InvoCare

ASX Announcement
InvoCare Limited (ASX: IVC)

Monday, 27th February 2023

Strong Result & Strategic Momentum

FY22 Highlights

Operating Revenue[1]	Operating EBITDA[1]	FY22 Full Year Dividends	Operating EPS[1]	ROCE r12[2]
$588.5 million	**$136.1 million**	**24.5 cents**	**35.1c**	**11.6%**
Up 12%	Up 9%	Up 17%	Up 11%	Up 0.4 points
Statutory Revenue	**Operating EBIT[1]**	**Reported Loss[3]**	**Debt leverage ratio**	**NPS**
$592.0 million	**$84.6 million**	**($1.8 million)**	**1.3x**	**+82.9**
Up 11%	Up 9%	due to MTM loss	Up 0.1x	Up 2.8 points

N.B. All variances in the above table are to the prior corresponding period (PCP) being as at or for the 12 months ended 31 December 2021.

Overview

InvoCare has today reported its results for the year ended 31 December 2022. Continuing strategic momentum and strong recovery in key fundamentals have delivered continued growth in operating earnings, with Operating EBIT for the year ended 31 December 2022 (FY22) up 9% to $84.6 million. However, global equity market volatility has caused a net unrealised mark-to-market loss on the revaluation of pre-paid funds under management assets to be booked, driving a Reported loss of $1.8 million for the year.

InvoCare's CEO, Mr Olivier Chretien said, "Pleasingly our teams continue to deliver outstanding service to our client families and communities, generating positive momentum in our two long-term measures of success, EPS and ROCE. This was despite COVID, inclement weather, continued tightness in labour markets, growing pressures on the cost of doing business and excessive spikes in demand for our services challenging our operational teams during the year."

Mr Chretien added, "I continue to be incredibly proud of our teams across Australia, New Zealand and Singapore and am thankful for their achievements. Pleasingly, we have lifted our financial performance while at the same time we continued to improve our service performance to client families, our team engagement and safety outcomes, as well as the quality of our processes, systems and facilities."

Dividend

The Directors have determined to pay a fully franked final dividend of 11.0 cents per share. This brings FY22 full-year dividends to 24.5 cents per share, up 17% on the PCP, and representing a dividend payout ratio of 70%, within the Group's preferred dividend payout range. The final dividend is payable on 6 April 2023 to shareholders who were on the Company's register as of 3 March 2023, the record date for the final dividend. The Dividend Reinvestment Plan (DRP) continues to operate in respect of the final dividend[4].

Operational Performance Review

Operating revenue increased 12% to $588.5 million in the year. The Group saw growth in the key value drivers of funeral case volume (up 8%) and funeral case average (up 5%) which combined, supported double-digit growth in operating revenue from our Australian, New Zealand and Singapore funeral businesses. This was supplemented by strong burial and cremation volumes and solid growth in memorialisation sales in the Australian Cemeteries & Crematoria business, as well as strong revenue contribution from the Australian Pet Cremations business.

Cost of doing business pressures including labour constraints and the frictional cost of servicing excessive demand for our services. These put pressure on margins in some areas of the business but disciplined discretionary cost control and a data-driven pricing strategy allowed the Group to deliver a steady OPEX to sales percentage compared to the PCP, and 9% growth in Operating EBITDA to $136.1 million.

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[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] ROCE r12 is defined as Operating EBIT (rolling 12 months)/Average of opening & closing capital employed
[3] Reported Loss is after the unrealised mark-to-market (MTM) revaluation of pre-paid funds under management and contract liabilities.
[4] No discount will apply. Share issuance under DRP to be satisfied by on-market purchases.

Australia

Funerals

The business served a record number of client families in the year with funeral case volumes up 7% on the PCP and funeral case average grew 4% to $8,605. These combined to drive a 12% increase in operating revenue to $347.2 million. Growth came from all markets and key local brands, such as Le Pine in Victoria and George Hartnett Metropolitan in Queensland. Growth also came from multi-cultural brands able to cater to specific cultural needs, as well as national brands such as Simplicity and White Lady Funerals. The benefit of this revenue growth was tempered by additional costs incurred to service where possible the above-average demand without compromising standards of care. Increased costs also resulted from labour constraints driving increased overtime and use of third parties for transfer services. Despite such impacts, operating EBITDA grew 12% to $90.1 million.

Pre-paid Funerals

Contract volumes sold varied by state, with marginal growth in NSW and 16% growth in Victoria on the PCP. The current model of our pre-paid funeral business relies heavily on our team's ability to speak directly to customers in locations such as aged care homes. With the COVID outbreaks continuing to limit our ability to have these conversations, we have seen overall pre-paid contract sales volumes decline on the prior year. Meanwhile, the increased mortality rate has resulted in higher redemptions, up 9% on the PCP, representing approximately 14% of at-need funerals delivered in Australia.

Cemeteries & Crematoria

Our memorial parks experienced double-digit growth in the number of burials and cremations conducted this year. However, growth momentum in memorialisation revenue was hampered at times when inclement weather prevented construction and slowed foot traffic in our parks. In the second half, the easing of wet weather saw the return of memorialisation construction, helping to stimulate and close out deferred sales. A reduced contribution from the AASB 15 deferred revenue and cost unwind held operating revenue growth at 6% to $135.3 million while operating EBITDA grew 4% to $63.8 million, with margins impacted by the frictional operational cost impact of the inclement weather.

Pet Cremations

The Pet Cremations business delivered close to 100,000 cremations in the year, up 14% on the PCP. Alongside a consistent national service, product and pricing model implemented early in the second half, this has driven a 19% growth in operating revenue to $35.1 million. The national integration of the three main Pet Cremations businesses, including capability investment in national support roles and business development resources to support sustainable growth, elevated the cost base. In addition, supply chain disruptions to the delivery of new, more efficient cremator capacity drove higher than expected costs to deliver increased volumes. This increase in cost base ahead of revenue growth has led to a lower level of growth in operating EBITDA of 2% to $7.1 million for the year.

International

Like the Australian funerals business in the prior year, both markets experienced a lifting of restrictions in Q2, aiding case average growth from a return to higher value services and larger gatherings.

The New Zealand business has also served a record number of client families this year, with a greater capacity to meet demand, delivering double-digit growth in funeral case volumes. This increase in volume as well as disciplined cost control and a progressive approach to product and package pricing have led to New Zealand's operating revenue increasing 21% to NZ$68.6 million and operating EBITDA increasing 34% to NZ$15.8 million.

In Singapore, funeral case averages were up 17% on the PCP, largely contributing to a 13% increase in operating revenue to S$21.5 million and a 14% increase in operating EBITDA to S$9.6 million.

Balance Sheet Strength and Liquidity

The Group continues to benefit from a strong balance sheet and finished the year with net debt at $182.7 million, representing a rolling 12-month debt leverage ratio of 1.3x and funding headroom of 48% of its available debt facilities. Both capital efficiency measures improved, with ROCE increasing 0.4 ppts to 11.6% and average working capital % sales reducing 2 ppts to 9.4% on the back of strong results.

This strong end to the year in sales has also translated into increased current and forward-aged debtors. When combined with increased payments to suppliers, driven partly by increased payments to Software-as-a-service (SaaS) suppliers as the Group continued its investment in improving its systems, this has resulted in a 10% reduction in operating cash flows on the PCP. Normalised cash conversion (removing the impact of SaaS expenditure) remained strong at 101%.

Strategy

Momentum in executing our strategy accelerated during the year. The initial phase of our 5-year plan, focusing on ‘raising the bar’, as well as automating, simplifying and standardising business foundations, is largely complete, with the team’s focus increasingly shifting to profitable growth initiatives.

Customer Led, People Empowered

This year we launched our “WeCARE” enhanced customer feedback platform; expanded our national call centre, enabling it to field 27% more calls than in the PCP; and launched WeCARE First Contact to assist with our goal of ensuring no family goes unsupported. The Group also continued to improve on its exceptional NPS, which grew a further 2.8 points to +82.9 at the end of 2022.

Another ‘Your Say’ employee engagement survey was conducted in the year, with the Group recording a pleasing 8-point increase in employee engagement score to 64%. Feedback from the survey has been cascaded across the business, with our teams building targeted action plans to address it.

Operational Excellence

We have now completed the phased rollout of our new Cemeteries & Crematoria ERP system, with all 15 memorial parks transitioned by February 2023. We also implemented a new Group payroll system ahead of new workforce planning tools, invested in new shared service centres with 5 delivered in the year, and ongoing process standardisation and simplification continued. As indicated above, we also integrated operationally our three Pet Cremations businesses to better enable faster and more sustainable growth.

Stronger Core Growth

In the second half of the year, we made a targeted acquisition in our funeral network in Victoria. Improvements were also made to our brand value propositions, pricing capabilities and procurement strategy.

We completed a strategic review of the pre-paid funerals business to design future products, services and marketing channels, trialled new memorialisation product ranges, upgraded key websites to improve traffic conversion, and initiated a program to optimise customer digital and phone channels. To support longer-term growth in our Cemeteries and Crematoria business, we progressed the ‘Park as a Destination’ master planning of several memorial parks.

New Growth Platforms

We expanded our digital self-serve capabilities as well as the breadth of activities of our Group Innovation Hub, including an investment in US-based Parting Stone Incorporated. We increased the take up of Memories digital memorialisation across our network, have experienced growth in website traffic and digital leads, and rolled out carer grief support training with our not-for-profit partner Violet.

Our businesses continued to expand key commercial partnerships, including community agreements in our memorial parks and national vet network agreements. Finally, we commenced rebuilding a pipeline of potential merger and acquisition and partnership opportunities.

Sustainable Leadership

We strengthened our safety and injury management capabilities and introduced better equipment as well as planning and reporting tools. This continued focus and investment in safety saw the Group’s LTIFR reduce by more than 40% and TRIFR reduce by 14% on the PCP. Work is also underway to establish our greenhouse gas emissions baseline and reduction opportunities. Further detail is to be provided in the Group’s 2022 Sustainability Report.

Outlook

The Group has maintained momentum into 2023 with year-to-date performance in line with expectations. Mortality rates are expected to revert to long-term averages and the business is maintaining an ongoing operational excellence focus to offset continued pressures on the cost of doing business.

Mr Chretien said, “We remain confident in InvoCare’s ability to navigate short-term uncertainties, such as fluctuating death rates, the economic environment including tight labour markets, rising inflation and pressures on cost of doing business, and the impact of extreme weather on our locations – as we witnessed recently with the floods and cyclone that affected our teams in New Zealand”.

Mr Chretien added, “With a growing and ageing population, the long-term fundamentals of our business remain positive, and the Group is well placed to deliver near and long-term shareholder value. Now that we are well advanced on the reset of our business foundations, we can turn our attention to leveraging our market-leading positions and balance sheet capacity to increasingly focus on profitable organic and acquisitive growth.”

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 27 February 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-22fyrbriefing-270223/

Investor Relations – Emma Roche at investor.relations@invocare.com.au

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 underlying business operations.

Forward-looking information:

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

Attachment A: Summary of Group Financial Performance

	Operating FY22 $000	Non-Operating FY22 $000	Statutory FY22 $000	Operating FY21 $000	Non-Operating FY21 $000	Statutory FY21 $000	Change* %
Revenue	588,535	3,435	591,970	527,096	5,357	532,453	**12%**
Expenses	(452,420)	(6,802)	(459,220)	(401,619)	(5,860)	(407,479)	**13%**
EBITDA	**136,115**	**(3,367)**	**132,749**	**125,477**	**(503)**	**124,974**	**9%**
Depreciation & Amortisation	(49,620)	(6)	(49,626)	(47,759)	(7)	(47,766)	4%
SaaS arrangements	(1,315)	(13,395)	(14,710)	(654)	(4,594)	(5,248)	101%
Business acquisition costs	(1,005)	-	(1,005)	(743)	-	(743)	35%
Restructuring costs	-	(1,476)	(1,476)	-	-	-	-
Net gain/loss on prepaid contracts	-	(55,611)	(55,611)	-	44,085	44,085	-
Net gain on lease modifications/terminations	446	-	446	1,517	-	1,517	(71%)
Net impairment reversal/(loss)	-	-	-	-	4,000	4,000	-
Asset sales gain	-	533	533	-	6,530	6,530	-
EBIT	**84,621**	**(73,321)**	**11,299**	**77,838**	**49,511**	**127,349**	**9%**
Net finance costs	(14,272)	(1,157)	(15,429)	(15,262)	(1,225)	(16,487)	(6%)
Tax	(20,103)	22,518	2,416	(17,320)	(13,271)	(30,591)	16%
Non-controlling interest	(95)	-	(95)	(113)	-	(113)	(15%)
NPAT attributable to ordinary equity holders of InvoCare Limited	**50,151**	**(51,960)**	**(1,809)**	**45,143**	**35,015**	**80,158**	**11%**
EPS (cents per share)	**35.1**	(36.3)	**(1.3)**	**31.6**	**24.5**	**56.1**	**11%**
Full Year Dividends (cents per share)	**24.5**			**21.0**			**17%**

*: % change relates to movement in Operating columns