-	32
Issue of ordinary shares, net of transaction costs	270,912	-	-	-	-	-	270,912
Employee shares – value of services	-	126	-	-	-	-	126
Balance at 30 June 2020	490,786	2,277	(1,407)	7,100	50,164	1,348	550,268

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

INVOCARE LIMITED AND SUBSIDIARIES

Consolidated financial statements

Consolidated statement of cash flows

For the half year ended 30 June 2021

	Half year ended 30 Jun 2021 $'000	Half year ended 30 Jun 2020 $'000
Cash flows from operating activities		
Receipts from customers (including GST)	**260,463**	246,776
Payments to suppliers and employees (including GST)	**(210,903)**	(209,384)
Other revenue	**3,382**	4,271
	52,942	41,663
Interest received	**134**	164
Finance costs	**(7,388)**	(12,596)
Income tax paid	**(10,488)**	(7,151)
Net cash flows from operating activities	**35,200**	22,080
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**8,961**	3,959
Purchase of subsidiaries and other businesses including acquisition costs, net of cash acquired	**(1,503)**	-
Proceeds from sale of subsidiaries and other businesses, net of restructuring costs	**392**	-
Purchase of property, plant and equipment and intangibles	**(23,540)**	(28,010)
Payments to funds under management for pre-paid contract sales	**(12,095)**	(19,419)
Receipts from funds under management for pre-paid contracts service delivered	**23,983**	24,723
Net cash outflow from investing activities	**(3,802)**	(18,747)
Cash flows from financing activities		
Share capital issue, net of transaction costs	**-**	270,912
Payments for share option vested and exercised	**-**	(70)
Proceeds from borrowings	**-**	4,600
Repayment of borrowings	**-**	(111,361)
Principal elements of lease payments	**(9,020)**	(6,210)
Dividends paid to InvoCare Limited equity holders	**(10,084)**	-
Net cash flows from financing activities	**(19,104)**	157,871
Net increase in cash and cash equivalents	**12,294**	161,204
Cash and cash equivalents at the beginning of the half year	**118,781**	19,560
Effects of exchange rate changes on cash and cash equivalents	**76**	(21)
Cash and cash equivalents at the end of the half year	**131,151**	180,743

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Basis of preparation

This half year financial report has been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standard AASB 134 Interim Financial Reporting, the recognition and measurement and requirements of other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board, as appropriate for for-profit oriented entities and the Australian Securities Exchange (ASX) Listing Rules.

IFRS refers to the overall framework of standards and pronouncements approved by the International Accounting Standards Board. IFRS forms the basis of the Australian Accounting Standards.

The accounting policies adopted in the preparation of this financial report have been applied consistently by all entities in the Group and are the same as those applied for the most recent annual financial report except as described below. These financial statements have been prepared under the historical cost convention, modified, where applicable, by the measurement at fair value of certain non-current assets, financial assets and financial liabilities. The principal accounting policies adopted are consistent with those of the previous financial year and corresponding half year reporting period, unless otherwise stated.

The financial report is presented in Australian dollars, which is the functional currency of the Company.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Configuration or customisation costs in a cloud computing arrangement – AASB 138 Intangible Assets

On 27 April 2021, the IFRS Interpretation Committee (IFRIC) issued an agenda decision on Configuration and Customisation (CC) costs in a Cloud Computing Arrangement which was ratified by the IASB in April 2021. The agenda decision includes steps which entities should consider in accounting for such CC costs.

At 30 June 2021, the Group has recognised intangible assets with a carrying amount of $22,122,000 (31 Dec 2020: $17,013,000) in respect of costs incurred in implementing various software arrangements, including Software-as-a-Service (SaaS) arrangements. Due to the complexity of historical software implementation projects, the Group continues to obtain the required information to analyse and assess any potential impact on the accounting for these software arrangements in response to the agenda decisions published by the IFRIC. The Group expects the analysis to be completed over the coming months and any impact will be presented in the financial report for the year ending 31 December 2021.

Critical accounting estimates and judgements

The preparation of a financial report that complies with AASBs requires management to make judgements, estimates and assumptions.

This can affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The on-going COVID-19 pandemic has not significantly increased the estimation uncertainty in the preparation of the consolidated financial statements. A thorough consideration of potential COVID-19 impacts on carrying values of assets and liabilities, contracts and potential liabilities has been made, with no material impact to the financial statements.

Impairment test for goodwill

All cash generating units (CGUs) to which goodwill has been allocated were reviewed for potential indicators of impairment at 30 June 2021. Impairment analysis indicates significant headroom exists in the value-in-use calculations for Australia and Singapore CGUs compared to the carrying value of the assets of each CGU. There is no reasonable possible long-term shift in key assumptions considered likely which will cause impairment of either of these two CGUs.

Recoverable amount testing for the year ended 31 December 2020 identified the New Zealand CGU as being impaired and an impairment charge of $19,324,000 was recognised. The New Zealand CGU has been reassessed during the half year ended 30 June 2021 and no change to the impairment charge was deemed necessary.

The assessment performed for 30 June 2021 considered the reasonable possible long-term shift in key assumptions which may potentially cause an impairment to arise. Each of the sensitivities below assume that a specific assumption moves in isolation, while other assumptions are held constant. A change in one of the key assumptions could be accompanied by a change in another assumption which in aggregate, may increase or decrease the net impact.

At 30 June 2021, no impairment resulted from the assessment of recoverable amount test of the New Zealand CGU. A reasonable possible shift in the following key assumptions (in isolation, while the other assumption is held constant) would result in the following outcomes:

- Terminal growth rate for New Zealand decreased by 0.5%: impaired by $2,441,000
- Post-tax weighted average cost of capital increase by 0.3%: impaired by $1,418,000

Fair value measurements – Pre-paid contract funds under management

The fair values of the pre-paid contract funds under management are recognised and measured based on inputs that require judgements and estimates. To provide an indication about the reliability of the inputs used in determining fair value of the pre-paid contract funds under management, the Group has used Level 2 inputs as prescribed under the accounting standards. Refer to Fair value measurement section below for further information how the fair value of pre-paid contract funds under management are determined, including the valuation technique and inputs used.

Current and non-current split – Pre-paid contract funds under management

The Group determines the classification of current and non-current portions of pre-paid contract asset and liabilities based on the pattern of usage (based on an independent actuarial review) associated with the timing of actual contract redemptions. This pattern of usage is based on historical data, which is reviewed annually and has remained consistent over the past five years.

Business combination

Acquisitions for the year ended 31 December 2020

For all three acquisitions during the prior year ended 31 December 2020, the accounting for all of them remains provisional. During the half year ended 30 June 2021, an additional $589,000 of goodwill was recognised relating to the acquisition of Family Pet Care Pty Limited due to the payment of additional consideration.

Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Rounding

The Group is of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities & Investment Commission. In accordance with that Instrument, amounts in the Directors' report and financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

Fair value measurement

The Group's financial assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of financial assets and liabilities are determined, including the valuation technique and inputs used. For the Group's financial assets and liabilities not measured at fair value, their carrying amount provides a reasonable approximation of their fair values.

Financial assets or liabilities	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Pre-paid contract funds under management	Level 2	The fair value is calculated based on the number of units multiplied by the unit price of the funds which administers the invested funds. The unit price of the funds is based on the fair value of the underlying investments, which include equities, cash, fixed interest deposits and property.	Not applicable	Not applicable
Derivative financial instruments	Level 2	The fair value is calculated as the present value of the estimated future cash flows based on observable yield curves	Not applicable	Not applicable
Contingent consideration	Level 3	The fair value is calculated based on the contracted terms of performance measures, eg revenue, EBITDA or net profit	Forecast performance measures per the contracts	The estimated fair value would increase/decrease if the forecast performance measures per the contracts were higher/lower

There were no transfers between levels during the reporting period.

Price risk

The Group is the ultimate beneficiary of pre-paid contract funds under management (Invested Funds) invested in various pre-paid contract trusts, as described in the table above. There are a significant number of trusts in existence with various investment profiles.

Accordingly, the Group's future income is sensitive to the price risk relating to the investment returns of these funds under management.

These funds are invested in a range of asset classes with different price risk variables including cash, fixed interest, Australian and international equities, hybrids and direct and indirect property. The return on these funds (net of the increase in the liability to deliver the future services) is recognised as net gain/loss on undelivered pre-paid contracts in the statement of comprehensive income.

Refer to Note 6 Pre-paid contracts for the profit and loss impact of the pre-paid funds under management and the pre-paid contract liabilities for the half year ended 30 June 2021.

The assets allocation at reporting date of pre-paid contract funds under management is as follows:

	30 Jun 2021	31 Dec 2020
	%	%
Equities	37	40
Property	26	28
Cash and fixed interest (includes hybrid securities)	37	32

Note 1. Operating segment

A. Identification of reportable segments

The Group is organised into three reportable segments:

- Australia
- Singapore
- New Zealand

These reportable segments are based on the internal reports that are reviewed and used by the Chief Executive Officer & Managing Director (who is identified as the Chief Operating Decision Maker (CODM)) in assessing performance and in determining the allocation of resources.

There is no change in reportable segments and the basis of measurement of segment profit or loss for the half year ended 30 June 2021 from 2020 Annual Report.

B. Reportable segments information

Half year ended 30 June 2021	Australia $'000	Singapore $'000	New Zealand $'000	Total $'000
Revenue	**225,235**	**9,280**	**26,340**	**260,855**
Operating expenses	**(170,806)**	**(4,866)**	**(21,003)**	**(196,675)**
	54,429	**4,414**	**5,337**	**64,180**
Less: Non-operating activities' revenue and expenses				
Revenue (including pre-paid contracts redemptions[a])	**(3,512)**	**-**	**-**	**(3,512)**
Operating expenses (including pre-paid contracts redemptions[a])	**2,882**	**-**	**-**	**2,882**
Operating EBITDA	**53,799**	**4,414**	**5,337**	**63,550**
Depreciation and amortisation	**(21,506)**	**(544)**	**(2,903)**	**(24,953)**
Business acquisition costs	**(714)**	**-**	**-**	**(714)**
Net gain/(loss) on lease modifications/terminations	**1,515**	**-**	**(22)**	**1,493**
Operating EBIT	**33,094**	**3,870**	**2,412**	**39,376**
Net finance costs	**(7,631)**	**108**	**(1,062)**	**(8,585)**
Operating profit before income tax	**25,463**	**3,978**	**1,350**	**30,791**
Non-operating activities results before income tax[b]	**34,244**	**-**	**(373)**	**33,871**
Income tax (expense)/benefit	**(21,293)**	**(656)**	**1,192**	**(20,757)**
Non-controlling interest	**(49)**	**-**	**-**	**(49)**
Net profit after income tax	**38,365**	**3,322**	**2,169**	**43,856**

As at 30 June 2021	Australia $'000	Singapore $'000	New Zealand $'000	Total $'000
Total goodwill	**171,573**	**14,478**	**26,740**	**212,791**
Total assets	**1,636,560**	**48,946**	**115,409**	**1,800,915**
Total liabilities	**1,111,467**	**38,300**	**84,109**	**1,233,876**

a *Adjustment to reclassify the impacts of performing pre-paid funeral, burial and cremation services to non-operating activities.*

b *Refer to Note 4 Section B Reconciliation of earnings used in calculating earnings per share for the breakdown by types of gain/loss and expenses of the non-operating activities results.*

Half year ended 30 June 2020	Australia $'000	Singapore $'000	New Zealand $'000	Total $'000
Revenue	195,195	10,227	24,902	230,324
Operating expenses	(156,793)	(5,397)	(20,442)	(182,632)
	38,402	4,830	4,460	47,692
Less: Non-operating activities' revenue and expenses				
Revenue (including pre-paid contracts redemptions[a])	(2,369)	-	-	(2,369)
Operating expenses (including pre-paid contracts redemptions[a])	3,230	-	-	3,230
Operating EBITDA	39,263	4,830	4,460	48,553
Depreciation and amortisation	(17,425)	(619)	(2,633)	(20,677)
Business acquisition costs	(858)	-	-	(858)
Operating EBIT	20,980	4,211	1,827	27,018
Net finance costs	(9,089)	(548)	(1,780)	(11,417)
Operating profit before income tax	11,891	3,663	47	15,601
Non-operating activities results before income tax[b]	(41,182)	(6)	(516)	(41,704)
Income tax benefit/(expense)	9,132	(673)	(269)	8,190
Non-controlling interest	(92)	-	-	(92)
Net (loss)/profit after income tax	(20,251)	2,984	(738)	(18,005)

As at 30 June 2020	Australia $'000	Singapore $'000	New Zealand $'000	Total $'000
Total goodwill	119,609	15,284	46,114	181,007
Total assets	1,551,145	49,902	126,290	1,727,337
Total liabilities	1,055,943	41,086	80,040	1,177,069

a *Adjustment to reclassify the impacts of performing pre-paid funeral, burial and cremation services to non-operating activities.*

b *Refer to Note 4 Section B Reconciliation of earnings used in calculating earnings per share for the breakdown by types of gain/loss and expenses of the non-operating activities results.*

Non-IFRS information

Some of the financial data in this note are not disclosures in accordance with the current Australian Accounting Standards' requirements, being EBITDA (earnings before interests, tax, depreciation and amortisation) and EBIT (earnings before interests and tax).

However, all financial data is based on the information disclosed in the reviewed financial statements and notes to the financial statements of InvoCare and follow the recognition requirement of Australian Accounting Standards.

Note 2. Revenue

A. Disaggregation of revenue from contracts with customers

The tables below provide detailed disaggregation of revenue derived by the Group.

Half year ended 30 June 2021	Australia $'000	Singapore $'000	New Zealand $'000	Total $'000
Funeral services	**146,086**	**9,068**	**25,082**	**180,236**
Cemeteries & Crematoria	**64,370**	**-**	**1,167**	**65,537**
Pet cremations	**13,712**	**-**	**-**	**13,712**
	224,168	**9,068**	**26,249**	**259,485**
Rent	**128**	**18**	**70**	**216**
Sundry revenue	**939**	**194**	**21**	**1,154**
Total revenue from continuing operations	**225,235**	**9,280**	**26,340**	**260,855**

Half year ended 30 June 2020				
Funeral services	135,855	9,758	22,214	167,827
Cemeteries & Crematoria	57,267	-	1,118	58,385
Pet cremations	758	-	-	758
	193,880	9,758	23,332	226,970
Rent	234	-	-	234
Sundry revenue	1,080	469	1,571	3,120
Total revenue from continuing operations	195,194	10,227	24,903	230,324

Note 3. Significant profit and loss items

The table below provides further details on significant profit and loss items as reported in the consolidated statement of comprehensive income.

	Half year ended 30 Jun 2021 $'000	Half year ended 30 Jun 2020 $'000
A. Finance costs		
Interest paid and payable	**3,950**	6,647
Interest expense: customer advance payments	**1,030**	1,714
Interest expense on lease liabilities	**2,762**	2,842
Other finance costs	**1,847**	1,079
Realised loss on early settlement of interest rate swaps	**-**	2,107
	9,589	14,389
Interest expense on pre-paid contracts	**10,573**	10,188
B. Depreciation, amortisation and impairment of non-current assets		
Buildings	**2,949**	2,770
Property, plant and equipment	**8,127**	6,500
Right of use assets	**8,243**	7,788
Total depreciation	**19,319**	17,058
Amortisation of non-current assets	**5,640**	3,625
Total depreciation and amortisation	**24,959**	20,683
C. Lease modifications and terminations impact		
Net gain on lease modifications/terminations	**1,493**	-
Additional accelerated depreciation expense	**(1,079)**	-
Net gain on lease modifications/terminations	**414**	-

During the period, the Group generated a net gain of $414,000 arising from the modifications and terminations of certain lease arrangements. The majority of the net gain relates to the relocation of the support office in North Sydney.

Note 4 Earnings per share

A. Reportable period value

	Half year ended 30 Jun 2021 cents	30 Jun 2020 cents
Basic earnings per share	**30.7**	(14.4)
Diluted earnings per share	**30.7**	(14.4)
Operating earnings per share	**14.4**	9.2

InvoCare determines the dividends to be paid for any financial periods from Operating earnings after tax. Operating earnings is derived from basic earnings after excluding the impact of significant items such as material impairments, asset sales gains/losses and costs of restructuring operations. Operating earnings also exclude the impact of accounting for the Group's funds under management and pre-paid funerals business which requires net gains and losses from undelivered pre-paid contracts to be included in reported profit. This is a financial measure which is not prescribed by Australian Accounting Standards and represents the earnings prepared under Australian Accounting Standards adjusted for specific items as per the table below from the statement of comprehensive income.

B. Reconciliation of earnings used in calculating earnings per share

	Half year ended 30 Jun 2021 $'000	30 Jun 2020 $'000
Net profit/(loss) after income tax	**43,905**	(17,913)
Less: Non-controlling interests	**(49)**	(92)
Net profit/(loss) after income tax attributable to InvoCare Limited's equity holders for calculating statutory basic and diluted earnings per share	**43,856**	(18,005)
Net profit/(loss) after income tax attributable to InvoCare Limited's equity holders for calculating statutory basic earning per share	**43,856**	(18,005)
Less: Non-operating activities results		
Non-operating EBITDA	**(630)**	861
Net (gain)/loss on pre-paid contracts before income tax	**(27,994)**	39,534
Depreciation and amortisation	**6**	6
Asset sales gain before income tax	**(5,780)**	(1,306)
Net finance costs	**527**	2,609
Profit before income tax on non-operating activities	**(33,871)**	41,704
Income tax expense/(benefit) on non-operating activities	**10,567**	(12,134)
Net (profit)/loss after income tax on non-operating activities	**(23,304)**	29,570
Operating earnings after income tax for calculating operating earnings per share	**20,552**	11,565

C. Weighted average number of shares used in calculating basic, diluted and operating earnings per share

	Half year ended 30 Jun 2021 Number '000	30 Jun 2020 Number '000
Weighted average number of shares used in calculating basic and operating earnings per share	**142,922**	125,195
Adjustments for calculation of diluted earnings per share:		
Share options and rights*	**158**	-
Weighted average number of shares used in calculating diluted earnings per share	**143,080**	125,195

* *For the half year ended 30 June 2020, the potential ordinary shares issued under the Performance Long-Term Incentive Plan of the Group were excluded from the calculation because they were anti-dilutive.*

Note 5 Dividends

A. Dividends paid

I. Half year ended 30 June 2021

	Cents per share	Total amount $'000	Tax rate for franking credit %	Percentage franked %
2020 final dividend	7.0	10,084	30%	100%

II. Half year ended 30 June 2020

During the half year ended 30 June 2020, a dividend was determined, but the payment was deferred until October 2020.

B. Dividends determined and not recognised at period end

On 30 August 2021, the directors determined an interim dividend for the half year ended 30 June 2021 of 9.5 cents per share, fully franked.

As the above determined dividends occurred after the reporting date, in accordance with the Company's constitution and Corporations Act 2001, they have not been recognised in these financial statements and will be recognised in future financial statements when payments are made.

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (DRP) that allows equity holders to elect to receive their dividend entitlement in the form of the Company's ordinary shares. The price of DRP shares is the average market price, less a discount if any (determined by the directors) calculated over the pricing period (which is at least five trading days) as determined by the directors for each dividend payment date.

For the 2021 interim dividend, the Company's DRP operates by acquiring shares on market at no discount. Election notices for participation in the DRP in relation to this final dividend must be received by 6 September 2021.

Note 6. Pre-paid contracts

This note provides details on the movements for the pre-paid contract funds under management and liabilities arising from the sales of pre-paid funeral services for the half year ended 30 June 2021 with the comparative information for the half year ended 30 June 2020.

What happens when a pre-paid contract is signed

A pre-paid contract is a three-way agreement whereby the Group agrees to deliver to a customer a specified funeral service at a future date, usually greater than one year but could be more than 20 years after the signing of the pre-paid contract.

Pre-paid contracts are either paid in full or via instalments for a period as specified in the contract. The cash received (funds) from the customer is then passed to independently managed trusts to be invested. The Group is the ultimate beneficiary to the invested funds of the pre-paid contracts, that is, the total future value of the invested funds (including the investment returns, either gains or losses), but only receives those funds once the Group has demonstrated it has performed the funeral services.

Part of the initial pre-paid contract relates to an administration fee (usually 10% of the contract value). The administration fee is unable to be recognised as revenue at the date of signing the contract as not all of the conditions of the contract have been performed or delivered at that point. Therefore, the administration fee is deferred and recognised as a liability on the balance sheet (disclosed in Note 7 Section A Deferred revenue). Similarly, any commission paid to pre-paid funeral salespersons is also deferred as a deferred selling cost as an asset on the balance sheet (disclosed in Note 7 Section B Deferred selling costs).

Sale of new pre-paid contracts (listed in the movement table in Section B and C below) represents cash received from customers for new pre-paid contracts sold during the period. The sale of new pre-paid contracts increases both the pre-paid contract funds under management and pre-paid contract liabilities and represents the value of the remaining 90% of the pre-paid contracts after the deferral of the 10% administration fee as deferred revenue.

What happens during the periods when pre-paid contracts remain undelivered

Australian Accounting Standards require InvoCare to update the carrying value of the pre-paid contract funds under management and pre-paid contract liabilities, including the need to account for the time value of money.

InvoCare uses asset statement reports issued by the trusts to revalue the pre-paid contract funds under management to reflect the current fair value of the invested funds. Such an adjustment may give rise to unrealised gains or losses on these assets. Due to the volatility of such movements, and because these unrealised movements are 'non-cash revaluations', the unrealised gains or losses are excluded from the Group's Operating earnings.

By entering a pre-paid contract, the customer is benefiting from the ability to lock in the price of their future funeral service at today's price. The Group receives payment from customers for pre-paid contracts prior to the transfer of the promised goods or services to the customer. As the period between receipt of the consideration and the transfer of the goods or services can exceed one year, the Group adjusts deferred revenue and pre-paid contract liabilities using a discount rate. The Group determines the discount rate that best reflects the current price the customers would have paid (that is the cash selling price as if the customer had paid the consideration at the time when the services are performed or the goods delivered).

These adjustments to increase deferred revenue and pre-paid contract liabilities are recognised as finance costs. These financing components are included in the following two items in Note 3 Section A Finance costs:

- Interest expense pre-paid contracts – this finance cost is recognised as increase in pre-paid contract liabilities - Increase due to significant financing as set out in Section C below
- Interest expense: customer advance payments – this finance cost is reflected as increase in administration fee in the deferred revenue – Recognition of financing costs on customer advance payments as set out in Note 7 Section A Deferred revenue under Funeral services movement for the period

What happens when a pre-paid contract is delivered

When the funeral service is delivered, the corresponding amount of deferred revenue relating to the administration fee is released to the income statement, disclosed as Non-operating revenue.

Operating revenue – funeral services is recognised in the income statement with the corresponding pre-paid contract liabilities reduced accordingly (being the initial contract value plus the increases in the liability relating to the financing components recognised since contract inception).

Once the services have been delivered, the fair value of the pre-paid contract is redeemed from the trusts and the Group receives the cash. The Group's right to redeem the invested funds only becomes unconditional when the Group demonstrates it has delivered the services specified in the pre-paid contract with the customer.

The following diagram details the key activities throughout the life cycle of a pre-paid contract and how these activities are recognised within the pre-paid contract funds under management, pre-paid contract liabilities and deferred revenue for administration fees (disclosed in Note 7 Section A Deferred revenue).

Life cycle of a Pre-paid funeral contract

Activities/ Financial impact	Customer payments - cash received	Financial impact at reporting dates before service delivery		Funeral service delivered	Pre-paid FUM redemptions - cash received
		Finance costs	Revaluation of FUM*		
Balance sheet impact					
Admin fees (10%) (Note 7)	↑ Deferred revenue (Note 7)	↑ Deferred revenue (Note 7)	N/A	↓ Deferred revenue (Note 7)	N/A
Funds for Pre-paid funeral services (90%)	↑ Pre-paid FUM* ↑ Pre-paid contract liabilities	↑ Pre-paid contract liabilities	↑/↓ Pre-paid FUM*	N/A	↓ Pre-paid FUM* ↓ Pre-paid contract liabilities
Profit and loss impact					
Admin fees (10%)	N/A	Finance costs - Admin fee	N/A	Non-operating revenue - Admin fee	N/A
Funds for pre-paid funeral services (90%)	N/A	Finance costs - Customers advance payments	Unrealised gains/loss on pre-paid FUM	N/A	Non-operating revenue - Net gain/loss on pre-paid FUM redemptions
Revenue - At-need funeral services	N/A	N/A	N/A	Operating revenue - Funeral services	N/A
Cash flows impact					
Admin fees (10%)	↑ InvoCare bank account	N/A	N/A	N/A	N/A
Funds for pre-paid funeral services (90%)	↑ Trust funds bank accounts	N/A	N/A	N/A	↓ Trust funds bank accounts ↑ InvoCare bank account

* FUM = Funds under management

A. Statement of comprehensive income impact of undelivered pre-paid contracts

	Half year ended 30 Jun 2021 $'000	Half year ended 30 Jun 2020 $'000
Unrealised gain/(loss) on pre-paid contract funds under management	**38,567**	(29,346)
Change in provision for pre-paid contract liabilities	**(10,573)**	(10,188)
Net gain/(loss) on undelivered pre-paid contracts	**27,994**	(39,534)

B. Movements in pre-paid contract funds under management

	Half year ended 30 Jun 2021 $'000	Half year ended 30 Jun 2020 $'000
Balance as at 1 January	**613,131**	619,389
Sale of new pre-paid contracts	**12,095**	19,419
Initial recognition of contracts pre-paid by instalment	**2,301**	2,128
Redemption of pre-paid contract funds following service delivery	**(23,983)**	(24,724)
Movement due to business combinations	**-**	(1,112)
Increase/(decrease) in fair value of pre-paid contract funds under management	**38,567**	(29,346)
Balance as at 30 June	**642,111**	585,754
Current	**52,764**	52,060
Non-current	**589,347**	533,694
Balance as at 30 June	**642,111**	585,754

C. Movements in pre-paid contract liabilities

	Half year ended 30 Jun 2021 $'000	Half year ended 30 Jun 2020 $'000
Balance as at 1 January	**541,309**	525,383
Sale of new pre-paid contracts	**12,095**	19,419
Initial recognition of contracts pre-paid by instalment	**2,301**	2,128
Decrease following delivery of services	**(21,944)**	(22,553)
Movement due to business combinations	**-**	(1,112)
Increase due to significant financing*	**10,573**	10,188
Balance as at 30 June	**544,334**	533,453
Current	**44,951**	47,293
Non-current	**499,383**	486,160
Balance as at 30 June	**544,334**	533,453

* *The Group adjusts the pre-paid contract liabilities using a discount rate that reflects the expected cash selling price the customer would have paid if the consideration was paid at the same time as the services are provided. On delivery of the pre-paid contract the Group recognises the financing component as a component of revenue.*

Note 7. Deferred revenue and selling costs

This note provides details on the movements for the deferred revenue and deferred selling costs arising from the sales of pre-paid funeral, cremation and burial contracts and undelivered memorials and merchandise for the half year ended 30 June 2021 with the comparative information for the full year ended 31 December 2020.

The movements are disclosed according to the activities performed to align with the disclosure in Note 2 Revenue.

A. Deferred revenue

I. Cemeteries & Crematoria

For the Cemeteries & Crematoria business, deferred revenue represents the undelivered contractual obligations relating to burial, cremation and memorial services/merchandise products.

The transfer of control of these distinct performance obligations determines when revenue should be recognised.

Billing and collection of the pre-paid contracts can be immediate and in full upon contract signing. However, most pre-paid contracts are paid via instalments over a period of up to five years (although the payment periods do vary).

The following diagrams details the key activities throughout the life cycle of a pre-paid Cemeteries & Crematoria contract and how these activities are recognised within deferred revenue.

Life cycle of a pre-paid Cemeteries & Crematoria contract

			Repeated activities until services/goods delivered		
Activities/ Financial impact	**Customer payments - by instalments**	**Finance costs***	**Customer payments - by instalments**	**Finance costs***	**Services/goods delivered**
Balance sheet impact					
Cemeteries & Crematoria services/goods	↑ Deferred revenue	↑ Deferred revenue	↑ Deferred revenue	↑ Deferred revenue	↓ Deferred revenue
Profit and loss impact					
Cemeteries & Crematoria services/goods	N/A	Finance costs - Customer advance payments	N/A	Finance costs - Customer advance payments	Operating revenue - Cemeteries & Crematoria
Cash flows impact					
Cemeteries & Crematoria services/goods	↑ InvoCare bank account	N/A	↑ InvoCare bank account	N/A	N/A

* This represents the Australian Accounting Standards requirement to account for the time value of money.

II. Funeral services – Pre-paid funeral contracts

For the Funeral services business, detail descriptions of what happens during the life cycle of a pre-paid funeral contract are provided in Note 6 Pre-paid contracts above. The movement table below provides the financial impact of the administration fee of the pre-paid funeral contracts for the half year ended 30 June 2021 with the comparative information for the full year ended 31 December 2020.

III. Deferred revenue movement

	Half year ended 30 June 2021			Year ended 31 December 2020		
	Cemeteries & Crematoria $'000	Funeral services $'000	Total $'000	Cemeteries & Crematoria $'000	Funeral services $'000	Total $'000
Balance as at 1 January	**100,276**	**37,442**	**137,718**	103,507	35,794	139,301
Add/(less): Changes during the period						
Cash received from customer instalment payments	**3,222**	**-**	**3,222**	9,938	-	9,938
Revenue recognised on service delivery during the period	**(11,439)**	**(1,406)**	**(12,845)**	(20,256)	(2,667)	(22,923)
Revenue deferred during the period:						
Revenue deferred	**1,471**	**1,919**	**3,390**	4,720	3,038	7,758
Recognition of financing costs on customer advance payments	**503**	**527**	**1,030**	1,955	1,277	3,232
Other movements	**-**	**-**	**-**	412	-	412
Balance at reporting date	**94,033**	**38,482**	**132,515**	100,276	37,442	137,718
Current	**27,796**	**3,305**	**31,101**	28,632	-	28,632
Non-current	**66,237**	**35,177**	**101,414**	71,644	37,442	109,086
Balance at reporting date	**94,033**	**38,482**	**132,515**	100,276	37,442	137,718

B. Deferred selling costs

Deferred selling costs in relation to both Cemeteries & Crematoria and Funeral services businesses represent selling commissions and directly related fulfillment costs which are deferred and recognised as cost of sales in line with the reversal of the related deferred revenue of those businesses (that is, upon delivery/performance of the underlying services/goods).

The movement table below provides the financial impact of selling costs arising from the sales of pre-paid funeral, cremation and burial contracts and undelivered memorials and merchandise for the half year ended 30 June 2021 with the comparative information for the full year ended 31 December 2020.

	Half year ended 30 June 2021			Year ended 31 December 2020		
	Cemeteries & Crematoria $'000	Funeral services $'000	Total $'000	Cemeteries & Crematoria $'000	Funeral services $'000	Total $'000
Balance as at 1 January	**17,179**	**20,533**	**37,712**	19,265	20,663	39,928
Add/(less): Changes during the period						
Selling costs recognised in profit and loss related to service delivery during the period	**(1,490)**	**-**	**(1,490)**	(2,605)	-	(2,605)
Selling costs deferred on sales during the period	**609**	**40**	**649**	519	(130)	389
Balance at reporting date	**16,298**	**20,573**	**36,871**	17,179	20,533	37,712
Current	**4,617**	**1,708**	**6,325**	3,644	-	3,644
Non-current	**11,681**	**18,865**	**30,546**	13,535	20,533	34,068
Balance at reporting date	**16,298**	**20,573**	**36,871**	17,179	20,533	37,712

Note 8. Borrowings

At 30 June 2021, the Group had access to $448,648,000 of loan facilities as follows:

- Ten-year $100,000,000 Note Purchase Agreement with Metlife, fully drawn at 30 June 2021 and due for repayment in February 2028.
- Five-year Syndicated Debt Facility Agreement supported by ANZ, HSBC, Westpac, Mizuho and SMBC providing $148,648,000 (fully drawn) and $200,000,000 (undrawn) due for repayment in February 2023. The facilities are multi-currency with NZ$50,000,000 drawn with respect to New Zealand and SG$35,000,000 drawn with respect to Singapore.

The foreign currency drawings naturally hedge InvoCare's investments in the Singapore and New Zealand markets.

Refer to Note 11 Events after reporting period for details of an amendment to the Syndicated Debt Facility which occurred on 27 August 2021.

The financial covenant ratios are calculated on an adjusted Operating EBITDA basis (primarily to include the proforma earnings contributions from acquisitions and to adjust for costs arising from restructuring initiatives). The covenant target ratios are as follows:

- Leverage ratio (being net debt to adjusted Operating EBITDA) must be no greater than 3.5 times
- Interest cover ratio (being adjusted Operating EBITDA to net interest adjusted to remove interest related to AASB 16 leases accounting) must be greater than 3.0 times

The covenant ratios of the Group continued to be met as per the facilities agreements as at 30 June 2021.

The facilities agreements covenants ratios are calculated on a rolling 12-month basis and are:

- Net debt to bank adjusted operating EBITDA must be no greater than 3.5 times
- EBITDA to net interest must be great than 3.0 times

As at reporting date, the details of the facilities available, drawn down, unused by facilities are disclosed in the table below.

	As at 30 Jun 2021 $'000	As at 31 Dec 2020 $'000
Total facilities available		
Working capital facility - expiring within one year	**7,440**	7,440
Unsecured loan facility - expiring in two to five years	**448,648**	448,702
	456,088	456,142
Drawn down at reporting date		
Working capital facility - expiring within one year	**-**	-
Unsecured loan facility - expiring in two to five years*	**248,648**	248,717
	248,648	248,717
Unused at reporting date		
Working capital facility - expiring within one year	**7,440**	7,440
Unsecured loan facility - expiring in two to five years	**200,000**	199,985
	207,440	207,425

* *As at reporting date, the balance of the long-term borrowings – unsecured loan facility outstanding after loan establishment costs is set out in the table below.*

	As at 30 Jun 2020 $'000	As at 31 Dec 2019 $'000
Long-term borrowings outstanding at reporting date		
Unsecured loan facility	**248,648**	248,717
Less: Loan establishment costs	**(2,293)**	(2,678)
	246,355	246,039

Note 9. Contributed equity

	As at		As at	
	30 Jun 2021	31 Dec 2020	30 Jun 2021	31 Dec 2020
	Number '000	Number '000	$'000	$'000
Ordinary shares - fully paid	**144,061**	144,061	**511,293**	511,293
Treasury shares - fully paid	**(1,128)**	(1,175)	**(14,015)**	(14,288)
	142,933	142,886	**497,278**	497,005

A. Ordinary shares

	Half year ended 30 Jun 2021	Year ended 31 Dec 2020	Half year ended 30 Jun 2021	Year ended 31 Dec 2020
	Number '000	Number '000	$'000	$'000
Movement during the period				
Balance as at 1 January	**144,061**	117,185	**511,293**	234,513
Shares issued for Dividend Reinvestment Plan	**-**	527	**-**	5,918
Shares issued for Institutional Placement and Share Purchase Plan, net of transaction costs	**-**	26,349	**-**	270,862
Balance at reporting date	**144,061**	144,061	**511,293**	511,293

During April and May 2020, the Group completed an Institutional Placement and a Share Purchase Plan. A total of 26,349,000 shares were issued at a price of $10.40 per share.

B. Treasury shares

	Half year ended 30 Jun 2021	Year ended 31 Dec 2020	Half year ended 30 Jun 2021	Year ended 31 Dec 2020
	Number '000	Number '000	$'000	$'000
Movement during the period				
Balance as at 1 January	**(1,175)**	(1,225)	**(14,288)**	(14,687)
Disposal of shares - vested share rights/options	**47**	19	**273**	48
Disposal of shares - transfer to Exempted Employee Share Plan's participants	**-**	31	**-**	351
Balance at reporting date	**(1,128)**	(1,175)	**(14,015)**	(14,288)

Note 10. Contingencies

There were no unrecognised contingent assets as at 30 June 2021 and 31 December 2020.

As at 30 June 2021, the Group had contingent liabilities in the form of bank guarantees given for leased premises of subsidiaries to a maximum of $4,115,000 (31 December 2020: $2,870,000).

Note 11. Events after reporting period

Other than the following matters, no other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

A. Partnering with Memories

On 11 August 2021, InvoCare announced a strategic partnership and investment with a global market leader in digital memorialisation, Memories Group Limited (Memories), to offer customer-focussed online memorial products to InvoCare's client families.

InvoCare's initial shareholding will comprise a $4,000,000 cash contribution with both parties recognising the strategic value InvoCare brings to Memories as a distribution channel and strategic partner. InvoCare can be granted additional shares over time based on the success of the relationship.

The investment is subject to usual conditions precedent and upon completion will establish InvoCare as a cornerstone shareholder in the Memories business.

B. Amendment and extension of debt facility

On 27 August 2021, InvoCare successfully entered into binding documentation to amend and extend its Syndicated Debt Facility. From 27 August 2021, the Group has access to $375,000,000 of loan facilities as follows:

- $100,000,000 Note Purchase Agreement with MetLife, fully drawn at 30 June 2021 and due for repayment in February 2028
- $275,000,000 Syndicated Debt Facility Agreement supported by ANZ, Westpac, Mizuho and SMBC providing available funds through a Multi-Currency Revolving Cash Advance facility, with a tenor of three years to the end of August 2024

C. Interim dividend determined

On 30 August 2021, the directors determined an interim dividend for the half year ended 30 June 2021 of 9.5 cents per share, fully franked.

Directors' declaration

In the directors' opinion:

- the financial statements and Notes 1 to 11 are in accordance with the Corporations Act 2001, including:
  - complying with Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the half year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.

Bart Vogel

Director

Sydney

30 August 2021

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Independent Auditor's Review Report to the Members of InvoCare Limited

Conclusion

We have reviewed the accompanying half-year financial report of InvoCare Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated balance sheet as at 30 June 2021, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Half-year Financial Report section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Deloitte.

Auditor's Responsibility for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Sandeep Chadha

Sandeep Chadha
Partner
Chartered Accountants
Sydney, 30 August 2021