

InvoCare Limited**Wednesday, 24 February 2021****Resilient operating result in a challenging year****FINANCIAL HIGHLIGHTS**

- Statutory Revenue down 4.5% to \$477.7 million
- Operating Revenue¹ down 4.7% to \$476.2 million
- Operating EBITDA² down 29% to \$102.6 million
- Reported Loss After Tax attributable to shareholders of InvoCare Limited of \$9.2 million
- Operating EPS of 20.4 cents
- Final fully franked dividend of 7.0 cents per share
- Reduced leverage to 1.3x and strong cashflow conversion of 107%

Overview

In what has been a year of unprecedented disruption, InvoCare Limited (ASX:IVC, InvoCare, the Group) has reported a statutory net loss after tax attributed to shareholders ("Reported Loss") of \$9.2 million for the year ended 31 December 2020. The COVID pandemic (COVID) and the associated government restrictions had a significant impact on both InvoCare's ability to deliver full-service funeral arrangements and on the mortality rate in the countries in which its businesses operate. Despite these challenges, the dedication of InvoCare's front-line employees ensured the Group remained single-minded in its commitment to deliver on its mission of care and service to client families and their communities.

As disclosed to the market on 17 February 2021, this 2020 full year result includes the impact of net \$26.5 million (pre-tax) of significant operating and non-operating items³, mostly linked to the impact of COVID on the Funeral Services sector and the broader economy in Australia and New Zealand.

The Group delivered an Operating EPS of 20.4 cents, 61% below the Prior Corresponding Period (PCP), driven by the decline in operating earnings in the year and the dilutive impact of the increased number of shares on issue following the equity raising completed in April 2020.

The directors have determined to pay a fully franked final dividend of 7.0 cents per share, which brings the full year dividend to 12.5cents per share.

The final dividend is payable on 22 April 2021 to shareholders who were on the Company's register as at 4 March 2021, the record date for the final dividend. The Dividend Reinvestment Plan (DRP) continues to operate in respect of the final dividend⁴.

Leadership transition

As announced on 19th November 2020, Mr Olivier Chretien joined the Company on 1 January 2021 as Managing Director and CEO following the announcement in June 2020 that Mr Martin Earp, the previous Managing Director and CEO, would not be seeking re-appointment upon conclusion of his six-year contract.

InvoCare's Chairman, Mr Bart Vogel said, "The InvoCare Board established and executed a leadership transition plan during the year. The refreshed Executive Leadership Team and the appointment of Olivier as CEO with his proven record of value creation and strategic design and execution, sets the Company up for its next phase in meeting the evolving needs of client families."

¹ See page 5 for definitions of these non-IFRS financial measures

² EBITDA = Earnings before business acquisition costs, interest, tax, depreciation, and amortisation

³ See page 5 for explanation of these items

⁴ Share issuance under DRP to be satisfied by on-market purchases

Operating results

The Group's ability to hold the operating revenue decline to 4.7% compared to a 6.2% decline at the first half, shows the resilience of its core business and the benefits of diversification. Excluding the impact of \$7.0 million of significant operating items⁵, the Group posted a solid Operating EBITDA for the year of \$109.6million.

The Board and Executive team were committed to maintaining a high-quality service level throughout the year to sustain our critical role in helping client families say goodbye to their loved ones. The associated employee costs (with no JobKeeper support⁶), the fixed cost nature of our facilities and the impact of the \$7.0 million of significant operating items reported to the market on 17 February 2021 all contributed to the 29% decline in Operating EBITDA.

InvoCare's new CEO, Mr Olivier Chretien said, "While the Group's financial results have been put under pressure in 2020, it is pleasing to see how resilient the business and our people have been."

"I want to thank our dedicated employees who have continued to provide exemplary service despite multiple disruptions. They have provided safe environments and leveraged technology to ensure our client families were able to continue to celebrate and farewell their loved ones in whatever form that took."

While the Group delivered 4.4% growth in memorialisation sales in our Memorial Parks business and continued to build the Pet Cremations business, the Funeral Services businesses in all geographies delivered lower Operating EBITDA, with a notable softening in funeral case volume and average in Q2 and Q3.

Mr Chretien added, "In response to the high level of uncertainty associated with COVID, the Company took decisive actions during the year to maintain significant balance sheet flexibility. This has allowed the Group to continue to fund its strategic initiatives, including 63 Network & Brand Optimisation projects and the acquisition of two successful Pet Cremation businesses, that provide us with a national footprint and immediate scale in a sector with strong growth prospects."

Operational Performance Review

Australia

Funerals

The hard work, agility and dedication of InvoCare's frontline workforce was clearly recognised by client families, with the Australian Funeral Services business maintaining a strong Net Promoter Score (NPS) of +79, an excellent result in a challenging year.

The business experienced difficult trading conditions in the middle of the year but the breadth of its brand portfolio and the geographical diversification of its network have assisted in limiting the decline in operating revenue to 7.3%, delivering \$292.3 million in revenue for the year. The intentional focus on maintaining service capability, plus a \$2.0 million increase in its provision for aged debtors contributed to a 27% decline in Operating EBITDA to \$62.5 million.

Funeral case volumes were 2.5% down for the year, with volumes in the second half down just 1.6% as restrictions eased. Funeral case average suffered the greatest impact from COVID, down 4.0% on the PCP. Simpler arrangements and an increase in direct cremations during the height of lockdowns drove a decline in professional service fees and demand for catered funeral services. In most markets the business was able to meet this change in demand through its Simplicity and Value Cremations branded locations. As restrictions eased, signs of a return in demand for the 'gathering' element of a funeral service to celebrate the life of a loved one have been observed.

Pre-paid Funerals

The recognition of a Reported Loss for the year partly reflects the impact of non-cash movements in the Pre-paid Funeral business' funds under management (FUM). Asset valuations at the balance date have been held relatively flat as equity market volatility eased in the second half. This, combined with the normal Mark-to-Market (MTM) cost adjustments made to Pre-paid contract liabilities resulted in a net \$16.6 million non-cash

⁵ See page 5 for explanation of these items

⁶ \$1.5million of wage subsidies received in New Zealand and \$0.7million received in Singapore in the year, included within Other Revenue

MTM loss for 2020 (a material improvement on the \$39.5 million net loss recorded at the first half). Importantly, FUM asset headroom (defined as pre-paid contract assets less liabilities) remains strong at \$71.8 million.

It is for this reason the Company has historically distinguished its results on an operating versus non-operating basis⁷ to exclude the impact of such material, non-cash movements.

Memorial Parks

The Memorial Parks business has grown memorialisation sales by 4.4% during the year, with strong relationships developed with community groups driving sales. The focus of our Park employees on maintaining a high quality of service was also rewarded with an NPS score of +72, a record result for this business in what has been a challenging year,

Revenue increased 1% to \$120 million for the year, with a decrease in foot traffic through the Parks in Q2 and a decline in cremation and burial volumes (mirroring the decline in funeral volumes), partially offsetting the growth in memorialisation sales. An increased focus on operational safety and facility maintenance, partly in response to COVID, combined with the impact of a \$2.5 million increase in the provision for slow moving inventory, contributed to an 8.3% decline in Operating EBITDA to \$60.0 million. Operating EBITDA also includes \$15.3 million in relation to the unwind of deferred revenue and costs recognised upon adoption of AASB 15 in 2018.

Pet Cremations

The Pet Cremations business was largely unaffected by COVID with the existing Patch & Purr business ramping up volumes following greenfield developments completed in 2019. The acquisition of two Pet Cremation businesses in November and December 2020 provided a national footprint and contributed to growth in revenue from one month's trading, with the increased scale immediately assisting the business to generate its maiden full year Operating EBITDA of \$0.5 million.

International

The New Zealand business was hard hit during the earlier lock downs, with funerals prohibited for a time. Overall, funeral case volumes were down 4.9% for the year, materially in line with the decline in deaths in New Zealand of c.4.8%⁸. Revenue for the New Zealand business declined 8.1% to \$52.0 million for the year, with Operating EBITDA reducing 32% to \$8.8 million.

Consistent with Australia, the severe restrictions early in the pandemic saw a shift in consumer preference to simpler funerals and an increase in direct cremations. As a result, a review of the assumptions made in the long-term modelling used to support the carrying value of the New Zealand group of cash generating units was necessary and a non-cash impairment of \$19.3 million had to be recognised.

Revenue for the Singaporean business has declined 8.6% to \$19.4 million for the year with Operating EBITDA reducing 5.3% to \$9.4 million. Since March 2020, Singapore remains partially locked down with the Government's strict social distancing requirements and gathering limits (maximum of 30 persons) directly impacting the parlour and funeral businesses. With many customers opting for straight cremations, the funeral case average has declined 5.7% in the year.

Balance Sheet strength and liquidity

The successful \$274 million equity raising in April 2020, the extension of the maturity of the \$200 million undrawn debt facility to February 2023, and the action taken on carrying values have strengthened the balance sheet, putting the Group in a strong position to implement its strategies to support the next stage of growth.

The funds raised allowed the Group to repay \$111 million of debt, increase liquidity, and improve debt metrics, with leverage reducing from 2.4x to 1.3x. The Group ended the year with \$119 million of cash, net debt of \$137.5 million and a strong operating cash flow result translating to a cash conversion ratio of 107%.

⁷ See page 5 for reconciliation of operating and non-operating items to statutory results

⁸ Source: Stats NZ Stats NZ Births and deaths: Year ended December 2020 – Infoshare tables released on 18 February 2021

Outlook

InvoCare remains cautious in its outlook with short term market conditions still being impacted by COVID restrictions and the timing and extent of the unwind of related impacts remains hard to predict.

Notwithstanding this, the Group remains confident about the long-term potential of the business, with future growth supported by population and ageing trends in its markets. Management have also initiated an operating model and cost efficiency review to further strengthen the business' foundations.

Mr Chretien said, "I am energised by the potential of our businesses. We have an experienced team, strong national and local brands, a modernised asset base and leading market positions. I see many opportunities to leverage and optimise our foundations to meet the evolving needs of our client families and communities with an expanding, omni-channel, value proposition. We can also extend our industry leadership through increased focus on talent, safety, sustainability, digital, innovation and proactive stakeholder management. I look forward to setting out our strategic plan for the next 5 years at our inaugural Investor Day to be held in May."

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

-ENDS-

Attachment: Summary of Group Financial Performance

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.

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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 the largest provider of pet cremation services in Australia.

Attachment:
Summary of Financial Performance

(both current and prior period presented based on new lease accounting standard, AASB16)

	Operating 2020 \$000	Non- Operating 2020 \$000	Statutory 2020 \$000	Operating 2019 \$000	Non- Operating 2019 \$000	Statutory 2019 \$000	Change %
Revenue	476,249	1,403	477,652	499,665	683	500,348	(4.5%)
Expenses	(373,684)¹	(6,350)	(380,034)	(355,232)	(8,026)	(363,258)	(4.5%)
EBITDA	102,565	(4,947)	97,618	144,433	(7,343)	137,090	(29%)
Depreciation & Amortisation	(44,280)	(12)	(44,292)	(36,973)	(13)	(36,986)	(20%)
Business acquisition costs	(1,918)	-	(1,918)	(2,021)	-	(2,021)	5.1%
Net gain/loss on prepaid contracts	-	(16,618)	(16,618)	-	45,550	45,550	(137%)
Asset sales gain/loss	-	7,383	7,383	-	2,404	2,404	207%
Impairment loss on intangibles	-	(19,500) ²	(19,500)	-	(24,404)	(24,404)	20%
EBIT	56,367	(33,694)	22,673	105,439	16,194	121,633	(81%)
Net finance costs	(20,484)	(3,386)	(23,870)	(23,213)	(1,247)	(24,460)	2.4%
Tax	(8,405)	527	(7,878)	(23,024)	(10,261)	(33,285)	76%
Non-controlling interest	(167)	-	(167)	(136)	-	(136)	(23%)
NPAT attributable to ordinary equity holders of InvoCare Limited	27,311	(36,553)³	(9,242)	59,066	4,686	63,752	(115%)
EPS (cents per share)	20.4	(27.3)	(6.9)	51.7	4.1	55.8	(112%)
Interim Dividend			5.5			17.5	(69%)
Final Dividend			7.0			23.5	(70%)
Full Year dividend			12.5			41.0	(70%)

¹: Includes \$7.0million of operating significant items including \$1.7million senior executive transition costs, \$2.8million increase in provision for aged debtors and \$2.5million increase in the provision for slow moving inventory.

²: Non-operating significant items including \$19.3million impairment of goodwill allocated to the NZ business, \$6.2million impairment of capitalised IT development costs, offset by \$6.0million partial reversal of impairment on Allambe Memorial park remediated land.

³: Total of items covered in (1) and (2) above is \$26.5 million (pre-tax) as disclosed to the market on 17th February 2021.

IFRS and Non-IFRS financial information:

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

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