

The takeover offer moves forward

Company/ASX Code	Invocare (IVC)
AGM date	Friday 26 May 2023
Time and location	10.30 am AEDT The Mint, 10 Macquarie Street, Sydney
Registry	Link Market Services
Type of meeting	Hybrid (for online voting refer: https://www.invocare.com.au/content/dam/invocare/invocare-corp/pdfs/investor-relations/annual-general-meeting/ivc-agm-vmguide.pdf)
Poll or show of hands	Poll on all items
Monitor	Roger Ashley
Pre AGM Meeting?	Yes with Chair Bart Vogel, Kim Anderson (Director) and Penny Lovett (Executive General Manager, People & Culture)

Monitor Shareholding: The individual involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

The 2022 Underlying Net Profit After Tax (UPAT) showed an improvement over 2021 (see below) and, given some loss of market share, due to resource constraints was a satisfactory result.

The key issue impacting the company in 2023 was an offer to acquire the company at \$12.65 per share. Following withdrawal of the offer the share price has dropped to just above \$11 (as at 2 May 2023). However, on 15 May 2023 the company advised that it had received a revised conditional and non-binding offer of \$13 cash a share inclusive of a fully franked special dividend of up to approximately 60 cents per share. Following due diligence by TPG (the offeror), the board intends to recommend the bid to shareholders subject to any alternative offers being received.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	For
2	Election of Bart Vogel as a Director	For
3	Election of Kim Anderson as a Director	For
4	Approval of Security Grants to Olivier Chretien	For

Financial performance

The underlying results for 2022 showed growth on almost all measures of volume and profitability across all business segments: a welcome return to trend. This result was achieved despite the impact

of labour shortages which impacted service standards and were caused by Covid and low unemployment in the economy. As may be noted by the annual variation in the statutory net profit after tax, the annual revaluation of funds under management for pre-paid funeral contracts was the major reason for the difference between the statutory and underlying profit results. The volatility associated with this asset is prudently not considered to be part of the ordinary operations of the company.

The ongoing facilities upgrade under the “Protect and Grow” strategy was completed in 2022 and will be replaced by an emphasis on delivering services and enhancements to the digital options available to online users offering funeral planning options and pricing. Online engagement is increasing in volume and requires additional resources to service.

A concern remains over the potential regulation of funeral service providers in NSW. In particular this concern relates to the potential requirement to provide perpetual care for cemetery plots. This issue has not progressed since last year and there appears to be no resolution in sight.

Despite a comment in the Directors’ Report about rebuilding a pipeline of potential merger and acquisition opportunities, only \$4.4m was expended in this category in 2022. While some work has been done on a possible overseas acquisition, future growth appears likely to be from acquisition of “bolt-on” operations in existing markets. The pet cremation business continued to grow in double digits albeit from a low base.

Key events

A revised non-binding indicative offer from TPG Global for Invocare at \$13.00 cash per share was announced on 15 May 2023. As stated above, the Board will recommend the offer subject to due diligence. TPG has retained its 19.9 % shareholding acquired as a prequel to the initial offer that had been rejected by the Board.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	(1.8)	80.3	(11.4)	63.8	41.2
UPAT (\$m)	50.2	45.1	28.0	53.9	41.2
Share price (\$)	11.03	11.76	11.45	13.19	10.30
Dividend (cents)	24.5	21.0	12.5	41.0	37.0
TSR (%)	(4.1)	4.5	(12.2)	32.0	(33.7)
EPS (cents)	(1.3)	56.1	(8.6)	55.8	37.8
CEO total remuneration, actual (\$m)	1.8	1.7	2.4	1.2	1.3

*For 2022, the CEO’s total actual remuneration was **18.9 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2022 data from the Australian Bureau of Statistics).*

Election or re-election of directors

The ASA will vote in favour of the two Directors seeking re-election.

The Board comprises six Non-Executive Directors (NEDs) and the CEO. Two of the NEDs are female.

Our issues relating to the Directors are:

- ASA believes that after three years on a board, a director should own or have invested at least one year's worth of cash fees in the company's shares. Invocare's policy is that directors should have shares of a value equivalent to 50% of their annual director's fee at the time of joining the Board which may be accumulated over three years.
- We note the extended tenure of Richard Davies as a NED but accept the argument that his experience in the funeral industry is valuable.

Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO

The CEO's LTI grant for 2023-25 is 88,286 shares. This represents a target award of \$981,750 based on a VWAP of \$11.12 per share (actual value) for the last 10 trading days of 2022.

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

The ASA raised our preference for a four year LTI term rather than three years.

See also Appendix 1.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY2023	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.155	38%	1.155	29%
STI - Cash	0.687	23%	1.012	26%
STI - Equity	0.179	6%	0.287	7%
LTI	0.982	33%	1.473	38%
Total	3.003	100.0%	3.927	100%

☐ STI (2023):

Awards are paid in cash with no equity component or deferral although a “deferred component” is 25% of award above \$150k deferred for 1 year in equity.

☐ LTI (2023):

- The LTI plan has two performance hurdles each comprising 50% of the award: EPS and ROCE.
- The performance period is three years. Board discretion is allowed but if employed will be disclosed upon vesting.
- There is no gateway condition for the LTI.
- There is no deferral following vesting.
- The EPS award delivers 50% to 150% of the EPS LTI component for results of 7% to 15% normalised EPS CAGR (Compound Annual Growth Rate).
- The ROCE award delivers 50% to 150% of the ROCE LTI component for results of 11¹/₂-13¹/₂% average ROCE (Return on Capital Employed).