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A light at the end of the Covid tunnel?

Company/ASX Code	Invocare (IVC)
AGM date	Friday 28 May 2021
Time and location	10.30am, The Mint, 10 Macquarie Street, Sydney or online at https://agmlive.link/IVC20. More detailed information about online participation and voting may be found at www.invocare.com.au/investor-relations/annual-general-meeting
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

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

Item 1	**Financial Reports**
ASA Vote	No vote required

Summary of ASA Position

Financial performance

Compared to the previous year ended 31st December 2019, the current year's statutory results were:

- Revenue down $22.7m (4.5%)
- Earnings Before Interest, Tax, Depreciation and Amortisation down $39.4m (28.8%)
- Profit After Tax down $73.0m to a loss of $9.1m (114.2%)
- Earnings per Share down 62.7c (112.4%)
- Total Shareholder Return down 12.7%.

By comparison, the company prefers to report numbers that adjust for "non-operating activities" and impairment losses which result in a Profit After Tax of $27.3m (compared with the statutory loss of $9.1m). The three major adjustments are $16.6m to reflect the value of assets and liabilities held by the company under prepaid contracts, impairment losses relating to the remediation of IT systems of $6.2m and a further impairment charge against the value of the New Zealand operations (following a $24.4m charge in 2019) of $19.3m.

The value of funds held under prepaid contracts can fluctuate significantly from year to year mainly due to mark-to-market accounting for the value of investments held (in 2019 there was a net gain of $50.5m) and the ASA has no problem with this adjustment to underlying profits. On the other hand, the IT and New Zealand impairments are arguably related to more recent management decisions.

The difficulties in the New Zealand market have turned around since year end with the relaxation of the number of persons allowed to attend funerals and rationalisation of some operations.

Despite the appearance of a dreadful result in 2020 there appears no doubt that funeral industry profits have been severely impacted by Covid19 and, in particular, the government’s reactions to it.

Funeral case volumes declined during the year as did income per funeral. This was the result of government funeral attendance restrictions which changed multiple times during the year and affected the quality and quantity of services that could be offered. In addition, the key driver of profitability, the death rate, declined significantly due to “stay at home” directives, social distancing and improved personal hygiene practices particularly over the winter flu season. Obviously this measure will ultimately return to historical norms and the lifting of restrictions on gatherings (to the extent they become permanent) presages improved future profitability.

Operating expenses increased by 5.2% year on year and included $1.9m in Covid costs such as live streaming, cleaning and PPE.

During the year the company raised $274m from a share issue, which strengthens its financial position and enables continuing investment under its “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. This should provide the foundation for a post Covid recovery. The “Protect and Grow” strategy recognises that a viable alternative to growth by acquisition was required to offset constraints on geographical growth in Australia due to ACCC market share concerns. The ASA would like to thank the Chairman for his response to issues raised by the ASA over the share placement and compliment him for a well-prepared and open pre-AGM discussion.

The funeral industry has been the subject of an ACCC investigation that is still in its early stages and Invocare was the recipient of a “Shonky Award” from Choice magazine in 2020 over opaque pricing. We were advised that the company did not anticipate any issues from the ACCC and that the issues raised by Choice have been resolved. Indeed the company intends to promote online pricing giving consumers more information about services and costs.

Key Board or senior management changes

The year also saw the departure of the CEO and Chief Operating Officer and their replacement by Oliver Chretien as CEO. Mr. Chretien was most recently Group Chief Strategy Officer at Ramsey Health Care and before that he performed a number of executive roles with Wesfarmers. There was also a change in the Chief Financial Officer during the year but we were assured that these changes did not indicate any underlying problems and that the executive team was otherwise unchanged.

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 ASA’s requests for the company to consider aligning the company’s policy with ASA’s policy of 100% of annual fees after three years, there has been no change to the policy.

Much to the ASA’s approbation the company’s 2021 AGM will be a hybrid meeting with the option of attending in-person or online.

After many years of PwC conducting the company's audit, the audit is going out to tender in 2021.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	(9.2)	63.8	41.2	97.4	70.9
UPAT ($m)	27.3	53.9	41.2	97.4	70.9
Share price ($)	11.45	13.19	10.30	16.10	13.87
Dividend (cents)	12.5	41.0	37.0	46.0	42.5
TSR (%)	(12.2)	32.0	(33.7)	19.4	19.0
EPS (cents)	(6.9)	55.8	37.8	88.8	64.7
CEO total remuneration, actual ($m)	2.4	1.2	1.3	1.3	1.3

For 2020, the CEO's total actual remuneration was **25.8 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 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	Maximum Opportunity $m	% of Total
Fixed Remuneration	1.025	42%	1.025	39%
STI-Cash	0.434	18%	0.523	20%
STI-Equity	0.283	11%	0.373	14%
LTI	0.718	29%	0.718	27%
Total	2.460	100%	2.639	100%
Signing-on Incentive	0.400	100%	0.400	100%

Note: This table is based on the proposed remuneration structure for 2021. 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 2021.

The Short-Term Incentive (STI) comprises a number of measures of which Group EBITDA accounts for 50% of the award which we have been advised requires achievement of budget as a threshold. There is a deferred equity component to the STI which does, however, still fall short of ASA's policy and the maximum opportunity has risen to 87% of fixed remuneration. It was pointed out that the aggregate of the fixed remuneration and STI was in line with the market and it was better to have a higher "at risk" component in the mix.

The Long-Term Incentive (LTI) has been further simplified for 2021 and comprises equally weighted measures of Earnings Per Share and Return on Capital Employed. The EPS hurdle requires a 10-15% compound annual growth rate and the ROCE hurdle is 10-12% over the performance period. The previous award allowed the recipient to elect to receive the award either as performance rights (ie. vested shares) or as an exercise of options, the number of which was calculated by Black Scholes methodology. The simplified LTI scheme from 2021 has eliminated the choice of options and the maximum number of performance rights is determined by dividing the entitlement (see table above) by $11.25 based on the value of shares traded in February/March 2021.

Item 2	**Re-election of Keith Skinner as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr. Skinner was appointed to the Board on 1 September 2018 and has had a long career with Deloitte Australia both as a partner and as Chief Operating Officer. He is a director of Emeco Holdings Limited.

Mr. Skinner is the chair of the Audit, Risk & Compliance Committee and serves on the Nomination Committee.

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

Additional Item	**Election of Kim Anderson as a Director**
ASA Vote	**For**

Summary of ASA Position

This resolution was added to the meeting agenda after publication of the Notice of Meeting. The ASA commends Invocare for putting this resolution to the AGM rather than appointing Ms. Anderson to the Board after the meeting as is so often the case.

Ms. Anderson has had CEO and senior executive experience with Southern Star Entertainment, PBL and Nine.msn. She is a director of Carsales, Marley Spoon and Infomedia Limited.

Ms. Anderson will chair the People, Culture and Remuneration Committee

There is no known reason not to support Ms. Anderson's election.

Item 3	**Approval of sign-on equity grant to Oliver Chretien**
ASA Vote	**For**

Summary of ASA Position

As a general rule, ASA opposes the payment of sign-on benefits for newly hired executives. Where negotiations unavoidably require compensation to be paid for foregone incentive payments, the payments should be structured as deferred equity-based payments that vest upon meeting three to five year performance hurdles. The structure of the payments should be fully disclosed in the ASX announcement of the CEO contract when the executive is hired.

We note that the sign-on incentive is in the form of share rights and will vest only if Mr. Chretien is still employed by Invocare on 1 January 2023 and accept the argument for a grant in this instance. The payment was disclosed in an ASX announcement dated 19 November 2020.

Item 4	**Approval of the grant of securities to Oliver Chretien for 2021**
ASA Vote	**For**

Summary of ASA Position

The CEO's LTI grant for 2021-23 is 63,777 shares. This represents a target award of $717,500 based on a VWAP of $11.25 per share (actual value) for 10 days post 24 February 2021.

The LTI hurdles comprise equal components of Earnings Per Share and Return on Capital Employed.

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

Item 5	**Approval of potential termination benefits**
ASA Vote	**Against**

Summary of ASA Position

The company is seeking to avoid shareholder approval on a case by case basis where a termination payment occurs in excess of an amount that represents 12 months fixed pay as required by the Corporations Act. The cause most likely to result in an excess termination payment is the company's policy to have unvested LTI equity awards remain on foot, and therefore potentially payable as if the recipient were still employed, following termination of employment.

This resolution is to refresh the shareholder approval of a similar resolution approved at the AGM held in May 2018 and which received a negative ASA Vote.

We note that "there are currently approximately fifteen Relevant Executives for the purposes of this approval." Given the potential lack of transparency that could arise from the approval of this resolution, we would prefer that specific resolutions should be put to AGM if and when it is necessary to do so.

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