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An off-trend year with ongoing strategic investment

Company/ASX Code	Invocare (IVC)
AGM date	Tuesday 14 May, 2019
Time and location	10.30am, PwC, One International Towers, Watermans Quay, Barangaroo, Sydney
Registry	Link Market Services
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Roger Ashley assisted by Pamela Murray-Jones
Pre AGM Meeting?	Yes, with Directors Richard Davis and Robyn Stubbs

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

Summary of ASA Position

Financial performance

IVC's excellent record of growth since its listing came to an abrupt halt in 2018. Apart from a major (negative) turnaround in the performance of funds under management for prepaid contracts (which reflect "mark to market" valuations taken directly to revenue account), expenses rose faster than sales. Nevertheless despite a $56.2m (57.6%) decrease in profit after tax year on year and a corresponding dividend reduction, the market responded with a 12% share price increase on the day the 2018 results were announced.

A key driver of profitability is the number of deaths which were below trend for 2018; an uncontrollable factor that may be discounted in reviewing performance in a given period. In addition, the "Protect and Grow" strategy, implemented in 2017, has resulted both in increases in investments and costs while impacting sales as facilities are taken offline for renovation and refurbishment. The strategy of "Protect and Grow" responds to changing consumer desires to treat funerals as a celebration of a life rather than a staid remembrance. Facilities are being upgraded accordingly to offer a "one stop shop" that will satisfy these needs.

The three major impacts on the turnaround in profit: the number of deaths, the disruption of facility upgrades and the lower valuation of prepaid funeral investments can reasonably be assumed not to be indicative of any continuing trend.

Management advises that the "Protect and Grow" strategy, adjusted for the current soft market, is performing ahead of or in line with expectations: a potential positive for 2019. Singapore operations are growing through the last quarter of 2018 following the completion of an upgrade of facilities.

Eleven regional funeral homes (including New Zealand) were acquired in the year and more are being targeted although significant expansion of market share by acquisition is constrained by ACCC implications in Australia. The emphasis on regional operations is supported by the "sea/tree change" movement of retirees from cities to country areas and where the company's market share is well below its national share.

There are currently no plans for expansion outside IVC's existing markets of Australia, New Zealand and Singapore.

Key events

Some $88million was raised in the early months of 2019 under a Share Purchase Plan. We note that Invocare responded positively to ASA's comments on the capital raising requesting consideration to an increase in the SPP should there be overwhelming retail demand and also to undertake a reminder to shareholders prior to closure of the SPP. We further note that the initial retail target of $20m was increased to $22.8m following applications totalling $29.7m.

Key Board or senior management changes

Richard Fisher stood down as Chair after 15 years' service and has been replaced by Bart Vogel. While there is only one director with funeral industry experience, our concerns that more persons with a background in the "care" industry should be represented on the Board, the steps taken by the current Board to understand and emphasise a culture of care and empathy towards its customers was reassuring.

The company's focus on gender equality at board and management levels and below are exemplary. Women currently comprise 43% of the Board and 49% of Australian management. Australian management is expected to reach gender equality by 2020 defined as a 45% minimum for each gender.

ASA focus issue

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. At the meeting between company representatives and the ASA there was a commitment to consider aligning the company's policy with ASA's policy of 100% of annual fees after three years.

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. Following a change in the Audit Committee Chair, we have now been advised that consideration will be given in 2019. 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.

A request to expand the remuneration table to show detail (rather than a total figure) for actual remuneration was received positively. We also complemented the company for including a comprehensive summary of Five-Year Financial data at the front of the annual report.

Summary

(As at FYE)	2018	2017	2016	2015	2014
NPAT ($m)	41.2	97.4	70.9	54.8	54.5
UPAT ($m)	41.2	97.4	70.9	54.8	54.5
Share price ($)	10.30	16.10	13.87	12.01	12.10
Dividend (cents)	37.0	46.0	42.5	38.0	36.5
TSR (%)	(33.7)	19.4	19.0	2.4	12.9
EPS (cents)	37.8	88.8	64.7	54.1	49.8
CEO total remuneration, actual ($m)	1.3	1.3	1.3	0.9*	1.3

*Previous CEO: not full year

For 2018, the CEO's total actual remuneration was **14.5 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2018 data from the Australian Bureau of Statistics).

Item 2	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position

Short (STI) and Long-Term Incentive (LTI) schemes are essentially the same as those extant a year ago. A combination of factors led us to vote against the remuneration report last year and we do not believe there has been sufficient change to reconsider our position.

The STI continues to be payable in cash at the time of vesting with no equity component or deferral. In addition performance measures are somewhat opaque.

The LTI now vests in two instalments being 50% after three years and 50% after four years along with any unvested performance rights from the first three years subject to a gateway that requires the Return on Invested Capital to exceed the Weighted Average Cost of Capital over the LTI period. This means that an award can occur after three years even if the target is not achieved over the whole period. Given that a four year term without interim vesting would appear to achieve a better result, the scheme seems unnecessarily convoluted. It is also of concern that the LTI may be paid in cash immediately on vesting, rather than shares, at the election of the recipient. There is an option for the company to issue shares under the LTI by issuing new shares rather than by an on-market purchase. This has the effect of diluting the value of shareholders.

The sole LTI performance measure remains earnings per share (EPS) on the basis that there is no comparable organisation against which to make a meaningful comparison. EPS is "normalised" for the purpose of the LTI. One acceptable normalisation is to exclude gains or losses on funds held for pre-paid funeral contracts. The Annual Report also allows adjustments to remove the impacts of any gains or losses arising from the sale, disposal or impairment of non-current assets. The issue here is that losses on non-current assets should not be excluded where they arise from decisions made by the person or persons being incentivised and this also applies to expenditures on the "Protect and Grow" strategy.

While the Black Scholes valuation methodology has been used to determine the number of options the exercise price of an option has been calculated using the company's share price in February 2018. Overall the CEO's total potential remuneration is not excessive by comparison with similar sized companies.

Our decision to vote against the remuneration report, as for the last three years, includes a STI payable in cash with no deferral and vague performance targets and the calculation of the LTI. The remuneration report does signal a "deferred (STI) component" is slated for 2020 and, all else being equal, we would be likely to vote in favour of future remuneration reports given such a change.

Item 3	**Re-election of Richard Davis as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Davis was appointed to the Board in 2012. He was previously CEO of the company, retiring in 2008. He has extensive knowledge of the funeral industry that has served the Board well during his tenure as a director. He is the chairman of Australian Vintage Limited and of Monash IVF Group.

Mr Davis is the chair of the Investment Committee and a member of the People, Culture & Remuneration and Nomination Committees. His contribution to the Board may be regarded as significant particularly towards formulating growth strategies.

Item 4	**Election of Jackie McArthur as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms McArthur was appointed to the Board in 2018 and we are not aware of any reason why she should not be elected. Her background encompasses several years in senior positions in Australia and overseas with McDonalds and she was the 2016 Telstra NSW Business Woman of the year. Other directorships include Blackmores, Inghams Group and Tassal Group.

Ms McArthur is a member of the Audit, Risk & Compliance, Investment and Nomination Committees.

Item 5	Election of Megan Quinn as a Director
ASA Vote	For

Summary of ASA Position

Ms Quinn was appointed to the Board in 2018. She is a speaker and consultant on service, innovation and strategy among other subjects in Australia and internationally. Other directorships include Reece and City Chic Collective.

Ms Quinn is a member of the Audit, Risk & compliance, People Culture & Remuneration and Nomination Committees. ASA supports her election.

Item 6	Election of Keith Skinner as a Director
ASA Vote	For

Summary of ASA Position

Mr Skinner was appointed to the Board in 2018. He has had extensive financial experience in several roles with Deloittes culminating with that of Chief Operating Officer. His other directorship is with Emeco Group.

Mr Skinner is a member of the Audit, Risk & Compliance, Investment and Nomination Committees.

Item 7	Approval of grant of securities to Martin Earp for 2019
ASA Vote	Against

Summary of ASA Position

Three quarters of the CEO's LTI will be in the form of options. The number of options to be issued is calculated using Black Scholes methodology which values each option at $2.51 and which translates into a maximum 225,923 options. The potential benefit to the CEO will be limited to extent to which the value of any vested options exceeds the VWAP of Invocare shares for ten trading days in February 2018 (the exercise price which is $14.46).

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

Item 8	Ratify previous share issue
ASA Vote	For

Summary of ASA Position

Approval is sought to permit the Company to refresh its replacement limit. This will enable the company to issue up to 15% of its issued ordinary shares over the next twelve months if it is considered to be in the best interests of the Company**.** Given the company's lifting of the SPP mentioned above, we will support this resolution.

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