

InvoCare to recognise Significant Expense Items in FY20 results

Operating earnings (excluding Significant Items) solid despite COVID-19 impact

17 February 2021

Summary

- InvoCare intends to recognise net \$26.5 million (pre-tax) in Significant Items in its FY20 financial results, of which \$7.0 million is treated as Operating, and \$19.5 million as Non-Operating.
- InvoCare expects FY20 Operating EBITDA¹ (which excludes Non-Operating Significant Items) to be in a range of \$100.0 million to \$105.0 million, and between \$107.0 million to \$112.0 million when also excluding the \$7.0 million of Operating Significant Items.
- Of the Significant Items recognised:
 - A material portion is linked to the softening of the funeral services sector in Australia and New Zealand, primarily driven by a range of impacts flowing from the COVID-19 pandemic (COVID).
 - Other Items relate to carrying value assessments performed as part of year-end accounting procedures or are items that provide disclosure clarity to operating earnings.
- InvoCare expects FY20 Reported net loss after tax attributable to shareholders to be in a range of \$7.0 million to \$12.0 million. When the \$26.0 million after-tax impact of all the Significant Items is excluded, InvoCare expects Reported net profit after tax would be in the range of \$14.0 million to \$19.0 million.
- InvoCare will release its financial results for the year to 31 December 2020 on Wednesday, 24 February 2021, as previously advised to the ASX.

Detail

InvoCare Limited (**ASX: IVC**, the Company) today announced that it intends to recognise Significant Items totalling \$26.5 million (pre-tax) in its financial results for the 12 months to 31 December 2020 (refer Attachment), largely reflecting the outcomes of InvoCare's assessment of carrying values in light of the impact of COVID on the funeral services sector and the broader economy in Australia and New Zealand. The largest impact relates to impairment of the carrying value of goodwill attached to the New Zealand business.

In addition, smaller provisions will be recognised for slow-moving memorialisation inventory, aged debtors and recognition of costs relating to the transition to a new Chief Executive Officer and Chief Financial Officer in the second half of 2020. A review of capitalised IT development costs has also identified certain modules within the Oracle ERP project that are now considered redundant or have been replaced, resulting in impairment of these intangible assets.

Of the Significant Items, \$7.0 million are considered operating items that will have an impact on Operating EBITDA, while \$19.5 million are non-operating items that impact Reported earnings.

¹ EBITDA = Earnings before interest, tax, depreciation and amortisation

Operating EBITDA excluding Significant Operating Items is expected to be in a range of \$107.0 million to \$112.0 million. This reflects a solid performance from the core business in a year marked by significant disruption caused by COVID. The exceptional commitment of our employees ensured InvoCare was able to support client families having to adjust their funeral plans to constantly evolving restrictions at a pivotal and testing times in their lives.

It should be noted that the recognition of a Reported after-tax loss for the year also reflects the impact of net mark-to-market (non-cash) movements in our Prepaid Funeral business' Funds Under Management (FUM) during the year. In the prior financial year, the Group's reported net profit of \$63.8 million included a net \$45.6 million mark-to-market gain on the revaluation of undelivered prepaid contracts. Market volatility (particularly in equity markets) in 2020 arising from COVID uncertainty has held asset valuations relatively flat, resulting in a net \$17.0 million mark-to-market loss for 2020 (which reflects a material improvement on the \$39.5 million half year net loss recorded at 30 June 2020). It is primarily for this reason that the Company has historically distinguished its results on an operating versus non-operating basis to exclude the impact of such material, non-cash movements. Importantly, FUM asset headroom (defined as prepaid contract assets less liabilities) at 31 December 2020 remains strong at approximately \$72.0 million.

Significant Items – Operating

The economic impact of COVID has affected the ability of some customers to settle their accounts, resulting in a significant increase in write-offs of bad debts. InvoCare intends to increase its allowance for expected credit losses (its provision for doubtful debts) by \$2.8 million to a total of \$6.5 million as at 31 December 2020, with all of the increase related to the Australian and New Zealand funerals businesses. The provision will represent approximately 8% of InvoCare's total aged debtors as at 31 December 2020.

InvoCare also intends to recognise a \$2.5 million increase in its provision for slow-moving inventory in its Memorial Parks business. In light of lower foot-traffic through parks during the year, InvoCare conducted a comprehensive review of its inventory, such as memorials, crypts and wall plaques as part of year-end accounting procedures. The review identified items that were either very slow moving, obsolete, or unsaleable. The provision will represent approximately 6% of InvoCare's total inventory balance as at 31 December 2020.

The Company intends to recognise one-off costs of \$1.7 million related to recent senior executive transitions. These costs have been booked as operating costs impacting Operating EBITDA but are considered significant. They have been separately identified to assist in better understanding the operating earnings performance of the Group.

Significant Items – Non-Operating

Following review of the carrying value of its Cash Generating Units (CGUs) as part of its year-end accounting procedures, InvoCare intends to recognise a further impairment of the goodwill related to its New Zealand business, with the disruption caused by COVID and the subsequent restrictions imposed by the New Zealand Government hampering the Company's ability to operate to planned expectations previously used to assess the recoverable amount of this business. The carrying value of other InvoCare CGUs is unchanged.

Goodwill related to the New Zealand business (which represents less than 10% of Group operating EBITDA) was impaired by \$24.4 million in the 2019 financial year. While some progress had been made to improve the business, the reassessment of recoverable value will result in a further \$19.3 million goodwill impairment for the year ended 31 December 2020. Notwithstanding the impairment, the Group remains confident that the quality of our frontline team in New Zealand will continue to provide excellent service to our client families.

In addition, a review of the carrying value of other assets identified a \$6.2 million impairment to the carrying value of certain modules of the Oracle ERP project, after significant remediation in 2020 and the replacement of certain functionality rendered some elements of the IT platform obsolete.

These two non-operating impairments are expected to be partially offset by a \$6.0 million write-back of the carrying value of the Allambe Memorial Park in Nerang, Queensland, following the completion of land remediation works earlier in the year. Encouraging sales of burial sites in the remediated section of the Park have allowed the Company to reassess the carrying value of this land, resulting in the reversal of part of the \$14.1 million impairment previously recognised in 2017. Further reversals of the impairment provision may be possible in future periods if burial plot sales continue to be positive.

All estimates are subject to the finalisation and audit of InvoCare's full-year accounts for the period ended 31 December 2020. Further details can be found in the 'Breakdown of Significant Items between Operating and Non-Operating' table in the Attachment to this document and will also be provided when InvoCare releases its financial results for the year to 31 December 2020 on Wednesday, 24 February 2021, as previously advised to the ASX.

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

ENDS

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

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Background

InvoCare, headquartered in Sydney, is a leading provider of funeral services in Australia, New Zealand and Singapore, and operates private memorial parks and crematoria in Australia and New Zealand. It is also the largest provider of pet cremation services in Australia.

ATTACHMENT

Breakdown of Significant Items between Operating and Non-Operating

OPERATING	Nature	FY20 \$M
Finished goods, consumables and funeral disbursements	Provision for slow-moving inventory increased (non-cash)	(2.5)
Employee benefits expense	Senior executive transition costs (cash)	(1.7)
Other expenses	Provision for bad debts increased (non-cash)	(2.8)
Total Operating Expenses impact (pre-tax)		(7.0)
NON-OPERATING		
Impairment loss on intangibles	Impairment of goodwill allocated to NZ business (non-cash)	(19.3)
Impairment of capitalised software	Impairment of capitalised IT development costs (non-cash)	(6.2)
Cemetery land impairment reversal	Partial reversal of impairment for remediated land at Allambe Memorial Park (non-cash)	6.0
Total Non-Operating expense impact (pre-tax)		(19.5)
Total pre-tax impact to Reported profit/ (loss) attributable to shareholders		(26.5)
Tax (Expense)/ Benefit		0.5
Total after tax impact to Reported profit/ (loss) attributable to shareholders		(26.0)

Notes

1. All estimates remain subject to completion and audit of year-end financial reporting procedures
2. All amounts are stated in Australian Dollars
3. IFRS and Non-IFRS financial information:

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

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