



# 2019 Full Year Results

26 February 2020

Martin Earp, CEO

Josée Lemoine, CFO

Damien MacRae, COO



# AGENDA

Investor Presentation 2019

**2019 highlights**

Martin Earp, CEO

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**Protect & Grow update**

Martin Earp, CEO

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**2019 financial performance**

Josée Lemoine, CFO

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**Operational update**

Damien MacRae, COO

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**Looking ahead**

Martin Earp, CEO

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**Questions**

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# 2019 highlights

Martin Earp, CEO



# HIGHLIGHTS

**Protect & Grow / regional acquisitions** – underpinning strong performance in 2019

Operating  Financial Summary

SALES REVENUE  
**\$494.1m**  
↑ 3.5%

OPERATING EBITDA  
**\$144.4m**  
↑ 21.4%

OPERATING EARNINGS AFTER TAX  
**\$59.2m**  
↑ 19.6%

REPORTED PROFIT  
**\$63.8m**  
↑ 54.6%

EPS  
**51.7c**  
↑ 14.4%

Underlying EBIT  Business Lines

FUNERALS  
**\$79.4M**  
↑ 15.4%

MEMORIAL PARKS\*  
**\$44.4m**  
↑ 16.1%

CORPORATE SERVICES  
**(\$32.0m)**  
↓ 3.9%

PREPAID FUNERALS  
**10%** FUM growth

\* Excludes Pets

Pillars  of Growth

DEATHS<sup>1</sup>  
↑ 2.9%

MARKET SHARE<sup>2</sup>  
↑ 20 bps

FUNERAL CASE AVERAGE  
↑ Up 2.1%

OPERATING MARGIN  
↑ 430 bps

NPS<sup>3</sup>  
= +78

PROTECT & GROW  
**106** locations completed

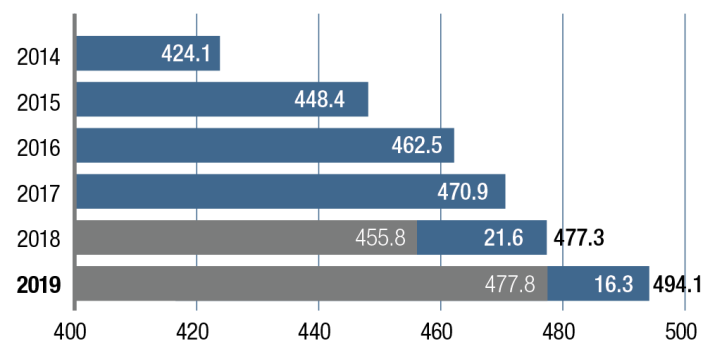
- 1 Internal estimate
- 2 IVC Group
- 3 Australia & New Zealand



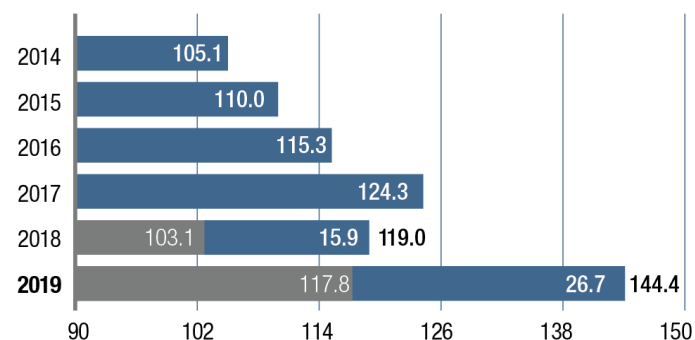
# HIGHLIGHTS (CONTINUED)

## Investor Presentation 2019

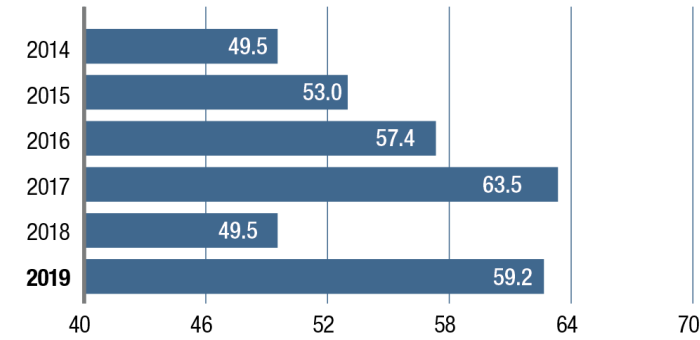
Operating and Underlying\* sales revenue (\$m)



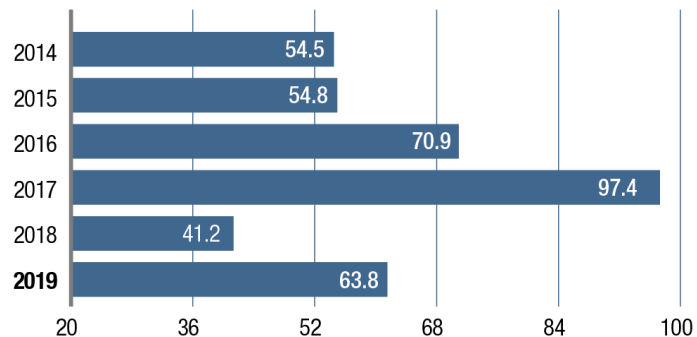
Operating and Underlying\* EBITDA (\$m)



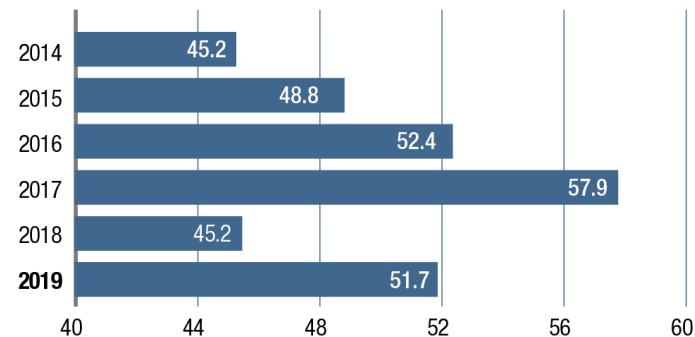
Operating Earnings after tax (\$m)



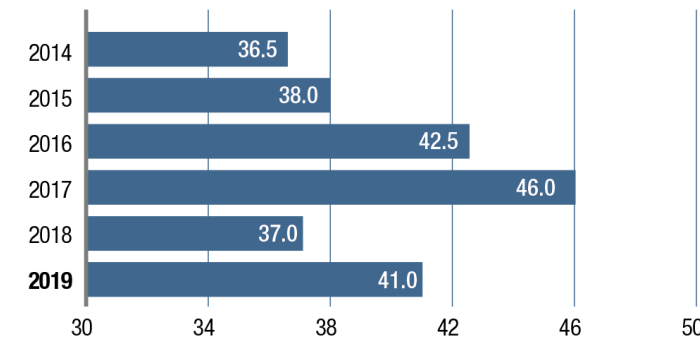
Profit after tax attributable to members (\$m)



Earnings per share (cents per share)



Ordinary dividends (cents per share)



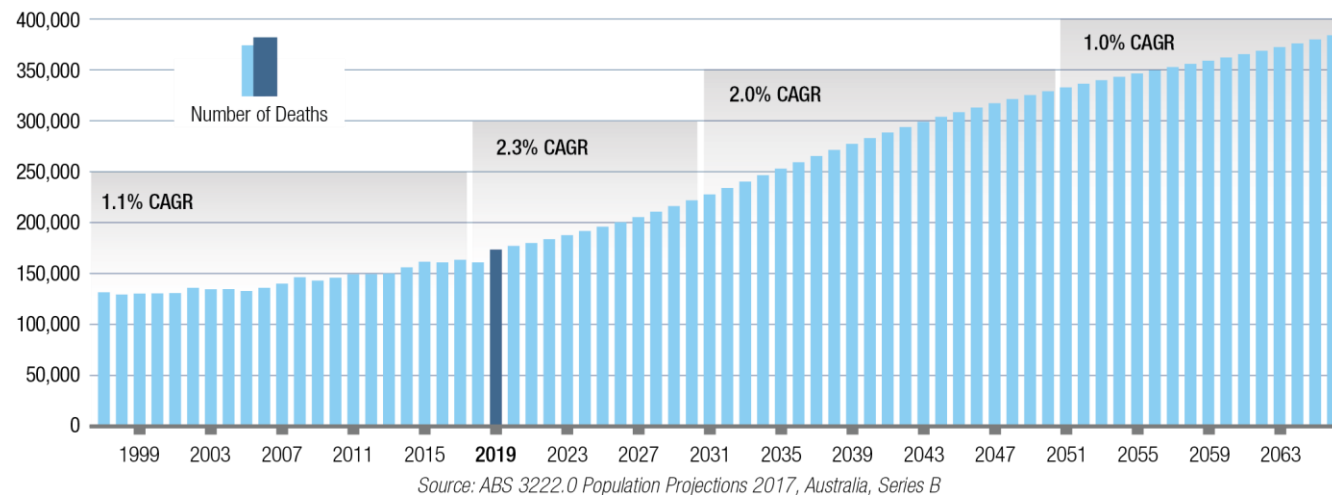
\* Underlying figures remove inflating effect of AASB 15 and AASB 16 reporting changes



# MARKET OVERVIEW

## Investor Presentation 2019

- Demand expected to rise 2.3% per annum for the next decade within Australia
- Long term growth for New Zealand is 1.4%, Singapore 1.8 - 2%
- Strong long term demographics. Year on year deaths can fluctuate +/- 5%
- Number of deaths in Australia declined in 2018 greater than previously reported (-4.4% v -3.1% estimated)
- Internal estimate for increased deaths in 2019 is +2.9% for the Group, +3.3% for Australia





# Protect & Grow update

Martin Earp, CEO

# PROTECT & GROW STRATEGY

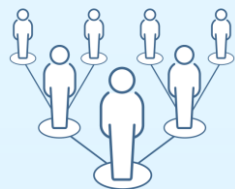
## Investor Presentation 2019

- Set InvoCare up for long term success by delivering market share growth from the Traditional funeral businesses and provide the platform for more innovative customer relevant services



### NETWORK BRAND OPTIMISATION

- Renovate existing funeral homes and rationalise brand network footprint
- Three levels of renovation:
  - **Enhance** – comprehensive redevelopment to create service delivery hub
  - **Grow** – invest in shop-fronts to feed service hubs
  - **Refresh** - modernisation of facilities



### PEOPLE AND CULTURE

- Develop a more customer-centric culture empowered to provide individually tailored services
  - **Local leadership** program (Aspire)
  - **Customer service** 'masterclass' program
  - **One InvoCare** culture initiative



### OPERATIONAL EFFICIENCIES

- ERP design and roll-out across funeral network
- Investment in new operational centres to realise economies of scale





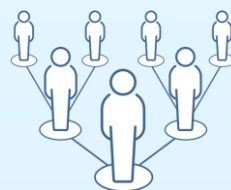
# OUTCOMES DELIVERED

## Investor Presentation 2019



### NETWORK BRAND OPTIMISATION

- 106 locations renovated
  - Renovated sites significantly outperforming unrenovated sites
  - NBO program growing market share
  - Major revenue uplift from increased case averages



### PEOPLE AND CULTURE

- Positive change across client families' satisfaction and employee commitment
  - Sustained high NPS
  - High employee engagement scores
  - Reduction in first year staff turnover
  - Improved safety outcomes



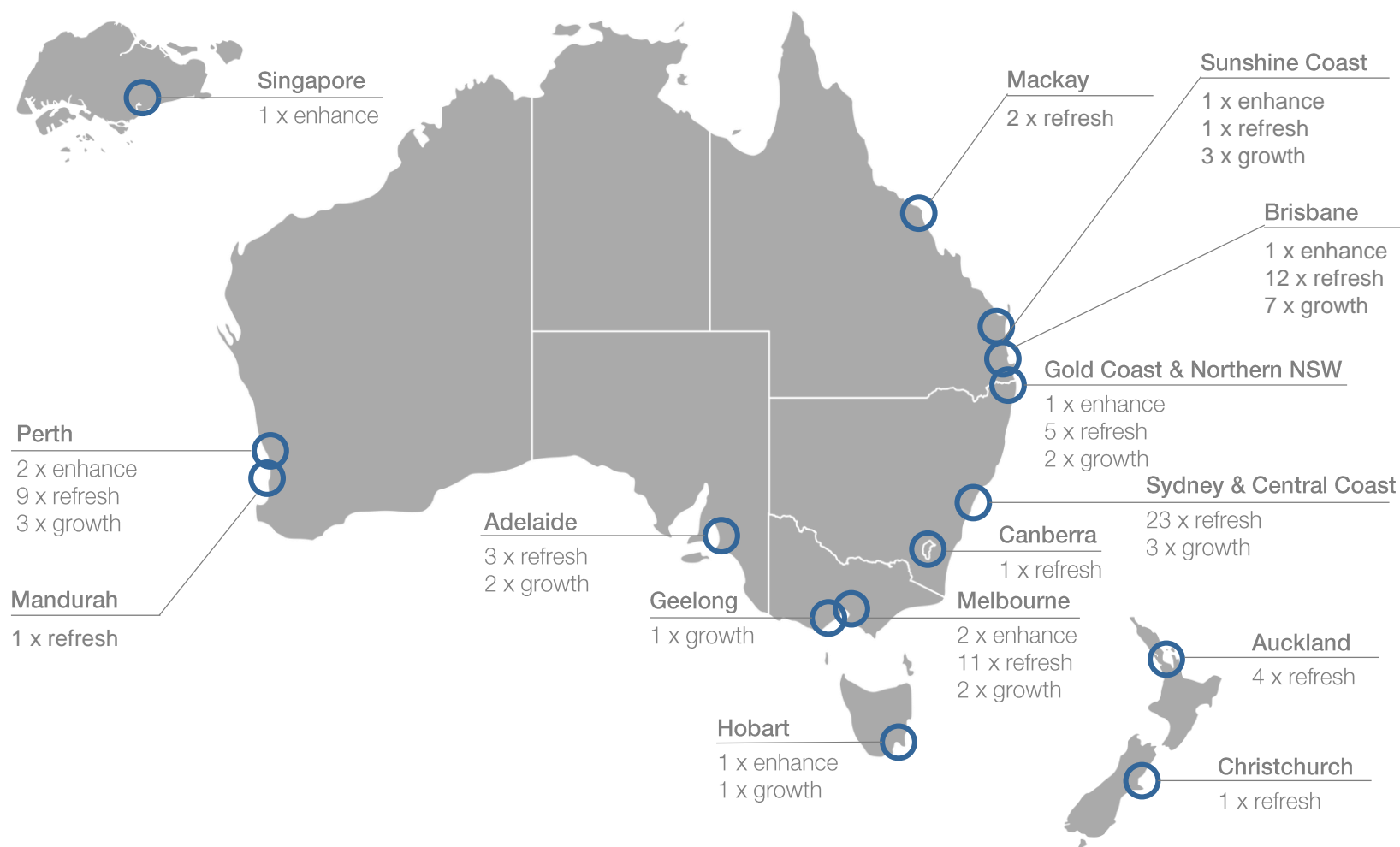
### OPERATIONAL EFFICIENCIES

- ERP now rolled out for financial and customer management
  - 99% of funeral locations have implemented new ERP
  - More accurate, transparent access to data despite some short-term business disruption
- Opened three new shared services facilities



# NBO COMPLETED SITES

Investor Presentation 2019



NBO sites completed and investment

Type of renovation	Year completed			Total
	2017	2018	2019	
Enhance	0	7	2	9
Growth	4	16	4	24
Refresh	26	32	15	73
Total	30	55	21	106
Total investment (\$m)	29	43	34	106

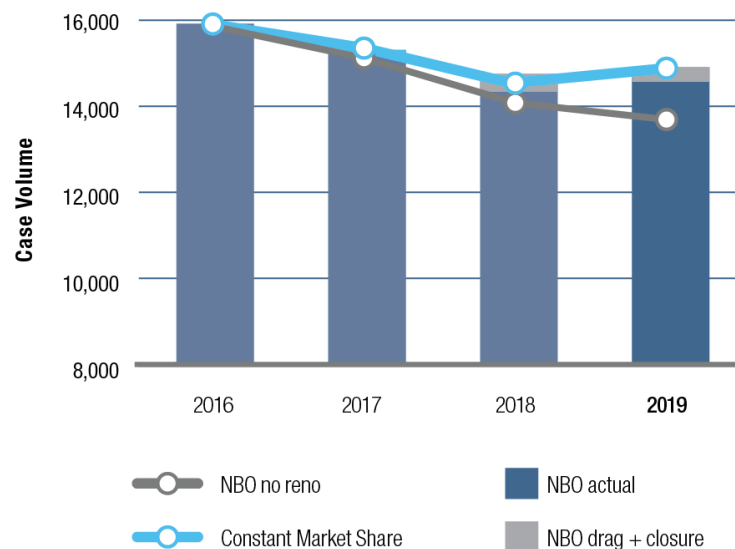


# NBO DELIVERS ON GROWTH STRATEGY\*

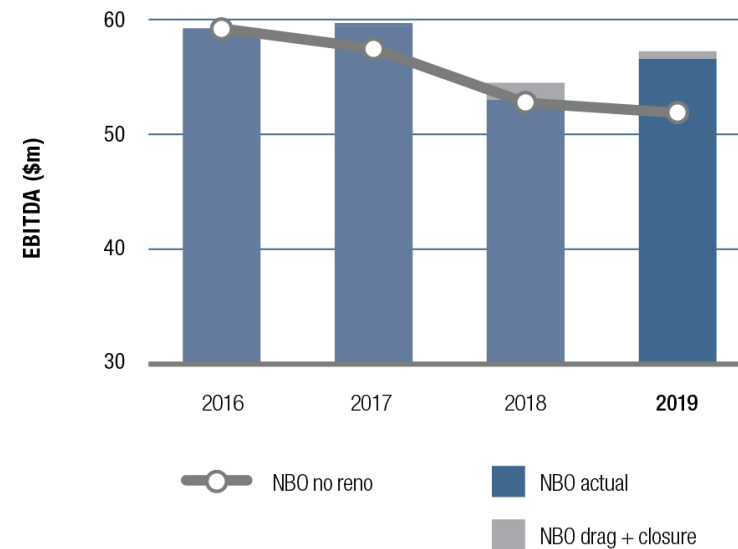
Investor Presentation 2019

- Performance of NBO completed locations outperformed unrenovated locations
  - Volume up 4.9%
  - EBITDA up 8.5%
- NBO is successfully reversing market share loss at renovated locations
- Full benefit of NBO still to be realised due to renovation disruption and ramp up

Australian Case Volumes  
NBO locations completed 2017-2019



EBITDA  
Australian NBO locations completed 2017-2019



\* Australian market only



# 2019 Financial performance

Josée Lemoine, CFO



# GROUP HIGHLIGHTS

Investor Presentation 2019

**↑21.4%**

Operating  
EBITDA

**↑19.6%**

Operating  
earnings  
after tax

**↑14.4%**

Operating  
EPS

	2019 \$'000	2018 \$'000	Movement %
Operating EBITDA	<b>144,433</b>	118,998	21.4
Operating EBIT	<b>105,439</b>	89,366	18.0
Operating earnings after income tax	<b>59,202</b>	49,496	19.6
Net profit after income tax attributable to equity holders	<b>63,752</b>	41,224	54.6
Underlying sales revenue	<b>477,779</b>	455,773	4.8
Underlying EBITDA	<b>117,776</b>	103,128	14.2
Underlying EBIT	<b>90,188</b>	73,496	22.7

	2019 cents	2018 cents	Movement %
Basic earnings per share (EPS)	<b>55.8</b>	37.8	47.6
Operating EPS	<b>51.7</b>	45.2	14.4
Final dividend	<b>23.5</b>	19.5	20.5
Total dividend for the financial year	<b>41.0</b>	37.0	10.8
Dividend payout ratio <sup>1</sup> %	<b>79%</b>	82%	(3ppts)

<sup>1</sup> Dividend payout ratio is calculated based on operating earnings



# EBITDA PERFORMANCE

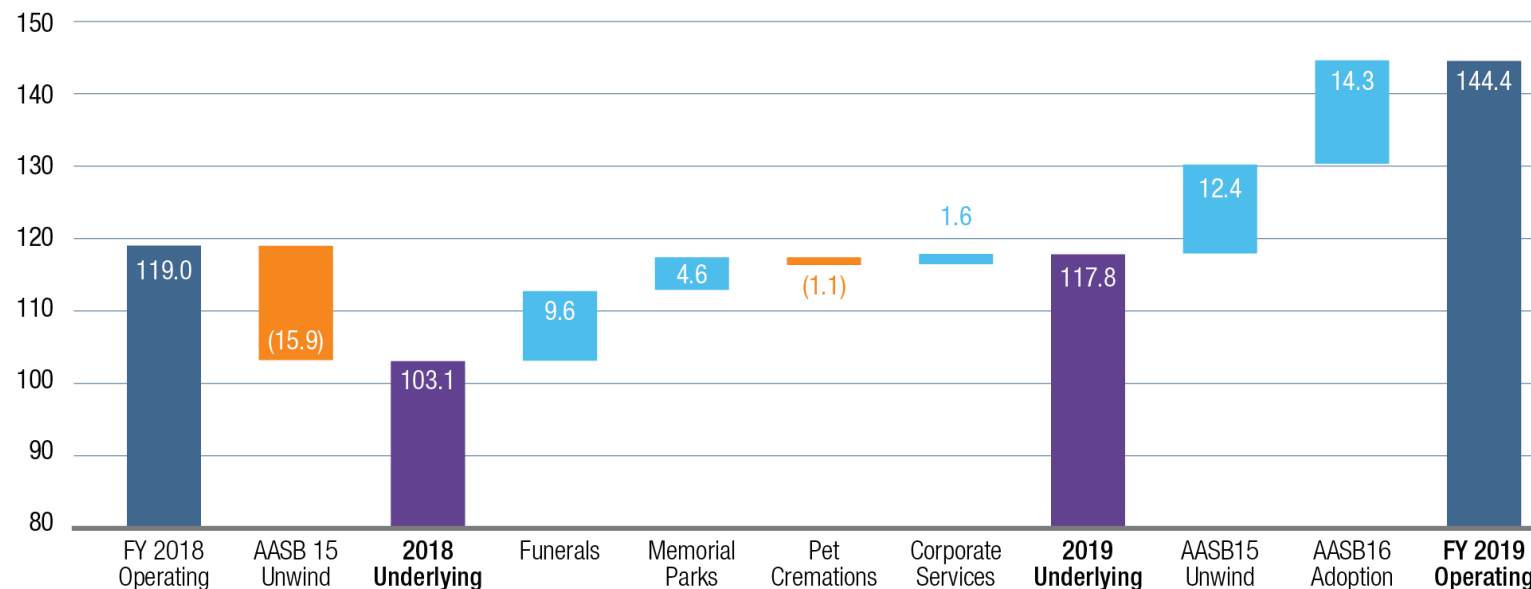
## Investor Presentation 2019

Operating EBITDA  $\uparrow$  21.4%

- Net impact of \$10.8m from recent accounting changes is a significant element of the uplift:
  - AASB15 unwind (net -\$3.5m on PCP) and
  - AASB16 adoption (+\$14.3m)

Underlying EBITDA  $\uparrow$  14.2%

- Growth of \$14.7m or 14.2% with contributions:
  - \$9.6m from Funerals and
  - \$4.6m from Memorial Parks
- Acquisitions contributed \$7.0m to the funeral business, an increase of \$4.3m on 2018





# OPERATIONAL EFFICIENCIES

Investor Presentation 2019

- Underlying expenses growth held to 2.8% in 2019 includes annualised impact of 2018 acquisitions and greenfield shop fronts
- Cost control has contributed to underlying EBITDA growth with 1.5ppt improvement
- ERP roll-out and shared operation centres are expected to provide economies of scale benefits in future years

Underlying Expenses	2019 \$'000	2018 \$'000	Movement %
Finished goods, consumables and funeral disbursements	<b>123,161</b>	121,495	(1.4)
Employee benefit expense	<b>160,928</b>	155,222	(3.7)
Advertising and public relations expenses	<b>12,331</b>	12,467	1.1
Occupancy and facilities expenses	<b>34,693</b>	31,258	(11.0)
Motor vehicle expenses	<b>8,411</b>	8,569	1.8
Technology	<b>11,283</b>	9,398	(20.1)
Other	<b>14,749</b>	17,097	13.7
<b>Total underlying operational expenses</b>	<b>365,556</b>	355,506	(2.8)
<b>% to underlying sales</b>	<b>76.5%</b>	78.0%	(1.5 ppt)



# GROUP FINANCIAL POSITION

## Investor Presentation 2019



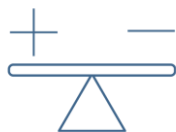
### Cash flow

- 82% conversion from operating EBITDA to cash
- Improved 10ppts from H1 2019 while still working through transition to new system



### Capital Management

- All core debt metrics improved following capital raise in March 2019 to fund acquisitions



### Assets and Liabilities

- Net assets increased by \$106m with increased trade debtors, funds under management and a reduction in net debt
- New Zealand goodwill impaired by \$24.4m

### Cash flow summary

	2019 \$'000	2018 \$'000
<b>Operating EBITDA</b>	<b>144,433</b>	<b>118,998</b>
Statutory ungeared, tax free operating cash flows	100,504	90,296
Receipts from prepaid contracts performed	40,842	46,006
Receipts from prepaid contract sales	(24,976)	(34,639)
Cash flows related to the prepaid contracts	2,406	2,559
<b>Ungeared, tax free operating cash flows</b>	<b>118,776</b>	<b>104,222</b>
Proportion of operating EBITDA converted to cash	82%	88%

### Capital management

as at 31 December	2019	2018	Movement	Covenant
Net Debt (,000)	352,379	393,500	(10.5%)	
Leverage ratio	2.52x	2.99x	(.47) x	< 3.5 x
Interest Coverage ratio	9.54x	8.96x	.58 x	> 3 x

### Assets and Liabilities

as at 31 December	2019 \$'000	2018 \$'000	Movement %
Total assets	1,600,763	1,356,319	18.0
Total liabilities	1,303,784	1,165,022	11.9
Net assets	296,979	191,297	55.2





# Operational update

Damien MacRae, COO



# FUNERALS PERFORMANCE

Investor Presentation 2019

## Funerals

- NPS remains high at a score of +79
- Sales revenue up by 4.7% driven by case average growth, acquisitions and NBO sites
- Case average growth 2.1%
- Cost controlled at 2.5% growth
- Strong uplift for NBO locations, but continued comparable market share decline from unrenovated funeral locations
- 2018 regional acquisitions have outperformed business model
- Two regional businesses acquired in H2 2019
- Strong performance from Singapore post renovation

Underlying* performance	2019 \$m	2018 \$m	Var. \$m	Movement %
Case volume	<b>46,171</b>	44,480	1,691	3.8
Sales	<b>372.9</b>	356.3	16.6	4.7
EBITDA	<b>96.0</b>	86.4	9.6	11.1
EBITDA margin	<b>25.7%</b>	24.2%		1.5 pts
EBIT	<b>79.3</b>	68.7	10.6	15.4

\* Excludes AASB15 and 16

# MEMORIAL PARKS PERFORMANCE

## Investor Presentation 2019

### Memorial Parks

- Strong organic growth delivered 10.2% uplift in underlying EBITDA driven by the build of new products
- Completed >2,200 new memorial products, e.g. vaults, niches and crypts across three locations
- Remediated Allambe Park's water plains; Life extended by 20+ years with sales to start in 2020
- NPS score of +69
- Acquisition of Broulee Memorial Gardens (South Coast NSW, Broulee) in H2 2019

Underlying* performance	2019 \$m	2018 \$m	Var. \$m	Movement %
Sales	104.0	99.5	4.5	4.5
Underlying EBITDA	49.4	44.9	4.5	10.0
EBITDA Margin	47.5%	45.1%		2.4 pts
EBIT	44.4	38.3	6.1	16.1

\* Excludes AASB 15 and 16



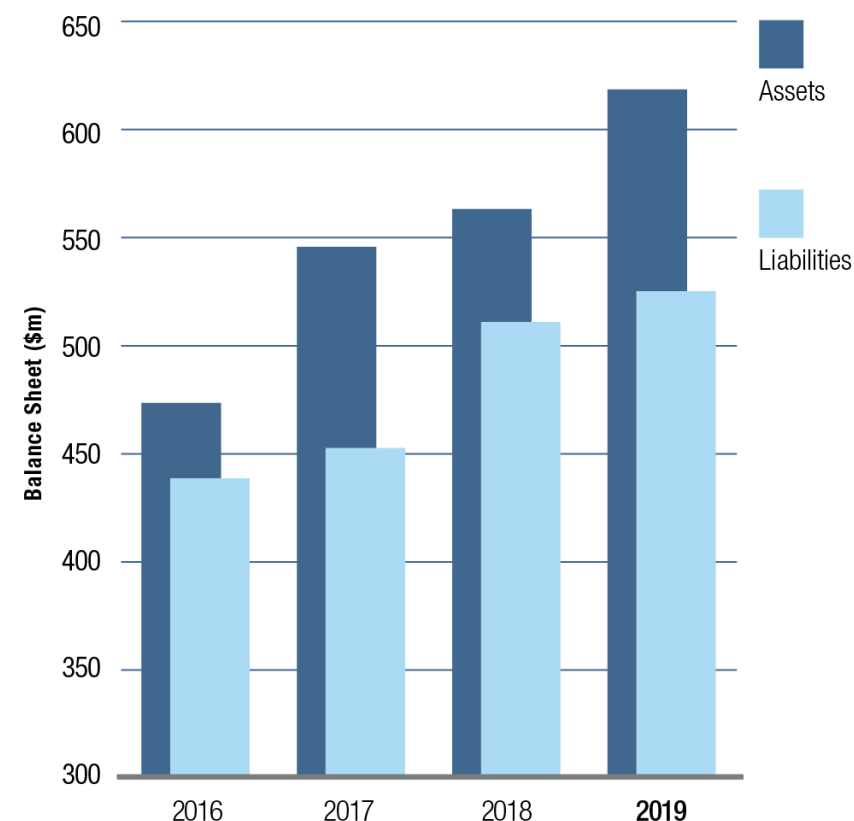
# PREPAID FUNERALS PERFORMANCE

Investor Presentation 2019

## Prepaid Funerals

- Strong FUM growth at >10%
- Assets / liabilities delta now +\$94m
- Redemptions at 16% of at-need sales
- New independent Guardian Investment Committee established during 2019

Investment portfolio mix	2019 %	2018 %
Equities	43	25
Property	27	25
Cash and fixed interests (includes hybrid securities)	30	44





# PET CREMATIONS

Investor Presentation 2019

## Pet Cremations

- Start-up of new business unit
- \$1.3m loss in 2019, an increase from \$0.2m loss in 2018
- Additional greenfield facility built on existing NSW memorial park
- Sales in existing business acquired in 2018 close to doubled in 2019
- Assessing further growth opportunities for 2020





# Looking ahead

Martin Earp, CEO





# 2020 FOCUS

## Investor Presentation 2019

- Complete **Protect** component of Protect & Grow
  - c.59 locations to be refreshed
  - Finalise roll out of ERP and then optimise
  - Three shared services sites to be upgraded
  - Continue training of local leaders and improving service standards
  - Transition Protect to BAU
- Continue with Grow investments – 9 Enhancements and 6 New locations
- Continue acquisitions
- Ramp-up the pet cremation business
- Accelerate innovation to drive future growth through detailed research





# OUTLOOK

## Investor Presentation 2019

- It is difficult to provide full year earnings guidance with any degree of certainty, given the importance that the winter trading period has on the results for InvoCare
- Summarised below are the key assumptions for 2020:
  - a continuation of the revision to trend in the number of deaths across our three markets
  - case average growth of c.2%
  - disciplined cost control across existing business
  - continued positive contribution from acquisitions
  - estimated NBO drag of c.\$4 million EBITDA
- Forecast impact on Operating EBITDA of AASB 15 unwind is expected to be c.\$14 million in 2020 assuming current customer repayment schedules; the current estimates for 2021 and 2022 are c.\$12.5 million and \$11 million respectively
- A trading update will be provided for Q1 at the May AGM





Questions?



# Appendices

# ACCOUNTING STANDARD CHANGES

## Appendix to Investor Presentation 2019

### AASB16 Leases – effective 1 January 2019

- Distinction between **operating and finance** leases is removed. Accounting for the Group's operating leases on balance sheet took effect from 1 January 2019 electing the **modified retrospective transition approach**, with no restatement of comparatives for the 2018 reporting period, as permitted by the standard.
- From 1 January 2019 the Group recognised right-of-use assets of \$122.3m, lease related liabilities of \$139.1m and deferred tax assets of \$5.0m. **Overall net assets are \$11.8m lower.**
- For the period to 31 December 2019 **Operating EBITDA** has increased by **\$14.3m**, reflecting the reduction of occupancy and facilities costs relating to operating lease payments that were included in EBITDA under the previous accounting standard. **Operating earnings after tax** have decreased by \$1.4m as the amortisation of the right-of-use assets and interest on the lease liability have resulted in increases in depreciation and amortisation and finance costs respectively.
- Net profit after tax** decreased by approximately **\$1.4m** for 2019 compared to our estimate of \$1.5m in the Half Year results presentation.

	1 Jan 2019	12 months to 31 Dec 2019		31 Dec 2019
	B/S	P&L	B/S new leases	B/S
<b>Impacts of AASB 16 Leases adoption</b> \$'m – Debt/ (Credit)				
Right-of-Use assets	122.3	(11.4)	(11.4)	144.0
Lease related liabilities	(139.1)	(4.8)	9.3	(162.9)
Additional depreciation and finance costs		(16.2)		
Reduction in occupancy expense		14.3		
Operating earnings before tax		(1.9)		
Operating earnings after tax		(1.4)		



# UNDERLYING FINANCIAL PERFORMANCE

## Appendix to Investor Presentation 2019

	2019 \$'000	2018 \$'000	Movement %
Underlying sales revenue	477,779	455,773	4.8
Other revenue	5,553	2,861	94.1
Operational expenses	(365,556)	(355,506)	2.8
Underlying EBITDA	117,776	103,128	14.2
<i>Underlying EBITDA margin (%)</i>	<i>24.7%</i>	<i>22.6%</i>	<i>2.1ppt</i>
Depreciation and amortisation	(25,567)	(26,030)	(1.8)
Business acquisition costs	(2,021)	(3,602)	43.9
Underlying EBIT	90,188	73,496	22.7
<i>Underlying EBIT margin (%)</i>	<i>18.9%</i>	<i>16.1%</i>	<i>2.8ppt</i>
Finance costs	(16,797)	(16,192)	3.7
Interest income	1,211	1,354	(10.6)
Underlying earnings before income tax	74,602	58,658	27.2
Income tax expense on underlying earnings	(20,705)	(17,850)	(16.0)
Underlying earnings after income tax	53,897	40,808	32.1

# COUNTRY SEGMENT RESULTS

## Appendix to Investor Presentation 2019

### Underlying sales revenue by region and revenue type

		2019 \$'000	2018 \$'000	Movement %
By regions	Australia	400,923	389,662	2.9
	New Zealand	56,033	49,652	12.9
	Singapore	20,823	16,459	26.5
By revenue types	Funeral Services	372,918	356,261	4.7
	Memorial Parks	104,045	99,463	4.6
	Pet Cremations	816	49	n/a
Total		477,779	455,773	4.8

### Underlying EBITDA and EBIT by region and revenue type

		Underlying EBITDA			Underlying EBIT		
		2019 \$'000	2018 \$'000	Movement %	2019 \$'000	2018 \$'000	Movement %
By regions	Australia	97,341	86,724	12.2	74,176	61,896	19.8
	New Zealand	10,555	9,678	9.1	7,301	5,818	25.5
	Singapore	9,880	6,726	46.9	8,711	5,782	50.7
By revenue types	Funeral Services	96,015	86,391	11.1	79,350	68,736	15.4
	Memorial Parks	49,426	44,852	10.2	44,428	38,280	16.1
	Pet Cremations	(1,319)	(200)	n/a	(1,586)	(221)	n/a
	Corporate Services	(26,346)	(27,915)	(5.6)	(32,004)	(33,299)	(3.9)
Total		117,776	103,128	14.2	90,188	73,496	22.7



# CAPITAL EXPENDITURE

## Appendix to Investor Presentation 2019

		FY2019	FY2018	Variance to 2018	
		B/S	\$'m	\$'m	%
By Category	Facilities	46.2	55.6	(9.4)	(17)
	Information technology	9.8	14.0	(4.2)	(30)
	Motor vehicles	1.7	4.7	(3.0)	(64)
	Other assets	1.2	2.3	(1.1)	(48)
	Property acquisitions	-	2.3	(1.4)	(100)
	<b>Total capital expenditure</b>	<b>58.9</b>	<b>1.4</b>	<b>(19.1)</b>	<b>(24)</b>
By Strategy	Business as usual	17.7	26.7	(9.0)	(34)
	Protect & Grow	41.2	51.3	(10.1)	(20)
	<i>Facilities</i>	34.3	42.7	(8.4)	(20)
	<i>Information technology</i>	6.9	42.7	(1.7)	(20)
	<b>Total capital expenditure</b>	<b>58.9</b>	<b>78.0</b>	<b>(19.1)</b>	<b>(24)</b>



This presentation contains forward looking statements, which may be subject to significant uncertainties outside of IVC's control. No representation is made as to the accuracy or reliability of these forecasts or the assumptions on which they are based. Actual future events may vary from these forecasts.