Australian Shareholders' Association

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A "new normal" of more restrained growth?

Company/ASX Code	Invocare (IVC)
AGM date	Friday 8 May 2020
Time and location	10.30am. **Online only**: https://agmlive.link/IVC19. More detailed information about online participation and voting may be found at www.invocare.com/2019-agm
Registry	Link Market Services
Webcast	See above
Poll or show of hands	Poll on all items
Monitor	Roger Ashley assisted by Sue Howes
Pre AGM Meeting?	Yes, with Chairman Bart Vogel and Director Robyn Stubbs

ASA WILL BE VOTING PROXIES AND ASKING QUESTIONS IN THE NORMAL MANNER ONLINE

The individuals (or their associates) involved in the preparation of this voting intention have an indirect shareholding in this company.

	Financial Reports
ASA Vote	No vote required

Summary of ASA Position

Following our pre-AGM meeting, the company entered into a trading halt on 14 April, 2020 for the purposes of announcing a capital raising and a deferral of the 2019 final dividend "until the impact and duration of COVID-19 is better understood", the departure of the Chief Financial Officer and a business update.

The capital raising for institutional shareholders will allow them to acquire an amount of shares less than or equal to their "pro rata" share of a $150m institutional placement at $10.40 per share. Following the completion of the Institutional Placement, InvoCare will offer eligible shareholders with a registered address in Australia and New Zealand the opportunity to participate in a non-underwritten Share Purchase Plan (SPP). The SPP is capped at $30,000 per shareholder and up to $50m in aggregate. InvoCare reserves the right to increase the size of the SPP or scale back applications under the SPP at its discretion.

New shares under the SPP will be issued at the lowest of: (i) the Placement Price; (ii) a 2% discount to the 5-day volume weighted average price of shares up to the SPP closing date; and (iii) a 2% discount to the volume weighted average price on the SPP close date. All shares acquired under the capital raising will not participate in the deferred 2019 final dividend.

To date this year, COVID-19 has had limited impact on case volumes but has reduced revenues through social distancing regulations limiting physical attendance at funerals. The capital raising, together with the dividend deferral, reductions in capital and operational expenditure and renegotiation of debt due to mature in February 2021 are stated "to enable further investment into growth initiatives during the period of COVID-19 disruption." While the business update accompanying the capital raising announcement outlines the company's growth opportunities, the background of COVID-19 brings with it the risks arising from a prolonged pandemic including ongoing or enhanced government regulation and its economic impact. There is, the company says: "no certainty that InvoCare's business will normalise to a level existing prior to the impact of COVID-19."

An update on the business will be provided at the AGM.

Financial performance

IVC's performance has rebounded from the prior year due mainly to a death rate reverting to trend (down 2.3% in 2018; up 2.9% in 2019) and a turnaround of $50.5m on prepaid contracts (representing the gain on funds under management net of an increase in liabilities under these contracts) offset by an impairment charge on New Zealand operations of $24.4m. The impairment charge, we were told, relates to a write down of goodwill on a business acquisition in 2013. Indeed, the New Zealand profit margin (before the impairment charge) has eroded over the past four years which is a function of a lack of understanding of the local market both in terms of regional differences and customs such as embalming and viewing. The Chairman undertook to elaborate on the New Zealand operations at the AGM.

The company has chosen to base its financial narrative around "Underlying Results" which are essentially the statutory results adjusted by the impact of prepaid contracts, the New Zealand impairment charge and adjustments occasioned by changes in accounting standards.

Using underlying results, sales are up $24.7m (4.8%) and earnings after tax $13.1m (32.1%). Statutory results are $19.6m (4%) and $22.5m (53.9%) respectively. Profitability continues to be impacted by the closure of locations for refurbishment under the "Protect and Grow" strategy which seeks to update the image of sites and to reposition them towards the contemporary celebration of the life lived rather than a more religious mourning of the dead. The success of the ongoing strategy is seen in the performance of completed funeral locations compared to unrenovated locations with a growth in EBITDA of 8.5%.

We commented on a significant increase in trade receivables year on year (up $27m or 55%) and were told that this related to a new IT system that has led to mismatching of invoices and payments. Work is in progress to resolve this issue which will be addressed at the AGM.

We noted that it has been announced that the funeral industry will be an area of investigation by the ACCC. We were told that the inquiry could take some time but that the company did not expect any serious issues relating to its own operations.

Invocare is also targeting acquisitions in key regional areas to which metropolitan retirees typically migrate with a positive impact on profitability.

The reopening of the Singapore business following extensive renovations in 2018 resulted in a 46.9% increase in underlying EBITDA year on year making Singapore a comparable contributor to group profit as the New Zealand operations (before the impairment charge).

There appears to be no appetite for further expansion outside IVC's existing markets of Australia, New Zealand and Singapore despite the constraints on geographical growth in Australia due to ACCC market share concerns.

Our questions regarding growth opportunities were answered by a combination of efficiency gains through amalgamating support functions, ongoing investment in site upgrades, addressing culturally specific needs in memorial parks, improved data analysis of operations, some 10% potential growth in regional Australia and expanding a recent entry into the pet cremation market.

ASA focus issues

The company has a policy that its directors should hold shares of a value equivalent to 50% of their annual cash fees after three years. Despite a commitment to consider aligning the company's policy with ASA's policy of 100% of annual fees after three years made in 2019, there has been no change to the policy. At this time, due to recent Board changes, all directors' shareholdings conform to the ASA policy. ASA policy also expects the CEO to have invested a minimum of 100% of their fixed annual remuneration after 5 years in the CEO role. Impending vesting of long term incentives should result in compliance.

We note that the auditors have been in place for over twenty years and there has been no competitive tender for audit services in that time. We were previously advised that this issue would be a topic for the new Chair of the Audit Committee to consider in 2018 and then again in 2019. We are now been advised that consideration will be given in 2020. We note that the EU and the UK have adopted a requirement that there be mandatory re-tendering after ten years and a maximum tenure of 20 years.

The company's focus on gender equality at board and management levels is exemplary. Women currently comprise 50% of the non-executive directors and also at senior management level.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	63.8	41.2	97.4	70.9	54.8
UPAT ($m)	53.9	41.2	97.4	70.9	54.8
Share price ($)	13.19	10.30	16.10	13.87	12.01
Dividend (cents)	41.0	37.0	46.0	42.5	38.0
TSR (%)	32.0	(33.7)	19.4	19.0	2.4
EPS (cents)	55.8	37.8	88.8	64.7	54.1
CEO total remuneration, actual ($m)	1.2	1.3	1.3	1.3	0.9*

- Previous CEO: not full year

For 2019, the CEO's total actual remuneration was **13.2 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2019 data from the Australian Bureau of Statistics).

Item 1	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO Remuneration Structure

	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.916	42%	0.916	40%
STI - Cash	0.310	14%	0.370	16%
STI - Equity	0.160	8%	0.219	10%
LTI	0.779	36%	0.779	34%
Total	2.165	100.0%	2.284	100%

Note: This table is based on the proposed remuneration structure for 2020. It should be noted that the equity component of the STI represents 50% of any award in excess of $150k and is deferred for one year only.

Some changes have been made to the Short (STI) and Long-Term Incentive (LTI) schemes for 2020.

The STI comprises a number of measures of which Group EBITDA accounts for 50% of the award which we were advised requires achievement of budget as a threshold. There will now be a deferred equity component to the STI which does however still fall short of ASA's policy.

The 2020 LTI has been changed and simplified. Retesting has been removed. A second measure has been introduced so that each measure accounts for 50% of the award. The two measures are Earnings Per Share and Return on Invested Capital. The award period is three years (four years would be an ASA preference) with an exercise restriction for a further twelve months. The exercise restriction is to enable the Board to consider the impact of reported number of deaths impact on performance and to adjust for any events outside management's control.

The LTI award may be taken in performance rights (ie. vested shares) or an exercise of options. The maximum number of performance rights and options are determined by dividing the entitlement (see table above) by $13.81 (calculated by VWAP) and $2.14 (calculated by Black Scholes methodology) respectively. The exercise price for the options is $13.81.

Our decision to vote against the remuneration report for the last three years included a STI payable in cash with no deferral and vague performance targets and the methodology of the LTI which involved retesting. Although there are still some areas that we would like to see improved in the incentive award scheme, we believe that the changes outlined for 2020 are enough to warrant a "for" vote for this item.

Item 2	**Re-election of Robyn Stubbs as a Director**
ASA Vote	For

Summary of ASA Position

Ms. Stubbs was appointed to the Board in 2017. She is a director of Aventus Group and Brickworks Limited.

Ms. Stubbs is the chair of the People, Culture & Remuneration Committee and serves on the Investment Committee and the Nomination Committee.

There is no known reason not to support Ms. Stubb's re-election.

Item 3	**Re-election of Bart Vogel as a Director**
ASA Vote	For

Summary of ASA Position

Mr. Vogel was appointed to the Board in 2017. He is chairman of Infomedia Limited and a director of Macquarie Telecom Limited.

Mr. Vogel is a member of the People, Culture & Remuneration Committee, the Audit Risk & Compliance Committee and the Nomination Committee.

There is no known reason not to support Mr. Vogel's re-election.

Item 4	**Approval of grant of securities to Martin Earp for 2020**
ASA Vote	For

Summary of ASA Position

The 'for" vote on this resolution reflects the reasons for the vote for the remuneration report.