InvoCare

ASX Announcement
InvoCare Limited (ASX: IVC)

Monday, 28th August 2023

HY23 Financial Results

Highlights

Operating Revenue[1]	Operating EBITDA[1]	Reported Profit after tax – pre AASB 17[2]
$289.2 million Up 2%	**$62.4 million** Down 9%	**$5.1 million** **(HY22: Reported Loss of $16.8 million)**
Statutory Revenue **$280.2 million** Down 1%	**Operating EBITDA – excl AASB 15[3]** **$60.9 million** Down 1%	**Reported Profit after tax – post AASB 17[2]** **$4.5 million** **(Restated HY22: Reported Profit of $41.1 million)**

N.B. All variances in the above table are to the prior corresponding period (PCP) being as at or for the 6 months ended 30 June 2022.

Overview

InvoCare has today reported its half year results for the six months ended 30 June 2023. Strong growth in case averages and memorialisation sales has supported operating results, offsetting the impact of softer market conditions on case volumes.

The Group delivered reported profit after tax attributable to shareholders for the half of $4.5 million. Statutory results were impacted by the adoption of accounting standard AASB 17 *Insurance Contracts*. Excluding the impact of this change, the Group delivered reported profit after tax of $5.1 million, a significant improvement from the $16.8 million reported loss in the PCP.

InvoCare's CEO, Mr Olivier Chretien said, "2023 was always going to be a transition year for the Group with mortality rates stabilising in our key markets following last year's unprecedented and volatile demand, our cost of doing business continuing to be impacted by inflation, and the ending of the earnings benefit from the AASB 15 transition unwind. Despite these headwinds, the Group's Underlying[3] Operating EBITDA was only 1% below last year's record result.

Pleasingly, notwithstanding the softer market and the workload generated by the proposed TPG take-over offer through much of the half, our teams continued to deliver outstanding service to our client families and communities, reflected in an increase in NPS. We've also seen a reduction in employee turnover reflective of improved employee engagement and an ongoing improvement in our safety performance."

Mr Chretien added, "I continue to be incredibly proud of our teams across Australia, New Zealand and Singapore and I am thankful for their achievements and commitment to our client families."

Impact of accounting standards on reported results

As foreshadowed at the time of our 2022 results release, the 2023 financial results were expected to be impacted by two accounting standard related items:

- The Cemeteries & Crematoria business had to cycle the final year of material contribution to its earnings from the unwind of AASB 15 transition benefits; and
- The Group was required to adopt AASB 17 *Insurance Contracts*, effective from 1 January 2023.

AASB 17 specifically applies to the Group's accounting for pre-paid contracts. While the adoption of AASB 17 has no impact on the economics or cashflows of the Group's pre-paid contracts business, it does impact the accounting and timing of recognition of revenue and expenses over the life of the contract and the revaluation of pre-paid contract liabilities on the Group's balance sheet. This has required a material restatement of prior year comparatives resulting in the prior year reported profit or loss attributable to shareholders being restated from a reported loss of $16.8 million to a reported profit of $41.1 million.

[1] See pg 4 for definitions of these Operating and Non-Operating non-IFRS financial measures & pg 5 for reconciliation of operating to statutory measures

[2] Reported Profit/(Loss) attributable to shareholders of InvoCare.

[3] Underlying operating results excluding impact of AASB 15 transition benefit unwind on the earnings of the Cemeteries & Crematoria business. See pg 6 for reconciliation of underlying to operating earnings.

Further details are provided in Note 3 of the accompanying Half Year Financial Statements.

Dividend

No Interim dividend will be paid for the six months ended 30 June 2023 in accordance with Clause 7.1(a)(iv) M of the Scheme Implementation Deed (SID) signed with TPG Capital Asia (TPG), on 9 August 2023.

Operational Performance Review

Group Operating revenue increased 2% to $289.2 million and 5% (to $287.4 million) on an Underlying basis. Ongoing inflationary impacts and continued pressure on operating leverage restricted Underlying Operating EBITDA to $60.9 million for the half, down marginally on the PCP.

Australia

Funerals

Operating revenue grew 4% on the PCP, with strong growth in funeral case average (up 8%), benefiting from annualisation of price increases, package changes and expansion of services. However, revenue growth was impacted by softer market conditions, particularly in NSW and QLD during the second quarter, driving a 3% decline in case volume compared to the PCP. Constrained top line growth combined with increased wage inflation held Operating EBITDA relatively flat at $43.8 million for the half.

Pre-paid Funerals

The reinvigorated pre-paid funerals strategy was enacted in the half with early signs of success. Pre-need contract volumes sold grew 22% on the PCP and pre-need contract averages were 7% higher than at-need funeral case averages in the same period. Redemption volumes remained relatively flat on the PCP representing 14.4% of at-need funerals delivered in Australia.

The mark-to-market valuation of prepaid funds under management was more stable than the PCP with a $6.7 million gain recognised in the half (compared to a $46.5 million loss recognised in the PCP). As previously noted, the accounting for pre-need funeral contract liabilities is impacted by AASB 17 and resulted in a significant reduction of prepaid contract liabilities such that asset headroom has increased materially to $168 million (compared to $43 million on a pre-AASB 17 basis).

Cemeteries & Crematoria

Our memorial parks (based in NSW and QLD) experienced the same impact of softer market conditions with a double-digit decline in the number of burials and cremations conducted compared to the PCP. Despite this, drier conditions and an increase in inventory construction that commenced in the last quarter of 2022 enabled strong growth in memorialisation sales.

The business has delivered a 6% increase in Underlying Operating revenue (excluding AASB 15 transition benefit unwind) to $60.2 million and 2% growth in Underlying Operating EBITDA to $25.9 million. As anticipated, the business recognised a reduced contribution from the AASB 15 deferred revenue and cost unwind, with $1.5 million EBITDA recognised in the half compared to $7.1 million in the PCP.

Pet Cremations

The Pet Cremations business saw the benefit of last year's investment in implementing a consistent national approach to service, product, and price changes, delivering close to 50,000 cremations in the half (up 1% on the PCP), and growing pet case average by 8%. This delivered growth in operating revenue of 9% to $18.2 million which, when combined with strong cost control, has led to significantly improved EBITDA margins and a 49% increase in Operating EBITDA to $3.8 million.

International

Consistent with Australia, the New Zealand and Singapore markets are also experiencing softer market conditions in terms of funeral case volumes (down 4% and 5% respectively) but increased funeral case average (up 2% and 12% respectively on a local currency basis). This constrained operating revenue growth in NZ to NZ$32.6 million (down 1%) and held growth in Singapore operating revenue to S$11.2 million (up 5%). This, combined with wage inflation, has impacted EBITDA margins in NZ, leading to a 13% decline in operating EBITDA to NZ$7.3 million. In Singapore, operating EBITDA was up 3% to S$4.9 million.

Balance Sheet Strength and Liquidity

The Group continues to benefit from a strong balance sheet and finished the half with net debt at $232.4 million (representing a rolling 12-month debt leverage ratio of 1.8x, well below the bank covenant of 3.5x) and delivered normalised cash conversion of 76%.

Strategy

Momentum in executing our strategy continued in the half. The initial phase of our 5-year plan, focusing on 'Raising the Bar', as well as simplifying, standardising and automating business foundations, is largely complete, with the team's focus increasingly shifting to profitable growth initiatives.

Outlook

Management remains focused on maintaining strategic momentum into the second half, while operating the business in line with the Conduct of Business terms (Clause 7.1) of the SID.

Mortality rates are expected to revert to long-term averages (after three years of volatility), with the impact of the 2023 flu season remaining comparatively benign mid-way through the third quarter.

Mr Chretien said, "In the near term, the team remains focused on continuing to serve our client families to the highest standard and executing our strategies. At the same time, we will work towards completing the scheme of arrangement with TPG, which is anticipated to complete in the last quarter of the year."

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

-ENDS-

BACKGROUND

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

A conference call to present the results is scheduled for 9.30 am AEDT on 28 August 2023 following the release of the results.

A live URL link to the teleconference and results presentation will be available via the webcast link at:

https://webcast.openbriefing.com/ivc_hyr_2023/

Investor Relations – Emma Roche at investor.relations@invocare.com.au
Media – Clive Mathison at clive@catoandclive.com

Operating vs Non-Operating classification:

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

InvoCare considers ***Operating EBITDA and NPAT*** as key performance measures. These measures are considered to provide more useful indications of the Group's recurring earnings base and exclude the impact of significant items such as material impairments, asset sales gains/losses, SaaS costs expensed as incurred and costs of restructuring operations that are material and one-off. Operating measures also exclude the impact of accounting for the Group's Pre-paid Funds Under Management and Prepaid Funeral business, which requires net gains and losses from the semi-annual mark-to-market revaluation of pre-paid funds under management and undelivered prepaid contract liabilities to be included in Reported profit or loss. These gains and losses are non-cash, unrealised and do not impact on InvoCare's business operations.

Additionally, in the current period '***Underlying' operating measures*** are disclosed reflecting the exclusion of AASB 15 transition benefit unwinds on the Cemeteries & Crematoria business revenue, cost and EBITDA. This is to assist the reader in making a more meaningful comparison between the Group's operating results in HY23 and HY22.

Forward-looking information:

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

Attachment A: Summary of Group Financial Performance

Table 1: Reconciliation of operating to statutory results:

	Operating HY23 $000	Non-Operating HY23 $000	Statutory HY23 $000	Operating HY22 $000	RESTATED Non-Operating HY22 $000	RESTATED Statutory HY22 $000	Change* %
Revenue	289,160	(8,981)	280,179	283,331	(1,599)	281,733	**2%**
Expenses	(226,797)	(1,195)	(227,992)	(214,852)	(2,480)	(217,331)	**6%**
EBITDA	**62,363**	**(10,176)**	**52,187**	**68,480**	**(4,079)**	**64,401**	**(9%)**
Depreciation & Amortisation	(26,607)	2,115	(24,491)	(23,925)	1,996	(23,927)	11%
SaaS arrangements	(1,166)	(9,340)	(10,506)	(496)	(4,673)	(5,169)	135%
Business acquisition costs	(245)	(1,338)	(1,583)	(382)	-	(382)	(36%)
Restructuring costs	-	-	-	-	(1,476)	(1,476)	-
Accounting transition costs	-	(596)	(596)	-	-	-	-
Net gain/loss on prepaid contracts	-	6,728	6,728	-	(46,549)	(46,549)	-
Net gain on lease modifications/terminations	2	-	2	337	-	337	(100%)
Asset sales gain	-	83	83	-	361	361	-
EBIT	**34,346**	**(12,524)**	**21,823**	**44,014**	**(54,420)**	**(10,406)**	**(22%)**
Net finance costs	(8,212)	(7,133)	(15,346)	(5,604)	73,666	68,062	47%
Tax	(7,777)	5,781	(1,996)	(10,770)	(5,664)	(16,434)	(28%)
Non-controlling interest	(22)	-	(22)	(91)	-	(91)	(76%)
NPAT attributable to ordinary equity holders of InvoCare Limited	**18,335**	**(13,876)**	**4,459**	**27,549**	**13,582**	**41,130**	**(33%)**
EPS (cents per share)	**12.8**	(9.7)	**3.1**	**19.3**	9.5	**28.8**	**(34%)**
Interim Dividend (cents per share)			-			**13.5**	**n/a**

*: % change relates to movement in Operating columns

N.B. No interim dividend will be paid for the six months ended 30 June 2023 in accordance with Clause 7.1 of the Scheme Implementation Deed signed with TPG on 9 August 2023.

Table 2: Reconciliation of Underlying to Operating results:

	Underlying HY23 $000	AASB 15 transition unwind HY23 $000	Operating HY23 $000	Underlying HY22 $000	AASB 15 transition unwind HY22 $000	Operating HY22 $000	Change** %
Revenue	287,367	1,793	289,160	274,412	8,919	283,331	**5%**
Expenses	(226,488)	(309)	(226,797)	(212,992)	(1,859)	(214,852)	**6%**
EBITDA	**60,879**	**1,484**	**62,363**	**61,420**	**7,060**	**68,480**	**(1%)**
Depreciation & Amortisation	(26,607)	-	(26,607)	(23,925)	-	(23,925)	**11%**
SaaS arrangements	(1,166)	-	(1,166)	(496)	-	(496)	**135%**
Business acquisition costs	(245)	-	(245)	(382)	-	(382)	**(36%)**
Restructuring costs	-	-	-	-	-	-	-
Accounting transition costs	-	-	-	-	-	-	-
Net gain/loss on prepaid contracts	-	-	-	-	-	-	-
Net gain on lease modifications/terminations	2	-	2	337	-	337	-
Asset sales gain	-	-	-	-	-	-	-
EBIT	**32,863**	**1,484**	**34,346**	**36,954**	**7,060**	**44,014**	**(11%)**
Net finance costs	(8,139)	(73)	(8,212)	(5,386)	(219)	(5,604)	**51%**
Tax	(7,354)	(423)	(7,777)	(8,718)	(2,052)	(10,770)	**(16%)**
Non-controlling interest	(22)	-	(22)	(91)	-	(91)	**(76%)**
NPAT attributable to ordinary equity holders of InvoCare Limited	**17,347**	**988**	**18,335**	**22,760**	**4,789**	**27,549**	**(24%)**
EPS (cents per share)	**12.1**	**0.7**	**12.8**	**15.9**	**3.3**	**19.3**	**(24%)**

**: % change relates to movement in Underlying columns