Propel Funeral Partners Limited

ABN 41 616 909 310

Appendix 4D – Half-year Report
For the Half-year ended 31 December 2018

Lodged with Australian Securities Exchange under Listing Rule 4.2A

Results for announcement to the market

This Appendix 4D is to be read in conjunction with the Interim Financial Report of Propel Funeral Partners Limited for the period ended 31 December 2018 and any public announcements made during the interim period in accordance with the continuous disclosure requirements of the Corporations Act and ASX Listing Rules.

Propel Funeral Partners Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Propel Funeral Partners Limited
ABN:	41 616 909 310
Reporting period:	For the half-year ended 31 December 2018
Previous period:	For the half-year ended 31 December 2017

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	20.9%	to	47,095
Operating earnings after tax ('Operating NPAT') (refer below)	up	21.8%	to	6,352
Profit from ordinary activities after tax attributable to the shareholders of Propel Funeral Partners Limited	up	> 100%	to	6,421
Profit for the half-year attributable to the shareholders of Propel Funeral Partners Limited	up	> 100%	to	6,421

Dividends

	Amount per security cents	Franked amount per security cents
Pre IPO dividend paid on 15 November 2017	46.000	46.000
Dividend for the circa 7 months ended 30 June 2018 paid on 5 October 2018	6.400	6.400

Comments
The statutory profit for the Company (and its subsidiaries) ('Group') after providing for income tax amounted to $6,421,000 (31 December 2017: statutory loss of $19,530,000). The prior half-year result was impacted by the one-off non-cash share-based payment expense which was recognised as a result of the Restructure (as defined below) and transaction costs relating to the IPO (as defined below) totalling $24,673,000.

Operating NPAT is a financial measure which is not prescribed by Australian equivalents to International Financial Reporting Standards ('AIFRS') and represents the profit under AIFRS adjusted for specific non-recurring items. The directors consider Operating NPAT to be one of the core earnings measures of the Group.

The following table summarises key reconciling items between statutory profit/(loss) after tax attributable to the shareholders of the Company, and Operating NPAT:

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Profit/(loss) after income tax	6,421	(19,530)
Add: One-off share based payment	-	21,878
Add: Acquisition/transaction costs	570	2,838
Add: Net foreign exchange losses	18	14
Add: Net loss on disposal of assets	42	15
Less: Release of contingent consideration from prior acquisitions	(699)	-
Operating NPAT	6,352	5,215

Refer to the Interim Financial Report and the Investor Presentation released to the market with this Appendix 4D Half-year Report for detailed explanation and commentary on the results.

3. Net tangible assets

	Consolidated 31 Dec 2018 $000	Consolidated 31 Dec 2017 $000
Net assets	181,272	174,437
Less: Deferred tax assets	(2,575)	(2,302)
Add: Deferred tax liabilities	6,169	3,527
Less: Goodwill	(95,632)	(73,749)
Net tangible assets	89,234	101,913

	Consolidated 31 Dec 2018	Consolidated 31 Dec 2017
Number of ordinary shares on issue	98,163,089	98,163,089

	Reporting period cents	Previous period cents
Net tangible assets per ordinary security	90.90	103.82

4. Dividends

Current period
On 28 August 2018, the directors declared a fully franked dividend of 6.4 cents per ordinary share. The dividend was paid on 5 October 2018 to eligible shareholders on the register as at 5 September 2018. This equated to a total distribution of $6,282,000.

Interim dividend not recognised at period end
In addition to the above dividend, and since the reporting date, the directors declared a fully franked dividend of 5.7 cents per ordinary share on 25 February 2019. The dividend will be paid on 5 April 2019 to eligible shareholders on the register as at 5 March 2019. This equates to a total estimated distribution of $5,595,000, based on the number of ordinary shares on issue as at 25 February 2019. The financial effect of the dividend declared after the reporting date is not reflected in the 31 December 2018 financial statements and will be recognised in the subsequent financial period.

Previous period
On 15 November 2017, prior to the Company's admission to the official list of the Australian Securities Exchange ('ASX') ('IPO') and shortly before the Company acquired the entire issued share capital of PFP Midco Pty Limited (formerly Propel Funeral Partners Limited) ('PFP Midco') ('Restructure'), PFP Midco paid a fully franked pre IPO dividend of 46 cents per ordinary share. This equated to a total distribution of $13,999,000.

5. Dividend reinvestment plans

Not applicable.

6. Acquisition or disposals of controlled entities, businesses or assets

Refer to note 17 to the financial statements for further details.

7. Details of any associates and joint venture entities required to be disclosed

Not applicable.

---

8. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the Company's auditors and the review report is attached as part of the Interim Financial Report.

---

9. Attachments

Details of attachments (if any):

The Interim Financial Report of Propel Funeral Partners Limited for the half-year ended 31 December 2018 is attached.

---

10. Signed

Signed ____________________________

Albin Kurti
Managing Director

Signed ____________________________ Date: 25 February 2019

Brian Scullin
Chairman

Propel Funeral Partners Limited

ABN 41 616 909 310

Interim Financial Report
For the Half-year ended 31 December 2018

Propel Funeral Partners Limited
Contents
31 December 2018

The directors of Propel Funeral Partners Limited present their report, together with the financial statements, on the consolidated entity consisting of Propel Funeral Partners Limited (ABN 41 616 909 310) (referred to hereafter as ‘Propel’, the ‘Company’ or ‘parent entity’) and the entities it controlled at the end of, or during, the half-year ended 31 December 2018 (referred to hereafter as the ‘Group’).

Due to rounding, numbers presented in the directors’ report may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Background
Propel owns and operates businesses, properties, infrastructure and related assets in the death care industry which stand to benefit from the growing and ageing population. As at the date of this directors' report, the Company consists of long established providers of funeral services operating from 109 properties (55 freehold and 54 leasehold) across seven states and territories of Australia and in New Zealand, including 25 cremation facilities and 8 cemeteries. The Company has appointed Propel Investments Pty Limited (ACN 117 536 357) (‘Manager’) to, among other things, identify investment opportunities and manage those investments on its behalf pursuant to a management agreement (‘Management Agreement’).

Propel was incorporated on 19 January 2017 but did not undertake any trading activities until it completed a restructure whereby PFP Midco Pty Limited (ACN 154 640 310) (formerly Propel Funeral Partners Limited) (‘PFP Midco’) became a wholly owned subsidiary of the Company (‘Restructure’). The Restructure occurred on 16 November 2017. On 23 November 2017, the Company was admitted to the official list of the Australian Securities Exchange (‘ASX’) (‘IPO’).

As a result of the Restructure, the comparative financial information presented for the half-year ended 31 December 2017 represents that of PFP Midco and its subsidiaries for the six-months to 31 December 2017 together with Propel from the date of the Restructure to 31 December 2017 and is presented on a pro forma basis in this directors’ report, unless otherwise stated.

This directors' report includes certain financials measures, such as Operating EBITDA (operating earnings before interest, tax, depreciation and amortisation), Operating EBIT (operating earnings before interest and tax) and Operating NPAT (operating net profit after tax) which are not prescribed by Australian Accounting Standards ('AAS') nor International Financial Reporting Standards (‘IFRS’) and represents the result under AAS/IFRS adjusted for specific non-recurring items including the one-off, non-cash share-based payment expense disclosed in the prospectus prepared by the Company in connection with the IPO (‘Prospectus’), transaction costs, non-operating income and expenses. The directors consider Operating EBITDA, Operating EBIT and Operating NPAT to reflect the core earnings of the Group. These financial measures, along with other measures, have not been subject to specific audit or review procedures by the Company’s auditor, but have been extracted from the accompanying financial statements.

Directors
The following persons were directors of Propel during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr Brian Edwin Scullin - Chairman
Ms Naomi Edwards
Mr Jonathan Trollip
Mr Albin Kurti
Mr Fraser Henderson

Principal activities
The principal activities of the Group during the financial half-year were the provision of death care related services in Australia and New Zealand.

Dividends
Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2018 $'000	**31 Dec 2017 $'000**
Dividend for the circa 7 month period to 30 June 2018 of 6.4 cents per ordinary share	6,282	13,999

On 28 August 2018, the directors declared a fully franked dividend for the circa 7 month period to 30 June 2018 of 6.4 cents per ordinary share which equated to a total distribution of $6,282,000. The dividend was paid on 5 October 2018 and was recognised during the relevant reporting period.

On 25 February 2019, the directors declared a fully franked interim dividend of 5.7 cents per ordinary share. The dividend will be paid on 5 April 2019 to eligible shareholders on the register as at 5 March 2019. This equates to a total estimated distribution of $5,595,000, based on the number of ordinary shares on issue as at 25 February 2019. The financial effect of the dividend declared after the reporting date is not reflected in the 31 December 2018 financial statements and will be recognised in the period to 30 June 2019. The interim dividend declared represented approximately 75% of Distributable Earnings (NPAT adjusted for certain non-cash, one-off and non-recurring items) for the 6 month period to 31 December 2018.

In respect of the prior reporting period, PFP Midco paid a fully franked pre-IPO dividend to its shareholders of 46 cents per share (a total of $13,999,000) on 15 November 2017. There were no other dividends paid, recommended or declared during the six months ended 31 December 2017.

All dividends referred to above were fully franked at the Company tax rate of 30%.

Significant changes in the state of affairs
During the six months ended 31 December 2018, the Group experienced the following significant changes in its state of affairs:

- on 2 July 2018, the Group completed the acquisition of the business, assets and a freehold property of Newhaven Funerals NQ (‘Newhaven Funerals NQ’) which operates from two locations in North Queensland;
- on 27 August 2018, the Group entered into a 3 year $50,000,000 senior debt facility with Westpac Banking Corporation, which as at the date of this financial report was undrawn;
- on 3 December 2018, the Group acquired the business and assets of Martin Williams Funeral Directors which operates in South Auckland in New Zealand;
- on 5 December 2018, the Group acquired 100% of the issued share capital of Noxomo Pty Limited, trading as Manning Great Lakes Memorial Gardens (‘MGLMG’), which owns and operates a crematorium and lawn cemetery on the mid north coast of NSW; and
- on 12 December 2018, the Group executed a conditional sale agreement to acquire the businesses, assets and three freehold properties in New Zealand associated with Dils Funeral Services, Schnapper Rock Cremations and Rowley Funeral Services.

In addition, Propel:

- acquired three freehold properties (two of which were previously tenanted by Propel) and vacant land relating to a potential greenfield expansion opportunity totalling $6,234,000 (excluding stamp duty); and
- entered into a new 5 year head office lease with a third party landlord.

There were no other significant changes in the state of affairs of the Group during the financial half-year.

Events after the reporting period
Subsequent to 31 December 2018, the Group:

- executed conditional sale agreements to acquire the business, assets, certain freehold properties and shares (where relevant) in:
  - Howard & Gannon Funerals in Napier, New Zealand;
  - Waikanae Funeral Home and Kaitawa Crematorium in Waikanae, New Zealand; and
  - Morleys Funerals and its related businesses in Townsville, Queensland;
- declared a fully franked interim dividend of 5.7 cents per ordinary share. This equates to a total estimated distribution of $5,595,000 and will be paid on 5 April 2019 to eligible shareholders on the register as at 5 March 2019.

Financial and operating overview

This financial and operating overview summarises the half year results for the 6 months ended 31 December 2018 and proforma results for the prior corresponding period ('PCP' or '1H FY18') as disclosed in the directors' report for the half year period ended 31 December 2017, unless otherwise stated.

In 1H FY19, Propel reported:

- revenue of $47,095,000, an increase of 20.9% on the PCP;
- Operating EBITDA of $11,658,000, an increase of 6.4% on the PCP; and
- basic earnings per share of 6.54 cents, an increase of 3.6% on the PCP.

The table below summarises the half-year results of Propel:

	31 Dec 2018	31 Dec 2017
	$ '000	$ '000
Total revenue	**47,095**	**38,942**
Cost of sales	(14,029)	(11,906)
Gross profit	33,066	27,037
… margin	*70.2%*	*69.4%*
Total operating costs	(21,408)	(16,075)
Operating EBITDA	**11,658**	**10,961**
... margin	*24.8%*	*28.1%*
Depreciation	(2,073)	(1,305)
Operating EBIT	9,585	9,656
... margin	*20.4%*	*24.8%*
Net other income/expenses	483	102
Transaction/acquisition costs	(570)	(43)
One off share based payment expense	0	0
EBIT	**9,498**	**9,715**
Interest expense	(243)	(31)
Interest income	217	132
Net financing charge on contract assets and contract liabilities	(543)	(653)
Net profit/(loss) before tax	**8,929**	**9,164**
Income tax expense	(2,508)	(2,965)
Net profit/(loss) after tax	**6,421**	**6,199**
Operating NPAT	*6,352*	*6,270*
Basic earnings per share (cps)	*6.54*	*6.31*

The major income statement line items for the Group down to Operating EBITDA are presented below:

	31 Dec 2018	31 Dec 2017	Change	%
	$ '000	$ '000	$ '000	
Funeral operations	40,889	35,565	5,324	15.0%
Cemetery, crematoria and memorial gardens	5,176	2,588	2,587	100.0%
Other trading revenue	1,030	789	241	30.6%
Total revenue	**47,095**	**38,942**	**8,153**	**20.9%**
Cost of sales	(14,029)	(11,906)	(2,123)	(17.8%)
Gross profit	**33,066**	**27,037**	**6,030**	**22.3%**
Employment costs	(14,324)	(10,961)	(3,363)	(30.7%)
Occupancy and facility costs	(3,929)	(2,309)	(1,620)	(70.2%)
Administration fees	(121)	(120)	(1)	(0.5%)
Other operating costs	(3,034)	(2,685)	(349)	(13.0%)
Total operating costs	**(21,408)**	**(16,075)**	**(5,333)**	**33.2%**
Operating EBITDA	**11,658**	**10,961**	**697**	**6.4%**

Commentary on the results is provided below:

Revenue
Revenue increased by 20.9% from $38,942,000 in 1H FY18 to $47,095,000 in 1H FY19, driven by:

– a 15.0% increase in revenue from funeral operations; and

– revenue from cemetery, crematoria and memorial gardens doubling to $5,176,000.

The latter was largely attributable to the acquisition of 100% of the issued share capital of Norwood Park Limited (‘Norwood Park’), a crematoria and cemetery business which operates in the Australian Capital Territory, New South Wales and Queensland. The acquisition completed during 2H FY18.

The number of funerals increased by 11.7% from 5,053 in 1H FY18 to 5,644 in 1H FY19. The increase was driven by the part period impact of Newhaven Funerals NQ (acquired in 1H FY19) and the full period impact of Seasons Funerals (acquired in 1H FY18) and the Brindley Group (acquired in 2H FY18). The 22 businesses owned throughout 1H FY18 and 1H FY19 reported 509 funerals less than the PCP, materially below historical long term trends. During 1H FY19, the funeral industry cycled through a strong PCP (due to the severe 2017 flu season) and below trend death volumes (due to the benign 2018 flu season). By way of example, in Tasmania, registered deaths in 1H FY19 declined 15.4[1]% on the PCP. Although Propel’s Tasmanian market share increased marginally during that period, the number of funerals performed by its Tasmanian network was materially below the PCP.

In other key Australian markets within which Propel operates, estimated death volume declines in 1H FY19 on the PCP were also material, despite observable market share remaining stable across Propel’s network. The 509 funerals equates to approximately $3,688,000 in estimated incremental revenue from funeral operations (based on the 1H FY19 gross average revenue per funeral) forgone in 1H FY19, the majority of which Propel expects will be deferred (rather than lost) to future periods.

Average Revenue Per Funeral increased by 2.2% from $5,427 in 1H FY18 to $5,549 in 1H FY19, including the financial profile of acquisitions completed during FY18 and in 1H FY19. The 22 businesses owned throughout 1H FY18 and 1H FY19 experienced a 3.0% increase in Average Revenue Per Funeral during the period, which was primarily influenced by price increases and sales mix. The increase was in line with Propel’s target annual growth of between 2.0% and 4.0%.

In 1H FY19, the Company generated 46% of its revenue from metropolitan areas, in line with FY18.

Gross profit margin
Gross profit margin increased from 69.4% in 1H FY18 to 70.2% in 1H FY19, primarily due to the financial and operating metrics of acquisitions completed during FY18 and 1HFY19, which included a number of crematoria businesses which generate higher gross profit margins.

[1] Tasmanian Registry of Births, Deaths and Marriages

Operating costs and Operating EBITDA
Operating costs increased by $5,333,000 which included the full period impact of acquisitions completed in FY18 and the part year impact of acquisitions completed in 1H FY19. Operating costs for the 22 businesses owned throughout 1H FY18 and 1H FY19 decreased approximately 2.0%, after taking into account increases in employment costs (e.g. pay rises in accordance with relevant Awards), third party property lease expenses and other expenses.

Operating EBITDA increased 6.4% from $10,961,000 in 1H FY18 to $11,658,000 in 1H FY19, primarily due to contributions from the full period impact of acquisitions completed in FY18 and the part period impact of acquisitions completed in 1H FY19, offset by lower funeral volumes on the comparable businesses.

1H FY19 Operating EBITDA margin was 1.8% lower than FY18, influenced by:

- below trend death volumes (on a largely fixed cost base);
- the mix of freehold and leasehold properties, resulting in an increase in occupancy costs; and
- the financial contributions of acquisitions completed in FY18 and 1H FY19.

Depreciation and other income and expenses
Depreciation increased from $1,305,000 top $2,073,000. Approximately $586,000 of the increase related to businesses acquired during FY18 and 1HFY19.

Net other income/expenses of $483,000 largely related to the release of contingent consideration that was not paid or forecast not to be paid.

Transaction and acquisitions costs of $570,000 largely related to stamp duty on acquisitions.

Pre-paid contracts
Funds held in connection with pre-paid contracts are largely held with third party friendly societies who invest the funds in cash and fixed interest. In 1H FY19, pre-paid contracts that turned at need in Australia accounted for approximately 9% of Propel's Australian funeral volume which was in line with 1H FY18.

In accordance with Australian Accounting Standard *AASB 15, Revenue from Contracts with Customers*, Propel recognises investment returns generated on funds held for pre-paid contracts net of a non-cash financing charge. During the period, the average investment return on pre-paid contracts was 1.4%. The non-cash financing charge applied for the period was 3.8% which was based on Propel's indicative cost of senior debt. The net financing charge is disclosed below Operating EBITDA.

Impairment
Following a review of the carrying value of assets, no impairment was deemed necessary (1H FY18: Nil).

Income tax expense
Income tax expense was $2,508,000 (1H FY18: $2,965,000), representing an effective tax rate of 28.1% (1H FY18: 32.4%). The effective tax rate was impacted by the net financing charge on pre-paid contracts, non-deductible acquisition expenses and non-assessable income items. Excluding the non-deductible items, the effective tax rate was 29.8% (1H FY18: 30.1%).

Cash flow highlights
The cash flows for the Group are presented below:

	31 Dec 2018 Statutory $ '000	31 Dec 2017 Statutory $ '000
Receipts from customers (inc GST)	52,085	43,130
Payments to suppliers and employees (inc GST)	(41,302)	(32,249)
Income taxes paid	(3,585)	(1,594)
Interest paid	(240)	(2,299)
Interest received	196	188
Net cash provided by operating activities	**7,154**	**7,176**
Payment for purchase of business, net of cash acquired	(9,621)	(11,652)
Payments for property, plant and equipment	(8,978)	(2,207)
Other investing cash flows	(21)	89
Net cash used by investing activities	**(18,620)**	**(13,770)**
Proceeds from issue of shares, net of transaction costs	0	105,986
Net repayment of borrowings	0	(40,185)
Dividends paid	(6,282)	(13,999)
Other financing cash flows	(239)	(47)
Net cash provided by financing activities	**(6,521)**	**51,755**
Net increase in cash during the year	(17,987)	45,160
Cash at the start of the year	28,259	6,843
Exchange rate effects	74	(38)
Cash at the end of the year	**10,346**	**51,965**

Statutory cash flows provided by operating activities were in line with the PCP at $7,154,000. This was influenced by movements in working capital, including the necessary transition to monthly GST payments (1HFY18: quarterly). Income tax paid was higher than income tax expense due to payments associated with FY18. This was offset by lower interest costs due to the Group trading in a net cash position. Interest expense relates to hire purchase expenses and the line fee on the undrawn senior debt facility.

Cash flow conversion was 92.5% in 1H FY19, compared to 100.3% achieved in 1H FY18 as shown in the table below:

	31 Dec 2018 $ '000	31 Dec 2017 $ '000
Operating EBITDA	11,658	10,847
Net cash provided by operating activities	7,154	7,176
Add finance costs	240	2,299
Add income tax paid	3,585	1,594
Less interest received	(196)	(188)
Ungeared, tax free, operating cash flow	**10,784**	**10,881**
Operating EBITDA converted to ungeared, tax free, operating cash flow	**92.5%**	**100.3%**

Cash flows used in investing activities included capital expenditure related to:

	31 Dec 2018 $ '000	31 Dec 2017 $ '000
Property, refurbishments and facility upgrades	1,922	1,507
Motor vehicles	414	281
Other assets	70	58
Total capital expenditure	**2,406**	**1,846**

During the half-year ended 31 December 2018, the Group:

- acquired the business, assets and a freehold property of Newhaven Funerals NQ for $3,739,000;
- acquired the business and assets of Martin Williams Funeral Directors for $239,000;
- acquired 100% of the issued share capital of Noxomo Pty Limited, which operates the MGLMG business for $4,093,000;
- paid a fully franked dividend of 6.4 cents per ordinary share which equated to a total distribution of $6,282,000;
- acquired 3 freehold properties (two of which were previously tenanted by Propel) and vacant land relating to a potential greenfield expansion opportunity totalling $6,572,000 (including stamp duty); and
- incurred capital expenditure of $2,406,000 which included:
  - $978,000 relating to a number of property refurbishments and two new leasehold sites;
  - purchasing motor vehicles totalling $414,000; and
  - other capital expenditure including sound system upgrades, IT equipment, mortuary equipment and other plant and equipment.

In 1H FY19, maintenance capital expenditure amounted to 4.4% of revenue (1H FY18: 4.5%) which was in line with reported depreciation.

As at 31 December 2018, the Group:

- reported cash and cash equivalents (‘Cash’) of approximately $10,346,000; and
- had no drawn senior debt.

Outlook
Propel is well placed to benefit from:
– acquisitions completed during FY18 and 1H FY19;
– proposed acquisitions announced in 1H FY19 and those subsequent to 31 December 2018;
– other potential future acquisitions (although timing is uncertain); and
– funeral volumes reverting to long term trends.

Historical experience suggests that the significant, year on year decline in death volumes experienced in calendar year 2018 should be temporary, given:
– the growing and ageing population; and
– prior year on year declines have rebounded quickly.

Propel is expecting funeral volumes to cycle through weak PCPs during 2019.

Comparable volumes were up during the first 7 weeks of 2019, however, death volumes fluctuate over short time horizons.

The Group’s conservative balance sheet and strong operating cash flows should provide financial flexibility to support potential future dividends and growth initiatives, including acquisitions.

Rounding of amounts
The Company is of a kind referred to in the Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Brian Scullin
Chairman

Albin Kurti
Managing Director

25 February 2019

To the Board of Directors of Propel Funeral Partners Limited

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

As lead audit partner for the review of the interim financial statements of Propel Funeral Partners Limited for the financial half year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) any applicable code of professional conduct in relation to the review.

Yours sincerely

Nexia

Nexia Sydney Audit Pty Ltd

Joseph Santangelo
Director

Date: 25 February 2019

Nexia Sydney Audit Pty Ltd
Level 16, 1 Market Street
Sydney NSW 2000
PO Box H195
Australia Square NSW 1215
p +61 2 9251 4600
f +61 2 9251 7138
e info@nexiasydney.com.au
w nexia.com.au

Propel Funeral Partners Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018

	Note	Consolidated 31 Dec 2018 $'000	Consolidated 31 Dec 2017 $'000
Revenue	4	47,095	38,942
Expenses			
Cost of sales and goods		(14,029)	(11,906)
Employee costs		(14,397)	(10,935)
Occupancy and facility expenses		(3,944)	(2,309)
Advertising expenses		(1,143)	(853)
Motor vehicle expenses		(699)	(517)
Management/administration fees		(121)	(331)
Other expenses		(1,267)	(1,243)
		11,495	10,848
Share-based payments expense	6	-	(21,878)
Acquisition and IPO transaction costs	6	(570)	(2,838)
Loss on disposal of assets		(45)	(15)
Other income	5	709	130
Depreciation and amortisation expense	6	(2,073)	(1,305)
Interest income		217	132
Interest expense		(243)	(1,994)
Net financing charge on contract assets and contract liabilities	7	(543)	(652)
Net foreign exchange losses		(18)	(14)
Profit/(loss) before income tax expense		8,929	(17,586)
Income tax expense		(2,508)	(1,944)
Profit/(loss) after income tax expense for the half-year attributable to the shareholders of Propel Funeral Partners Limited		6,421	(19,530)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		1,286	(1,220)
Other comprehensive income for the half-year, net of tax		1,286	(1,220)
Total comprehensive income for the half-year attributable to the shareholders of Propel Funeral Partners Limited		7,707	(20,750)
		cents	**cents**
Basic earnings per share	18	6.54	(41.53)
Diluted earnings per share	18	6.54	(41.53)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Propel Funeral Partners Limited
Statement of financial position
As at 31 December 2018

	Note	Consolidated 31 Dec 2018 $'000	Consolidated 30 Jun 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	8	10,346	28,259
Customer deposits		530	719
Contract assets	7	46,543	45,640
Trade and other receivables		5,036	4,230
Inventories		3,134	2,730
Prepayments		1,547	727
Total current assets		67,136	82,305
Non-current assets			
Property, plant and equipment	9	85,853	72,462
Goodwill	10	95,632	91,105
Deferred tax		2,575	2,471
Other assets		149	121
Total non-current assets		184,209	166,159
Total assets		251,345	248,464
Liabilities			
Current liabilities			
Trade and other payables	11	5,537	5,561
Hire purchase		187	126
Income tax		654	1,586
Employee benefits		2,953	2,502
Contingent consideration	14	998	1,425
Contract liabilities	7	50,315	48,764
Other liabilities		2,092	1,162
Total current liabilities		62,736	61,126
Non-current liabilities			
Hire purchase		483	284
Deferred tax		6,169	5,580
Employee benefits		288	327
Contingent consideration	14	248	1,179
Other liabilities		149	121
Total non-current liabilities		7,337	7,491
Total liabilities		70,073	68,617
Net assets		181,272	179,847
Equity			
Issued capital	12	199,562	199,562
Foreign currency translation reserve		988	(298)
Accumulated losses		(19,278)	(19,417)
Total equity		181,272	179,847

The above statement of financial position should be read in conjunction with the accompanying notes

Propel Funeral Partners Limited
Statement of changes in equity
For the half-year ended 31 December 2018

Consolidated	Issued capital $'000	Foreign currency translation reserve $'000	Retained profits/ accumulated losses $'000	Total equity $'000
Balance at 1 July 2017	37,198	772	8,852	46,822
Loss after income tax expense for the half-year	-	-	(19,530)	(19,530)
Other comprehensive income for the half-year, net of tax	-	(1,220)	-	(1,220)
Total comprehensive income for the half-year	-	(1,220)	(19,530)	(20,750)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	162,364	-	-	162,364
Dividends paid (note 13)	-	-	(13,999)	(13,999)
Balance at 31 December 2017	199,562	(448)	(24,677)	174,437

Consolidated	Issued capital $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018	199,562	(298)	(19,417)	179,847
Profit after income tax expense for the half-year	-	-	6,421	6,421
Other comprehensive income for the half-year, net of tax	-	1,286	-	1,286
Total comprehensive income for the half-year	-	1,286	6,421	7,707
Transactions with owners in their capacity as owners:				
Dividends paid (note 13)	-	-	(6,282)	(6,282)
Balance at 31 December 2018	199,562	988	(19,278)	181,272

The above statement of changes in equity should be read in conjunction with the accompanying notes

Propel Funeral Partners Limited
Statement of cash flows
For the half-year ended 31 December 2018

	Note	Consolidated 31 Dec 2018 $'000	Consolidated 31 Dec 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		52,085	43,128
Payments to suppliers (inclusive of GST)		(41,302)	(32,249)
		10,783	10,879
Interest received		196	188
Other revenue		-	2
Interest and other finance costs paid		(240)	(2,299)
Income taxes paid		(3,585)	(1,594)
Net cash from operating activities		7,154	7,176
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired		(9,621)	(11,652)
Payments for property, plant and equipment		(8,978)	(2,207)
Proceeds from disposal of property, plant and equipment		43	99
Net movement in contract assets and contract liabilities		(64)	(10)
Net cash used in investing activities		(18,620)	(13,770)
Cash flows from financing activities			
Proceeds from issue of shares		-	111,555
Share issue transaction costs		(147)	(5,569)
Proceeds from fixed rate notes		-	15,478
Repayment of fixed rate notes		-	(3,389)
Net repayment of borrowings		-	(52,274)
Net repayment of hire purchases		(92)	(47)
Dividends paid	13	(6,282)	(13,999)
Net cash from/(used in) financing activities		(6,521)	51,755
Net increase/(decrease) in cash and cash equivalents		(17,987)	45,161
Cash and cash equivalents at the beginning of the financial half-year		28,259	6,843
Effects of exchange rate changes on cash and cash equivalents		74	(38)
Cash and cash equivalents at the end of the financial half-year		10,346	51,966

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

These general purpose financial statements ('financial statements') relate to Propel Funeral Partners Limited as the consolidated entity (referred to hereafter as the 'Group') consisting of Propel Funeral Partners Limited (referred to hereafter as 'Propel', the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2018. The comparative financial information for the half-year ended 31 December 2017 is a business continuation of PFP Midco Pty Limited (ACN 154 640 310) (formerly Propel Funeral Partners Limited) ('PFP Midco'). The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Propel is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 18.03
135 King Street
Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 February 2019. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

These financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001 (Cth), as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 (Cth).

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted
The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity during the financial half-year ended 31 December 2018 and are not expected to have any significant impact for the full financial year ending 30 June 2019.

Australian Accounting Standard AASB 15 'Revenue from Contracts with Customers' (and its related amendments) which was mandatorily effective for annual periods commencing on or after 1 January 2018 was early adopted by the Group with effect from 1 July 2016.

The following Accounting Standards and Interpretations have been adopted from 1 July 2018:

AASB 9 Financial Instruments
Propel adopted AASB 9 on 1 July 2018. AASB 9 replaced the provisions of AASB 139 that relate to the classification and measurement of financial assets, including impairment, financial liabilities and hedge accounting.

Classification
Under AASB 9, financial assets are classified based on the following criteria:
- the entity’s business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset - Solely Payments of Principal and Interest (‘SPPI’).

Note 2. Significant accounting policies (continued)

Based on the above, a financial asset is classified into the one of the following measurement categories:
- Measured at Amortised Cost (‘AC’);
- Fair Value through Other Comprehensive Income (‘FVOCI’); or
- Fair Value Through Profit or Loss (‘FVTPL’).

Measurement
Financial assets
A financial asset shall be measured at AC if both of the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

The Group currently holds trade receivables, cash and prepaid contract assets at AC.

A financial asset shall be measured at FVTPL if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

The Group currently has no financial assets that are measured at FVOCI.

All other financial assets are classified and measured at FVTPL unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at FVTPL to reduce the effect of, or eliminate, an accounting mismatch.

The Group currently has no financial assets that that are measured at FVTPL.

Financial liabilities
For financial liabilities designated at FVTPL, AASB 9 requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

The Group currently holds trade payables, other payables and hire-purchase liabilities at AC. Contingent consideration is held at FVTPL.

Impairment
AASB 9 requires the use an of 'expected credit loss' ('ECL') model to recognise an impairment. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring ECL using a lifetime expected loss allowance is available.

Summary of impact of AASB 9 on Propel
The adoption of AASB 9 has resulted in a change in accounting policy in respect of the impairment of trade receivables.

The trade receivables of the Group adopt the new ECL model to assess impairment using the simplified approach. This varies from AASB 139, as it is no longer necessary for a loss event to occur before an impairment loss is recognised. Under AASB 9, the Group is required to measure ECL, using either the measurement of 12 month expected losses or lifetime expected loss allowance for all trade receivables (refer below).

Assessment of impairment on trade receivables
The Group has assessed the ECL at a regional level. The loss allowance as at 31 December 2018 in respect of trade receivables is set out below:

	Current	< 3 months	3 to 6 months	over 6 months	Total
Expected credit loss rate % (Group average)	0.7%	1.3%	22.0%	68.3%	10.3%
Trade receivables ($'000)	3,247	1,202	226	663	5,338
Loss allowance ($'000)	19	14	49	467	549

Note 2. Significant accounting policies (continued)

Assessment of impairment of other financial assets
No impairment was identified for the other financial assets of Propel including cash and cash equivalents and contract assets (relating to prepaid contracts which are largely held by friendly societies in cash and fixed interest).

The expected credit loss under AASB 9 (described above) is not materially different to the incurred loss model of AASB 139.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been early adopted by the consolidated entity for the interim period ended 31 December 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations most relevant to the Group are as follows:

AASB 16 'Leases', applicable to annual reporting periods beginning on or after 1 January 2019
The standard replaces AASB 117 'Leases' and removes the operating lease classification. Instead, subject to short-life/low value exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, and a liability corresponding to the capitalised lease will also be recognised. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset and an interest expense on the recognised lease liability. Operating EBITDA (Operating Earnings Before Interest, Tax, Depreciation and Amortisation) results will therefore increase (all other things being equal). The Group has commenced its analysis of the changes which will enable the expected financial impacts to be quantified and will disclose the expected financial impacts in its financial statements for the year ended 30 June 2019.

The Group will adopt the standard on 1 July 2019.

Note 3. Operating segments

Identification of reportable operating segments
The Group is organised into two geographic segments, Australian operations and New Zealand operations, both of which operate in the death care related services industry. The Australian and New Zealand operations include the aggregation of a number of businesses that exhibit similar long-term financial performance and economic characteristics.

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

Intersegment transactions
Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans
Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Note 3. Operating segments (continued)

Operating segment information

Consolidated - 31 Dec 2018	Australian operations $'000	New Zealand operations $'000	Total $'000
Revenue			
Sales to external customers	38,887	8,124	47,011
Other revenue (excluding interest)	60	24	84
Total revenue	38,947	8,148	47,095
Segment result	10,043	1,452	11,495
Acquisition and IPO transaction costs	(539)	(31)	(570)
Loss on disposal of assets	(40)	(5)	(45)
Other income	201	508	709
Depreciation and amortisation	(1,727)	(346)	(2,073)
Interest income	202	15	217
Finance costs	(243)	-	(243)
Net financing charge on contract assets and contract liabilities	(543)	-	(543)
Net foreign exchange loss	(8)	(10)	(18)
Profit before income tax expense	7,346	1,583	8,929
Income tax expense			(2,508)
Profit after income tax expense			6,421
Assets			
Segment assets	233,042	34,323	267,365
Intersegment eliminations			(16,020)
Total assets			251,345
Liabilities			
Segment liabilities	66,623	19,470	86,093
Intersegment eliminations			(16,020)
Total liabilities			70,073

Note 3. Operating segments (continued)

Consolidated - 31 Dec 2017	Australian operations $'000	New Zealand operations $'000	Total $'000
Revenue			
Sales to external customers	30,845	8,033	38,878
Other revenue (excluding interest)	46	18	64
Total revenue	30,891	8,051	38,942
Segment result	8,960	1,888	10,848
Share-based payment expense	(21,878)	-	(21,878)
Acquisition and IPO transaction costs	(2,838)	-	(2,838)
Loss on disposal of assets	(22)	7	(15)
Other income	106	24	130
Depreciation and amortisation	(1,009)	(296)	(1,305)
Interest income	122	10	132
Finance costs	(1,935)	(59)	(1,994)
Net financing charge on contract assets and contract liabilities	(652)	-	(652)
Net foreign exchange loss	(4)	(10)	(14)
Profit/(loss) before income tax expense	(19,150)	1,564	(17,586)
Income tax expense			(1,944)
Loss after income tax expense			(19,530)
Consolidated - 30 Jun 2018			
Assets			
Segment assets	234,492	31,860	266,352
Intersegment eliminations			(17,888)
Total assets			248,464
Liabilities			
Segment liabilities	65,276	21,229	86,505
Intersegment eliminations			(17,888)
Total liabilities			68,617

Geographical information

	Geographical non-current assets	
	31 Dec 2018 $'000	30 Jun 2018 $'000
Australia	167,582	151,466
New Zealand	30,072	28,242
Intersegment eliminations	(16,020)	(16,020)
	181,634	163,688

The geographical non-current assets above are exclusive of, where applicable, financial instruments, deferred tax assets, post-employment benefits assets and rights under insurance contracts.

Note 4. Revenue

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Revenue from contracts with customers	47,011	38,878
Other revenue		
Commission	32	36
Rent	52	28
	84	64
Revenue	47,095	38,942

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Funeral operations	40,889	35,565
Cemetery, crematoria and memorial gardens	5,176	2,588
Other trading revenue	946	725
	47,011	38,878

Refer to note 3 for geographical regions information.

Note 5. Other income

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Gain on disposal of assets	3	1
Release of contingent consideration from prior acquisitions	699	-
Provision release for monument works	-	112
Other income	7	17
Other income	709	130

Note 6. Expenses

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation		
Buildings	510	363
Improvements	163	51
Plant and equipment	676	290
Motor vehicles	724	521
Other	-	80
Total depreciation	2,073	1,305
Other non-operating expenses		
Acquisition expenses and IPO transaction costs	570	2,838
Share-based payment expense	-	21,878
Total other non-operating expenses	570	24,716

Share-based payment expense
In the prior period, a one-off, non-cash share-based payment of $21,878,000 was incurred in connection with the Restructure and IPO of the Group and related to a discount applied on issue of Initial Shares to an entity associated with Albin Kurti, Fraser Henderson and Peter Dowding. Such shares are subject to voluntary escrow arrangements until the tenth anniversary of the Company's shares being admitted to the ASX (subject to certain exceptions).

Note 7. Contract assets and liabilities

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Profit or loss impact of undelivered contract assets and contract liabilities		
Investment income on contract assets	380	264
Finance charge on contract liabilities	(923)	(916)
Net financing charge on contract assets and contract liabilities	(543)	(652)

	Consolidated	
	31 Dec 2018 $'000	30 Jun 2018 $'000
Movements in contract assets		
Opening balance	45,640	35,565
Sales of new contract assets	1,526	3,167
Redemption of contract assets following service delivery	(2,765)	(3,868)
Increase due to business combinations	1,602	7,401
Increase due to business combinations - prior year	160	2,641
Increase due to investments returns	380	734
Closing balance	46,543	45,640

Note 7. Contract assets and liabilities (continued)

	Consolidated 31 Dec 2018 $'000	Consolidated 30 Jun 2018 $'000
Contract assets expected to be realised within one year	4,937	3,638
Contract assets expected to be realised after one year	41,606	42,002
Total contract assets	46,543	45,640
Movements in contract liabilities		
Opening balance	48,764	38,136
Sales of new contract liabilities	1,479	3,187
Decrease following delivery of services	(2,613)	(4,144)
Increase due to business combinations	1,602	7,401
Increase due to business combinations - prior year	160	2,642
Increase due to finance charge applied in accordance with AASB 15	923	1,542
Closing balance	50,315	48,764
Contract liabilities expected to be realised within one year	5,342	3,887
Contract liabilities expected to be realised after one year	44,973	44,877
Total contract liabilities	50,315	48,764

All contract asset and contract liability amounts have been treated as current because the asset and the liability originate from the same contract. The contract liability is recognised as a current liability as the Group does not have an unconditional right to defer settlement of the liability. Accordingly, because the liability is classified as current, the associated prepaid asset balance is also classified as current.

The asset and liability have been split between amounts ‘expected to be realised within one year’ and ‘amounts expected to be realised after one year’ based on historical trends.

Note 8. Current assets - cash and cash equivalents

	Consolidated 31 Dec 2018 $'000	Consolidated 30 Jun 2018 $'000
Cash on hand	14	14
Cash at bank	10,332	28,245
	10,346	28,259

Note 9. Non-current assets - property, plant and equipment

	Consolidated 31 Dec 2018 $'000	Consolidated 30 Jun 2018 $'000
Land - at cost	25,335	21,918
Buildings - at cost	43,454	35,707
Less: Accumulated depreciation	(2,452)	(1,942)
	41,002	33,765
Improvements - at cost	5,530	4,369
Less: Accumulated depreciation	(421)	(256)
	5,109	4,113
Plant and equipment - at cost	10,018	7,488
Less: Accumulated depreciation	(2,146)	(1,616)
	7,872	5,872
Motor vehicles - at cost	9,053	8,152
Less: Accumulated depreciation	(2,828)	(2,173)
	6,225	5,979
Construction in progress - at cost	310	815
	85,853	72,462

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Land $'000	Buildings $'000	Improve-ments $'000	Plant and equipment $'000	Motor vehicles $'000	Construc-tion in progress $'000	Total $'000
Balance at 1 July 2018	21,918	33,765	4,113	5,872	5,979	815	72,462
Additions	1,882	4,352	629	1,322	764	279	9,228
Additions through business combinations	1,130	3,329	-	863	227	-	5,549
Disposals	-	-	-	(19)	(76)	-	(95)
Exchange differences	405	216	43	68	50	-	782
Transfers in/(out)	-	(150)	487	442	5	(784)	-
Depreciation expense	-	(510)	(163)	(676)	(724)	-	(2,073)
Balance at 31 December 2018	25,335	41,002	5,109	7,872	6,225	310	85,853

Note 10. Non-current assets - Goodwill

	Consolidated 31 Dec 2018 $'000	Consolidated 30 Jun 2018 $'000
Goodwill - at cost	95,632	91,105

Note 10. Non-current assets - Goodwill (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Goodwill $'000
Balance at 1 July 2018	91,105
Additions through business combinations	4,140
Adjustments for prior year business combinations	(64)
Exchange differences	451
Balance at 31 December 2018	95,632

Note 11. Current liabilities - trade and other payables

	Consolidated	
	31 Dec 2018 $'000	30 Jun 2018 $'000
Trade payables	2,100	2,188
Deposits	334	241
Accrued expenses	1,640	1,252
GST payable	532	511
Other payables	931	1,369
	5,537	5,561

Note 12. Equity - issued capital

	Consolidated			
	31 Dec 2018 Shares	30 Jun 2018 Shares	31 Dec 2018 $'000	30 Jun 2018 $'000
Ordinary shares - fully paid	98,163,089	98,163,089	199,562	199,562

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Note 13. Equity - dividends

Dividends
Dividends paid during the financial half-year were as follows:

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Dividend for the circa 7 months ended 30 June 2018 of 6.4 cents (2017: 46 cents) per ordinary share	6,282	13,999

On 28 August 2018, the directors declared a fully franked dividend of 6.4 cents per ordinary share. The dividend was paid on 5 October 2018 to eligible shareholders on the register as at 5 September 2018. This equated to a total distribution of $6,282,000.

On 15 November 2017, PFP Midco paid a fully franked pre IPO dividend to its shareholders of 46 cents per share (a total of $13,999,000).

Franking credits

	Consolidated	
	31 Dec 2018 $'000	30 Jun 2018 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	7,054	6,922

The above amounts represent the balance of the franking account as at the end of the financial half-year, adjusted for franking credits that will arise from the:
- payment of the amount of the provision for income tax at the reporting date;
- payment of dividends recognised as a liability at the reporting date; and
- receipt of dividends recognised as receivables at the reporting date.

Note 14. Fair value measurement

Fair value hierarchy
This section outlines the valuation techniques used to measure fair value of financial instruments which maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Current				
Contingent consideration	-	-	998	998
Non-current				
Contingent consideration	-	-	248	248
Total liabilities	-	-	1,246	1,246

Note 14. Fair value measurement (continued)

Consolidated - 30 Jun 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Current				
Contingent consideration	-	-	1,425	1,425
Non-current				
Contingent consideration	-	-	1,179	1,179
Total liabilities	-	-	2,604	2,604

There were no transfers between levels during the financial half-year.

Valuation techniques for fair value measurements categorised within level 2 and level 3
Due to the nature of contingent consideration, it has been categorised as Level 3.

Contingent consideration represents the obligation to pay additional amounts to vendors in respect of businesses acquired by the Group, subject to certain conditions being met. It is measured at the present value of the estimated liability. The fair value of contingent consideration is calculated on the expected future cash outflows. Generally, the contingent consideration is a performance based payment. These are reviewed at the reporting date to provide the expected future cash outflows for each contract. Upon completion of the review the future cash outflows are then discounted to present value using the Group incremental borrowing rate.

Level 3 assets and liabilities
Movements in level 3 assets and liabilities during the current financial half-year are set out below:

Consolidated	Contingent consideration $'000
Balance at 1 July 2018	2,604
Payments made	(1,092)
Additions through business combinations	337
Movement due to changes in discount rate	77
Foreign exchange difference	19
Release of contingent consideration from prior acquisitions	(699)
Balance at 31 December 2018	1,246

Fair value movements are recognised in the statement of profit or loss. Fair value movements for the period in relation to revaluation of contingent consideration amounted to $77,000 (31 December 2017: ($16,000)).

The fair value of contingent consideration is calculated as the present value of the expected cash flows using a discount rate that reflects the incremental costs of borrowing used to fund the acquisition. A stress test of 50 basis points was conducted and found to have an immaterial impact.

Note 15. Contingent liabilities

On 11 September 2017, the Company entered into a management agreement with Propel Investments Pty Limited (ACN 117 536 357) ('Manager') ('Management Agreement'). The commencement date of the Management Agreement was 17 November 2017.

In accordance with the Management Agreement, a performance fee may be payable to the Manager ('Performance Fee'). The calculation is based on, among other things, the total shareholder return (including grossed up dividends) of the Company in a calculation period being greater than the benchmark (8%). The Performance Fee for that calculation period will be 20% of the absolute dollar value that the total shareholder return outperforms the benchmark. No Performance Fee was triggered during the period ended 31 December 2018 and the negative Outperformance Amount of $21.1 million has been carried forward. As the total shareholder return and outperformance amount for the calculation period cannot be reliably measured as at the date of these financial statements, no provision has been made in these interim financial statements for any Performance Fee that maybe payable.

Note 15. Contingent liabilities (continued)

If a Performance Fee is payable in respect of a calculation period, it will be recognised in the period in which it is triggered.

The directors are not aware of any other contingent liabilities that existed as at the reporting date or on the date of approval of these interim financial statements (30 June 2018: none).

Note 16. Related party transactions

Parent entity
Propel Funeral Partners Limited is the parent entity.

Transactions with related parties
The Company is a party to a Management Agreement as set out in note 15. The Manager is an entity associated with Albin Kurti and Fraser Henderson (directors of the Company) and Peter Dowding (a former director of the Company).

The initial term of the Management Agreement is 10 years ('Initial Term'). During the Initial Term, the Manager is entitled to be paid by the Company:
- an Administration Fee of $240,000 (plus GST) per annum, escalated by CPI annually; and
- the Performance Fee (refer to note 15).

An Administration Fee (relating to the Management Agreement) of $120,000 was expensed during the financial half-year. In the prior corresponding half-year period, a management fee (relating to a management fee agreement previously made between PFP Midco and the Manager) and the Administration Fee of $331,000 was expensed.

During the half-year ended 31 December 2018, $28,000 (2017: $nil) was paid to the Manager in respect of reimbursement of occupancy costs as approved by the Independent Directors. Related party occupancy costs ceased in October 2018 when a wholly owned subsidiary of Propel entered into a new head office lease with an unrelated third party.

During the prior corresponding half-year period, a one-off, non-cash share-based payment expense of $21,878,000 was recognised in connection with shares held by an entity associated with Albin Kurti, Fraser Henderson and Peter Dowding (refer to note 6).

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 17. Business combinations

Newhaven Funerals North Queensland
On 2 July 2018, the Group acquired the business, assets and a freehold property relating to Newhaven Funerals North Queensland ('Newhaven Funerals NQ'), a provider of funeral directing and cremation services which operates from two locations in North Queensland. Consideration of $3,739,000 was paid on settlement and a further amount of $320,000 (present value) will be paid if certain financial thresholds are achieved, representing a total consideration of $4,059,000.

Manning Great Lakes Memorial Gardens
On 5 December 2018, the Group acquired 100% of the issued capital of Noxomo Pty Ltd (trading as Manning Great Lakes Memorial Gardens) ('MGLMG'), a provider of cremation and cemetery services which operates from one location in NSW. Consideration of $4,400,000 was paid on settlement (or $4,093,000 net of cash acquired).

Martin Williams Funeral Directors
On 3 December 2018, the Group acquired the business and assets of Martin William Funeral Directors and J Weir and Company ('Martin Williams'), a provider of funeral directing services in New Zealand. Consideration of $239,000 was paid on settlement and a further amount of $43,000 (present value) will be paid if certain conditions are satisfied, representing a total consideration of $282,000. As a result of the acquisition of Martin Williams, the Group recognised $160,000 of goodwill and $109,000 of plant and equipment, among other immaterial assets and liabilities.

Note 17. Business combinations (continued)

Details of the acquisitions (other than Martin Williams, which is not material) are as follows:

	Newhaven Funerals NQ Fair value $'000	MGLMG Fair value $'000	Total Fair value $'000
Current assets:			
Contract assets	1,134	468	1,602
Cash and cash equivalents	-	307	307
Trade receivables	-	94	94
Inventories	44	236	280
Other current assets	-	10	10
Non-current assets:			
Property, plant and equipment	2,339	3,101	5,440
Deferred tax asset	4	17	21
Current liabilities:			
Contract liabilities	(1,134)	(468)	(1,602)
Trade and other payables	-	(39)	(39)
Employee benefits	(12)	(59)	(71)
Income tax payable	-	(8)	(8)
Deferred tax liability	(291)	(402)	(693)
Other liabilities	-	(887)	(887)
Net assets acquired	2,084	2,370	4,454
Goodwill	1,950	2,030	3,980
Acquisition-date fair value of the total consideration transferred	4,034	4,400	8,434
Representing:			
Cash paid or payable to vendor	3,739	4,400	8,139
Contingent consideration (discounted)	295	-	295
	4,034	4,400	8,434
Cash used to acquire business, net of cash acquired per statement cash flow:			
Cash paid to vendors	3,739	4,400	8,139
Less: cash and cash equivalents	-	(307)	(307)
Net cash used	3,739	4,093	7,832

Goodwill recognised is attributable to the locations and the profitability of the acquired businesses and will not be deductible for tax purposes. Total acquisition costs (including stamp duty) expensed to profit and loss was $423,000. The acquisition accounting was provisional as at 31 December 2018.

	$'000
Payment for purchase of business, net of cash acquired per cash flow statement:	
Net cash used for the Newhaven Funerals NQ acquisition	3,739
Net cash used for the MGLMG acquisition	4,093
Net cash used for the Martin Williams acquisition	239
Contingent consideration payments	1,092
Acquisition costs	448
Other	10
Net cash used	9,621

Note 17. Business combinations (continued)

Details of revenues and profit are as follows:	**Newhaven Funerals NQ $'000**	**MGLMG $'000**	**Total $'000**
Revenue generated from acquisition date to 31 December 2018	860	61	921
Net profit before tax from acquisition date to 31 December 2018	79	13	92

If all three acquisitions had occurred on 1 July 2018 revenue and net profit before tax for the entire half year period would have been $47,530,000 and $9,052,000, respectively.

Note 18. Earnings per share

	Consolidated	
	31 Dec 2018 $'000	**31 Dec 2017 $'000**
Profit/(loss) after income tax attributable to the shareholders of Propel Funeral Partners Limited	6,421	(19,530)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	98,163,089	47,021,067
Weighted average number of ordinary shares used in calculating diluted earnings per share	98,163,089	47,021,067
	cents	**cents**
Basic earnings per share	6.54	(41.53)
Diluted earnings per share	6.54	(41.53)

Note 19. Events after the reporting period

Subsequent to 31 December 2018, Propel:

- executed conditional sale agreements to acquire the business, assets, certain freehold properties and/or shares (where relevant) in:
  - Howard & Gannon Funerals in Napier, New Zealand;
  - Waikanae Funeral Home and Kaitawa Crematorium in Waikanae, New Zealand; and
  - Morleys Funerals and its related businesses in Townsville, Queensland.
- declared a fully franked interim dividend of 5.7 cents per ordinary share. This equates to a total estimated distribution of $5,595,000 and will be paid on 5 April 2019 to eligible shareholders on the register as at 5 March 2019.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Propel Funeral Partners Limited
Directors' declaration
31 December 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001 (Cth), Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001 (Cth).

On behalf of the directors

Brian Scullin	Albin Kurti
Chairman	Managing Director

25 February 2019

Nexia Australia

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF PROPEL FUNERAL PARTNERS LIMITED

We have reviewed the accompanying half-year financial report of Propel Funeral Partners Limited (the 'Company') and Consolidated Entities (the 'Group'), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the Company and the entities it controlled at the half year's end or from time to time during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Propel Funeral Partners Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been given to the directors of Propel Funeral Partners Limited.

Nexia Sydney Audit Pty Ltd
Level 16, 1 Market Street
Sydney NSW 2000
PO Box H195
Australia Square NSW 1215
p +61 2 9251 4600
f +61 2 9251 7138
e info@nexiasydney.com.au
w nexia.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF PROPEL FUNERAL PARTNERS LIMITED

(CONT'D)

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Propel Funeral Partners Limited and controlled entities is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Nexia Sydney Audit Pty Ltd

Joseph Santangelo
Director

Dated: 25 February 2019

Sydney