InvoCare
Innovation Vocation Care

Macquarie Australia Conference

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InvoCare

- Largest funeral services operator in Australia, New Zealand and Singapore
- Integrated business operating in pre-need, at-need and post-need
- Over 250 locations, including 16 memorial parks (circa 1,500 employees)
- Business model delivers efficiencies through consolidation and shared services
- Greater than 20% total shareholder return since IPO
- Strong growth forecast in the number of deaths
- Reliable cash flows during different business cycles
- ASX listed (IVC) – market cap of $1.6bn – enterprise value of $1.9bn
- Assets of approx. $1.1bn (as at Dec 2016)
- Debt of $234m (as at Dec 2016)
- Dividend yield – approx. 3% (fully franked)

Summary of Performance 2016

Financials

Sales Revenue
$450.7m ↑ 3.3%

Expenses
$348.6m ↑ 2.4%

EBITDA
$112.3m ↑ 6.5%

Operating Earnings after tax
$55.2m ↑ 11.9%

Reported profit
$70.9m ↑ 29.4%

Pillars of Growth

Demographics
Deaths ↑ 0.3%

Funeral Market Share
Circa ↓ 77bps

Funeral Case Average ↑ 4%

Operating Margins
↑ 70 bps

Acquisitions/Greenfields
Nil

Prepaid FUM
↑ 12.0%

EBITDA/Countries[1]

Australia
$100.1m ↑ 6.7%

New Zealand
$9.6m ↑ 2.4%

Singapore
$8.4m ↑ 2.0%

USA
$(2.3)m ↑ 19.8%

[1]in local currency

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Growing Value in a Changing Market

Demographics

> Population trends and number of deaths continues to underpin the business with increase in number of deaths continuing to grow circa 2.8% by 2034 (*Australia)*

Market Share

> Improvements in product offering and branding, acquisitions, new locations and a renewed focus on local leadership offers opportunities to grow market share

Case Averages

> Market pricing environment remains favourable although customer preferences are changing and IVC offering needs to keep pace with consumers demands

> The business needs to continue to focus on providing high levels of customer rather than simply increasing prices on products

Operational Efficiency

> Opportunity to deliver efficiencies and provide better service to customers by process automation, standardisation and taking advantage of efficiencies of scale

The Market

- Australia is approx. 1,000 businesses generating $1bn revenues*
- Private owner/operators dominate funeral services (very fragmented market)
- Government and church dominate memorial parks
- Industry consolidation trends in most markets
- Prepaid funerals and memorials in advance of need are industry features
- Population growing and ageing across all markets
- Recommendations and referrals are main drives of customer choice
- Location convenience very relevant
- Barriers to entry
  - Brand loyalty is high for funerals, with referrals and reputation driving business, so establishing a brand is a barrier, more so than statutory or capital requirements
  - Cemeteries and crematoria require higher capital costs and must satisfy environmental and other regulatory requirements

* IBISWorld Industry Report S9520, Funeral Directors, Crematoria and Cemeteries in Australia, February 2016, IBIS World Pty Ltd

There's been a shift in consumer needs

2002	2016
Purpose of the funeral was to celebrate the life was agreed to by only a minority	Now almost everyone thinks this is the purpose of the funeral
Some (a minority) were interested in more expressive funeral services	Now most will accept more expressive services in various forms
Only some (a minority)wanted more involvement in organising the funeral	Now most want more say, more choice, more knowledge
Few had any knowledge about how to organise a funeral	Now most have an idea of what they prefer – consumers are more empowered
Few wanted to know or talk about dying especially their own funeral	Now most people contemplate their death and make their wishes known

Key trends within the Funeral industry

- Funerals have become an ‘event
  - Global trend to ‘celebration of life’ that is unique to individual (and family)
  - Funerals are following weddings
  - Still have ceremony before ‘the party’ however strict rules around formal proceedings have changed – venue, cars, flowers, photography
- Choices and cost transparency are now expected
  - Consumers today are used to open and transparent pricing in other categories
  - Product bundling and packaging is growing
- Personalisation is expected
  - More expressive display with the service
  - Photo story tributes (DVD)
  - Music etc
- Technology plays a significant role
  - Online is increasing becoming the first destination for information
  - Live streaming of ceremonies
  - Increased presence in social media
- Contemporising is everywhere
  - Funeral services to be reflective of todays modern society yet respectful of the deceased
  - We live in a culture of modernity and rising aspirations

Protect & Grow – 2020 Plan

The 2020 Plan aims to protect the existing network while driving sustainable growth into the future, by meeting the future needs of customers.

The plan is to implement over a four year period, which will allow the company to monitor performance of the early projects and adjust the plan accordingly.

Project	Aim / Objective	
Network & Brand Optimisation	Deliver the right product, in the right locations, at the right price	Integrated approach to deliver sustainable value growth over next 10-15 years
People & Culture	Greater focus on entrepreneurial ethos by encouraging local leadership	
Operational Efficiencies	Capture operational benefits of scale & standardise quality of service provision	

Protect & Grow - Indicative Returns

The plan will deliver a sustainable increase in the earnings rate growth for the business and add significant economic profit *(i.e. returns above WACC)*

Earnings growth

> The 2016 LTI program incentivises management to achieve compound Operational EPS growth of 10% p.a. over a rolling 5 year period - with a stretch target of 12% p.a. growth

> The plan will progressively drive improvements to deliver a growth rate of 10% whilst allowing for over performance without introducing high levels of risk to the primary objective

Value Creation

> All investment expenditure has been analysed using unlevered project level cash flows *(i.e. leverage has not been used to support the investment case)*

> The investment program is forecast to give rise to returns on invested capital consistent with historical levels

> The EBITDA benefit from the capital expenditure will commence in 2018 and will continue to ramp up through to 2022

> Forecast payback period is circa 6 - 7 years

Funding for the 2020 Growth Plan

The Protect and Grow plan will require an incremental capital investment of circa $200m over four years. This will be split approximately $160m on refreshing and growing the existing network and $40m on funding operational efficiency projects.

InvoCare will fund this program from a combination of operational cash flow and additional debt facilities supported by a 2 stage funding strategy approach:

Stage 1 - 2017 Funding

- The Group's existing banking syndicate will increase the existing funding lines to cover 2017 funding needs
- Total committed facilities will increase to $350m (from $290m), which includes a conservative liquidity buffer of $25m

Stage 2 - 2018 to 2020 Funding

- A comprehensive review of InvoCare's debt structure will be undertaken to ensure the optimal mix of maturities, funding instruments and facility pricing
- The funding package for 2018-2020 will be put in place by end of 2017

Q1 2017 Performance

- Gross sales revenues up 3.2% on Q1 2016
- Funeral case volumes up 1.4% on Q1 2016
- Increase in number of deaths estimated to be >3% on Q1 2016
- Market share softening continues in Q1
- Continued focus on cost control driving EBITDA
- Implementation of Protect and Grow strategy underway
- 2017 performance remains in line with guidance provided in February 2017
  - High single digit EBITDA growth
  - Mid single digit EPS growth
- Further update will be provided at the AGM on 19 May 2016

Disclaimer

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.


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