



For personal use only

INVOCARE LIMITED AND SUBSIDIARIES

Appendix 4D (rule 4.2A)

HALF YEAR REPORT

For the half year ended 30 June 2023

Results for announcement to the market

(All comparisons to half year ended 30 June 2022)

	30 Jun 2023 \$'000	Up/(down) \$'000	Movement %
Revenue from continuing operations	280,179	(1,554)	(0.6)
Operating earnings after income tax attributable to ordinary equity holders of InvoCare Limited*	18,336	(9,211)	(33.4)
Net profit from ordinary activities after income tax attributable to ordinary equity holders of InvoCare Limited	4,459	(36,671)	(89.2)
Net profit after income tax attributable to ordinary equity holders of InvoCare Limited	4,459	(36,671)	(89.2)

* This is non-IFRS financial information and is reconciled to statutory profit in the Financial Report (Refer to Directors' report in the Half Year Financial Report attached).

Dividend information

No interim dividend will be paid with respect to the half year ended 30 June 2023 in accordance with Clause 7.1 of the Scheme Implementation Deed signed with TPG on 9 August 2023.

Net tangible assets

	30 Jun 2023 \$	Restated* 30 Jun 2022 \$
Net tangible asset per ordinary share	3.29	3.35

* The Group has changed its accounting policy for pre-paid contracts for the half year ended 30 June 2023 with retrospective impact to the comparative information as at 30 June 2022. Refer to Note 3 Pre-paid contracts of the attached Half Year Financial Report for further details.

Net tangible assets include the net impact of the right of use assets and the corresponding lease liabilities accounted for under the accounting standard requirements of AASB 16 Leases.

Other information

During the reporting period, InvoCare Limited had:

- no change in investment in subsidiaries
- no material interest in associates or joint ventures

Additional Appendix 4D disclosure requirements can be found in the half year financial report of InvoCare Limited for the half year ended 30 June 2023. This report is also to be read in conjunction with the Annual Report of InvoCare Limited for the year ended 31 December 2022 and any public announcements made by InvoCare Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

This report is based on the consolidated financial statements which have been reviewed by Deloitte Touche Tohmatsu.



For personal use only

INVOCARE LIMITED AND SUBSIDIARIES

ABN 42 096 437 393

HALF YEAR FINANCIAL REPORT

For the half year ended 30 June 2023

INVOCARE LIMITED

Half year financial report

Financial report content

	Page
Directors' report	3
Directors	3
Company overview and principal activities	3
Operating and financial review	3
2023 outlook	12
Subsequent events	17
Auditor's independence declaration	17
Rounding of amounts	17
Auditor's independence declaration	18
Consolidated financial statements	19
Notes to the consolidated financial statements	26
Directors' declaration	53
Independent auditor's review report	54

Information is only being included in this 2023 Half Year Financial Report to the extent it has been considered material and relevant to the understanding of the financial performance and financial position of the Group.

A disclosure is considered material and relevant if, for example:

- the dollar amount is significant in size (quantitative factor)
- the dollar amount is significant by nature (qualitative factor)
- the Group's results cannot be understood without the specific disclosure (qualitative factor)
- it is critical to allow a user to understand the impact of significant changes in the group's business during the period such as business acquisitions (qualitative factor)
- it relates to an aspect of the Group's operations that is important to its future performance

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Your Directors present their report together with the financial statements of the consolidated entity consisting of InvoCare Limited (the Company) and its subsidiaries (InvoCare or the Group) for the half year ended 30 June 2023 (HY23).

Directors

The Directors of the Company at any time during or since the end of the half year are as follows. Directors were in office for the entire period unless otherwise stated.

- Bart Vogel (Chairman)
- Olivier Chretien (Chief Executive Officer and Managing Director)
- Kim Anderson
- Richard Davis
- Megan Quinn
- Keith Skinner
- Kee Wong

Company overview and principal activities

InvoCare Limited (listed on the Australian Securities Exchange, ASX: IVC), 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 a leading provider of pet cremation services in Australia.

Operating and financial review

Our strategic ambition for 2025 and progress to date

InvoCare's strategy is designed to deliver on our purpose, 'honouring life, celebrating memories for generations', which reflects that, with our team, breadth of offering and strategic assets, InvoCare is uniquely positioned to service our customers' needs along their lifetime journey.

In resetting the strategy, an opportunity was identified to first, extract greater value from the business that InvoCare has today and leverage the investments already made, and then, use this as a strong and sustainable foundation for growth. There are five pillars to the strategy, the objectives, and ambitions for 2025 are outlined below:

	 Customer Led People Empowered	 Operational Excellence	 Stronger core growth	 New growth platforms	 Sustainable Leadership
Objectives	Be customer-centric in everything we do	Optimise our foundations to drive sustainable returns	Excel in servicing customer needs and grow share of market value	Innovate & diversify to expand addressable market & meet future customer needs	Lead company & industry to more sustainable outcomes
2025 Ambitions	Trusted by Client Families & Communities <i>Outstanding NPS</i>	Great place to work <i>High engagement & retention</i>	Recognised industry leader & partner of choice <i>Sustainability commitments</i>	Creating value for all Stakeholders <i>EPS growth & satisfactory ROCE</i>	

As explained in our 2022 Annual Report, our 'raising the bar' initiatives are substantially complete with the few remaining key projects well advanced in 2023. This half we launched Project Harmony, a program of operational efficiency initiatives in the Australian Funerals business with the aim of reducing the cost to serve and reducing capacity constraints. We completed the roll out of the new Cemeteries & Crematoria Enterprise Resource Planning (ERP) platform to the final tranche of our parks, progressed the move of the NZ business onto the same ERP version as the Australian Funerals business and implemented the Pet Tracker system nationally in our Pet Cremations business.

Our brand reinvigoration program continued with a refreshed White Lady/Mareena Purslowe brand and establishment of Simplicity re-brand framework under our Accelerate Simplicity initiative. We are seeing a strong start to the year in our pre-paid funerals business and have launched a new look Guardian Plan website for pre-paid funerals as part of our reinvigorated pre-paid funerals strategy. The site provides clearer, easier to access information, an updated calculator and branch search locator.

We have continued to expand our digital self-serve offerings for customers with the launch of new products in the half including urns and multi-media products. We also commenced new growth initiatives with acquisitions executed in Pet Cremations, with Pets at Peace Illawarra, an investment in Picaluna Beautiful funerals in Australia, and the acquisition of the remaining minority interest in Lake Macquarie Memorial Park.

In our Sustainable Leadership pillar we continue to progress our People, Place & Planet strategy as outlined in our most recent Sustainability Report including an important foundational step in establishing our baseline GHG (Green House Gas) emissions data so that we can properly identify our reduction targets. And finally, our Community Engagement framework has our CARES values at its core and within each of its three pillars of Connection, Resilience and Life. As part of our Life pillar the Group is committed to reducing preventable deaths and we are empowering our own people to have the confidence to operate defibrillators and perform CPR alongside the roll out of defibrillators across our network in the half, bringing the total number of units deployed to 200.

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Financial review

To grow earnings per share and total shareholder returns, we seek to complement operational execution of our strategy with financial discipline, strong portfolio management, balance sheet strength and cash flow generation. Set out below is a description of these areas and the financial tools we use to measure success:

- Financial discipline – Focus on cost control and efficiency to drive positive operating leverage
- Portfolio management – Act decisively on the allocation of capital and managing returns from investments
- Balance sheet strength – Maintain funding flexibility and disciplined capital management to support growth aspirations
- Cash flow generation – Pursue working capital efficiency and realisation of profits into cash to reinvest in the business and to enable dividends to be paid to shareholders.

The Group's performance in these areas during the half year is set out on the following pages. The prior corresponding period (PCP) is the half year ended 30 June 2022 (HY22).

Adoption of AASB 17 Insurance Contracts

The Group has been required to adopt AASB 17 Insurance Contracts, effective from 1 January 2023. This has required a restatement of prior period comparatives.

The standard specifically applies to the Group's accounting for pre-paid contracts. Whilst the adoption of AASB 17 has no impact on the economics or cashflows of the Group's pre-paid business, it does impact the accounting and timing of recognition of revenue and expenses over the life of the contract and the actuarial valuation of pre-paid contract liabilities carried on the Group's balance sheet.

Further details are provided in Note 3 of the financial statements.

Generating long term shareholder returns

InvoCare seeks to deliver sustainable shareholder returns through earnings per share (EPS) and dividend growth which, if delivered, should support share price performance.

No interim dividend will be paid with respect to the half in accordance with Clause 7.1 of the Scheme Implementation Deed (SID) signed with TPG Capital Asia (TPG) on 9 August 2023.

	Half year ended		
	30 Jun 2023	Restated 30 Jun 2022	Movement
	cents	cents	%
Basic earnings per share (EPS)	3.1	28.8	(89)
Operating EPS	12.8	19.3	(34)
Interim dividend	-	13.5	(100)
Dividend payout ratio (%)	-	70%	(70 pts)

Profit performance for HY23

The Group delivered a Reported net profit after tax attributable to shareholders of \$4.5 million and Operating net profit after tax attributable to shareholders of \$18.3 million for the half.

InvoCare considers Operating earnings before interest, tax, depreciation, and amortisation (Operating EBITDA) and Operating earnings before interest and tax (Operating EBIT) as key performance measures.

Operating EBITDA, EBIT and net profit after income tax (NPAT) exclude the following items:

- The financial impacts of the pre-paid funerals business
- Other non-operating activities, including asset sale gains/losses, impairment gains/losses, accounting for SaaS arrangements expensed as incurred and other one-off costs (e.g., restructuring costs), as relevant
- Net finance costs associated with the pre-paid funerals business
- The income tax effect of the above items

Strong growth in funeral case average and memorialisation sales has supported operating results despite softer market conditions being a drag on case volumes, particularly in Q2. Additionally, ongoing inflationary impacts continued to put pressure on operating leverage and the business is cycling the final year of a material unwind of AASB 15 deferred revenue and cost, which was recognised on adoption of the standard in 2018.

Despite these headwinds, on a like-for-like basis (i.e. 'Underlying' basis excluding the impact of the unwind of the AASB 15 transition benefit), Underlying Operating EBITDA of \$60.9 million was only 1% (\$0.5 million) below last year's record result.

A reconciliation of operating to statutory financial results is included on page 13.

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Set out in the table below is the operating result and key performance metrics:

	Half year ended		Movement %
	30 Jun 2023 \$'000	Restated 30 Jun 2022 \$'000	
Revenue	289,160	283,332	2
Expenses	(226,798)	(214,853)	6
EBITDA	62,362	68,479	(9)
Depreciation and amortisation	(26,606)	(23,925)	11
Pre-paid technology expenses	(1,166)	(496)	135
Business acquisition costs	(245)	(382)	(36)
Net gain on lease modifications/terminations	2	337	(99)
EBIT	34,347	44,013	(22)
Net finance costs	(8,212)	(5,604)	47
Profit before income tax	26,135	38,409	(32)
Income tax expense	(7,777)	(10,770)	(28)
Non-controlling interests	(22)	(91)	(76)
Operating net profit after income tax attributable to equity holders of InvoCare Limited	18,336	27,548	(33)
Operating EPS (cents per share)	12.8	19.3	(33.7)
OPEX to sales %*	53%	51%	2 pts
EBITDA margin (%)	22%	24%	(2 pts)
EBIT margin (%)	12%	16%	(4 pts)

* For calculating OPEX to sales %, OPEX represents operating expenses excluding finished goods, consumables and funeral disbursements costs.

The above Operating earnings include the impact of cycling the final year of material AASB 15 transition benefit in Revenue and EBITDA in the Cemeteries & Crematoria business. Excluding such impacts allows for improved period on period comparability and as such 'Underlying' earnings measures are referenced in the commentary in this Operating and Financial Review. A reconciliation of underlying to operating earnings is included on page 14. The unwind of AASB 15 transition deferred revenue and costs has contributed \$1.8 million to Operating Revenue and \$1.5 million to Operating EBITDA in HY23 (a \$7.1 million and \$5.6 million decrease respectively compared to the PCP).

Excluding the AASB 15 transition benefit unwind, Underlying revenue has grown 5% on the back of growth in funeral case average (up 8%) and strong growth in memorialisation sales (up 9%) and was despite softer market volumes being a drag on case volume (funeral case volume down 3% and burial and cremations down 11%), particularly in Q2.

Reduced frictional costs to serve (such as third-party mortuary ambulance) has improved gross margin but wage inflation, increased rent & utilities and increased technology investment costs have put pressure on operating leverage and held Underlying Operating EBITDA to \$60.9 million (down 1% on the PCP).

Higher depreciation & amortisation expense and pre-paid technology expenses is a consequence of facilities and digital & IT investments made in the prior year.

The 47% increase in net finance costs reflects a \$1.6 million FX gain recognised on the retranslation of New Zealand dollar denominated debt in the PCP and the impact of the increased weighted average cost of debt for the Group following interest rate rises, which has increased to 5.01% for the half (HY22: 3.88%).

Portfolio management

Decisive action to invest, restructure or divest non-core operations while fulfilling the Group's investment and strategic priorities is vital to managing InvoCare's portfolio of operations.

The Group executed several investments in the period including:

- Acquisition of Pets at Peace Illawarra, NSW for \$0.7 million in May 2023
- Equity investment in Picaluna Beautiful Funerals of \$2.2 million in June 2023
- Acquisition of remaining minority interest in Lake Macquarie Memorial Park for \$1.6 million less share of cash, executed subsequent to period end in August 2023

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Balance sheet

InvoCare continues to maintain a strong balance sheet with a disciplined focus on working capital management. The Group's capital employed excluding net debt items is comprised of the following:

Total capital employed at reporting date

	30 Jun 2023 \$'000	Restated 31 Dec 2022 \$'000	Movement %
Trade and other receivables	86,279	87,877	(2)
Inventories	48,660	45,463	7
Trade and other payables	(48,159)	(85,820)	44
Net working capital	86,780	47,520	83
Property, plant and equipment	518,463	526,141	(1)
Intangibles	234,725	233,045	1
Pre-paid technology assets	16,109	15,709	3
Pre-paid contracts FUM	602,818	606,364	(1)
Pre-paid contract liabilities	(434,697)	(430,853)	(1)
Deferred selling costs	15,280	14,719	4
Deferred contract assets	6,952	5,657	23
Net right of use asset and lease liabilities ^a	(12,919)	(10,246)	(26)
Deferred revenue	(80,409)	(80,077)	(0)
Net tax items	(68,852)	(82,396)	16
Other items ^b	(13,777)	(15,240)	10
Total capital employed	870,473	830,343	5
Net debt	(232,379)	(182,708)	(27)
Net assets	638,094	647,636	(1)
Average working capital % of sales ^c	12.9%	8.7%	4.2 ppts
ROCE % ^d	9.0%	10.6%	(1.6 ppts)

a Excludes certain finance leases which are considered 'debt-like' and included in net debt balance.

b Includes assets held for sale, other financial assets, derivative financial instruments, provisions for employee entitlements and contingent consideration.

c Represents the average working capital for the reporting period (average of opening and closing) divided by revenue rolling 12 months for the same period.

d ROCE = Operating EBIT rolling 12 months / (average Net assets + average Net debt).

Net working capital has returned to more normal levels after timing impact of elevated December trade payables (including \$11.3 million of 2022 CAPEX invoices paid in H1 2023). Remaining movement in Trade and other payables relates to the timing of payments of employee incentives (usually paid in March each year) and the unwind of insurance premium funding liabilities in the half.

The increase in inventory reflects the build up of inventory in the Cemeteries & Crematoria business as dry conditions have allowed for construction of memorialisation inventory ahead of anticipated sales in H2. This inventory build-up ahead of sales, the unwind of trade payables and the weaker Q2 sales has resulted in an elevated r12 average working capital as a % of sales of 12.9% compared to December.

The Group achieved ROCE on a r12 basis at 30 June 2023 of 9.0%, a 1.6 ppts decrease from December 2022 and a 2.1 ppts decrease on the PCP. This has been driven primarily by decline in Operating EBIT on a r12 basis reflecting the expected unwind of AASB 15 transition benefit at the same time as softer market conditions. It is noted that current period and comparative measures are also impacted by the adoption of AASB 17. This has led to a material change to capital employed primarily from a decrease in pre-paid contract liabilities of \$118 million recognised in the restated 31 December 2022 balance sheet. On a pre-AASB 17 basis, the Group achieved a r12 ROCE of 10.2%, compared to 11.6% in FY22 and 11.9% in HY22.

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Net debt at reporting date

	30 Jun 2023 \$'000	31 Dec 2022 \$'000	Movement %
Cash and cash equivalents	21,914	31,659	(31)
Borrowings	(240,924)	(200,596)	(20)
Finance lease liabilities	(13,369)	(13,771)	3
Net debt	(232,379)	(182,708)	(27)
Total shareholders' equity*	638,094	647,636	(1)
Leverage ratio (times)	1.8	1.2	(0.6)
Interest cover ratio (times)	13.6	25.1	(11.5)

* Shareholders' equity was restated in December 2022 – refer to Note 3 Pre-paid contracts for further details

The Group ended the period with cash on hand of \$21.9 million. See the cash flow section below for further analysis of the \$9.7 million reduction compared to December 2022. The Group drew down its Syndicated Debt Facility by \$40.1 million during the half to fund working capital requirements, capital investments and other IT and digital related projects.

At 30 June 2023, the Group had access to \$382.4 million of loan facilities, \$242.1 million of which was drawn down:

- A ten-year \$100.0 million Note Purchase Agreement with Metlife, fully drawn and due for repayment in February 2028
- A three-year \$275.0 million Syndicated Debt Facility Agreement supported by a panel of lenders providing available funds through a Multi-Currency Revolving Cash Advance facility due for repayment in August 2024. \$142.1 million of this was drawn at the reporting date
- A one-year \$7.4 million working capital overdraft facility provided by transactional banker, ANZ. \$Nil drawn at reporting date

The financial covenant ratios applicable to the debt facilities differ from the calculations included in the table above as they are calculated on an adjusted Operating EBITDA basis (primarily to include the proforma earnings contributions from acquisitions and to adjust for costs arising from restructuring initiatives). The covenant target ratios are as follows:

- Leverage ratio (being net debt to adjusted Operating EBITDA) must be no greater than 3.5 times
- Interest cover ratio (being adjusted Operating EBITDA to net interest adjusted to remove interest related to AASB 16 Leases) must be greater than 3.0 times

The above covenant ratios continued to be met as of 30 June 2023.

Cash flows

InvoCare aims to use cash generated from operations to pay down borrowings, fund capital expenditure and acquisitions and distribute dividends to shareholders.

Abridged cash flow statement

	30 Jun 2023 \$'000	Half year ended Restated 30 Jun 2022 \$'000	Movement %
Statutory EBITDA	52,186	64,400	(19)
SaaS arrangements expensed as incurred	(9,340)	(4,673)	100
Net change in working capital	(25,990)	(23,123)	(12)
Net finance costs paid	(7,551)	(6,559)	(15)
Tax paid	(14,873)	(4,209)	(253)
Operating cash flows	(5,568)	25,836	(122)
Acquisitions	(4,602)	(382)	(1105)
Divestments/sale of assets	880	978	(10)
Capital expenditure	(25,665)	(18,380)	(40)
Net funds from pre-paid contracts	13,399	12,300	9
Investing cash flows	(15,988)	(5,484)	(192)
Dividends paid	(15,754)	(16,643)	5
Net draw down/(repayment) of borrowings	40,053	5,903	(579)
Net lease payments	(10,421)	(10,171)	(2)
Other	(2,052)	33	6318
Financing cash flows	11,826	(20,878)	157
Change in cash held	(9,730)	(526)	1750
Cash conversion %*	76%	83%	(7 pts)
Free cash flows*	7,079	31,715	(78)

* Cash conversion % and Free cash flows are calculated as per tables below.

The Group ended the period with cash on hand of \$21.9 million. Cash generated from operations, including net funds from pre-paid contracts, has been used to fund capital investments and dividends to shareholders and other financial liabilities.

A weaker end to the half in sales from softer market conditions combined with inflationary increases in costs of doing business, the buildup in inventory in Cemeteries & Crematoria, an increase in Software-as-a-Service (SaaS) expenditure from timing of related projects and higher tax instalments paid have driven the negative swing in operating cash flows compared to the PCP.

Acquisitions includes the purchase of the Pet Cremation bolt-on acquisition and the investment in Picaluna Funerals in the half.

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Cash capital expenditure (CAPEX) of \$25.7 million includes \$11.3 million related to 2022 CAPEX invoices carried over from prior year and paid in the half. The remaining \$14.4 million includes \$7 million of growth projects including facilities investments, increased cremator capacity and digital investments to enhance digital self-serve capability for customers, \$1.1 million on Platform investments not related to SaaS and the remainder from recurring maintenance CAPEX of the Group's facilities and other plant and equipment as well as motor vehicle fleet replacement in NZ.

The Group has access to a revolving syndicated debt facility to fund its operations and capital requirements. Net financing cash flows includes the draw down of \$40.1 million of such debt facilities. Dividends paid in the half is the 2022 final dividend and Other financing cash flow includes the on-market purchase of shares by the employee share trust to satisfy expected vesting of share schemes on foot.

Cash conversion % calculation

	Half year ended	
	30 Jun 2023	Restated 30 Jun 2022
	\$'000	\$'000
Operating cash flows	(5,568)	25,836
Add back: Net finance costs paid	7,551	6,559
Add back: Tax paid	14,873	4,209
Add back: SaaS arrangements expensed as incurred	9,340	4,673
Net funds from pre-paid contracts	13,399	12,300
Ungeared, tax free operating cash flows	39,595	53,577
Statutory EBITDA	52,186	64,400
Cash conversion %	76%	83%

The cash conversion ratio calculation and the line items as shown in the table above are all non-IFRS information, however, all financial data is based on the information disclosed in the consolidated financial statements and notes to the financial statements and follows the recognition requirements of Australian Accounting Standards.

Free cash flows calculation

	Half year ended	
	30 Jun 2023	Restated 30 Jun 2022
	\$'000	\$'000
Operating cash flows	(5,568)	25,836
Net funds from pre-paid contracts	13,399	12,300
Interest paid	8,456	6,729
CAPEX (recurring and platform only)	(9,208)	(13,150)
Free cash flows	7,079	31,715

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Operating review

Funeral services - Australia

Our business

We are a leading provider of at need funeral services in Australia and are privileged to deliver over 39,000 funerals annually for Australian families from our diverse footprint of over 235 locations including funeral homes, shop fronts and shared service centre facilities in metropolitan capital cities and regional towns across the country.

Our three national brands (White Lady, Simplicity and Value Cremations) and our portfolio of regional and local brands are well respected and valued for their long-standing local heritage and contribution to their community. The breadth of our brand portfolio is a key strength and competitive advantage allowing us to cater for all types of client families and customer preferences from simple, direct cremations to high service funeral and memorial services.

Our team of over 1,000 put client families at the centre of everything that they do, being there to support them at pivotal and testing times in their lives. They have achieved industry leading net promoter scores (NPS) through their compassion, exceeding expectations, delivering outstanding service and by setting the highest standards in safety and transparent business practice.

Our ambition is to be the first-choice funeral service provider in Australia, renowned for our quality of service and choice of brands and people. We drive loyalty and advocacy from our client families and must deliver this proposition through fit-for-purpose facilities and trusted team members.

Our performance

Key performance indicators	Half year ended		Movement
	30 Jun 2023	30 Jun 2022	
NPS	+85.5	+82.7	2.8 points
TRIFR	27.8	32.6	(15%)
Funeral case volumes (Number)	18,726	19,299	(3%)
Funeral case average (\$)	9,176	8,511	8%
Operating revenue (\$'000)	173,611	166,567	4%
Operating EBITDA (\$'000)	43,816	43,857	(0%)
EBITDA margin %	25%	26%	(1 pts)
Operating leverage	0x	1.5x	(1.5x)
OPEX to sales %	42%	41%	1 pts
Capital expenditure (\$'000)	6,599	7,145	(8%)

Operating revenue grew 4% on the PCP with strong growth in funeral case average (up 8%), benefiting from annualisation of price increases and package changes but revenue growth was impacted by softer market conditions, particularly in NSW and QLD during the second quarter, driving a 3% decline in case volume compared to the PCP. Constrained top line growth combined with increased wage inflation held Operating EBITDA relatively flat at \$43.8 million for the half.

Cemeteries & Crematoria

Our business

The Australian Cemeteries & Crematoria business is a leading independent operator of cemeteries and crematoria, overseeing 15 cemeteries and memorial parks in New South Wales and Queensland spanning nearly 300 hectares of open space with long remaining useful lives and a network of over 20 cremators.

Our team of over 340 put client families at the centre of everything that they do, and we are honoured to support over 25,000 client families annually with their 'at need' and 'post need' requirements with a wide range of memorial products and services. The business conducts circa 3,000 burials and over 20,000 cremations annually with the parks and facilities also available for funerals, memorials, and community events.

We engage with all funeral directors, InvoCare and independents and client families from all community groups and religious backgrounds through our non-denominational memorial parks.

Our core focus is on ensuring we develop and maintain beautiful places for the committal and ongoing care of the deceased in their final resting place and for the communities in which they are located.

Our performance

Key performance indicators	Half year ended		Movement
	30 Jun 2023	30 Jun 2022	
NPS	+71.3	+70.4	0.9 points
TRIFR	51.7	37.3	39%
Burials (Number)	1,539	1,674	(8%)
Cremations (Number)	9,754	11,196	(13%)
Operating revenue (\$'000)	61,978	65,760	(6%)
Operating EBITDA (\$'000)	27,396	32,421	(16%)
EBITDA margin %	44%	49%	(5 pts)
Operating leverage	(2.7x)	1.3x	(4x)
OPEX to sales %	42%	37%	5 pts
Capital expenditure (\$'000)	3,588	4,343	(17%)

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

AASB 15 deferred revenue and cost unwinds contributed \$1.8 million to Operating revenue and \$1.5 million to Operating EBITDA respectively (HY22: \$8.9 million and \$7.1 million) with 2022 being the last year of material impact of this unwind.

Our memorial parks (based in NSW and QLD) were impacted by softer market conditions with a double-digit decline in the number of cremations and 8% decline in burials conducted compared to the PCP. Despite this, drier conditions and an increase in inventory construction that commenced in Q4 last year, enabled strong growth in memorialisation sales, resulting in a 6% increase in Underlying Operating revenue (excluding AASB 15 transition benefit unwind) to \$60.2 million and 2% growth in Underlying Operating EBITDA to \$25.9 million.

Pet cremations

Our business

Established in 2019, Australia's only national Pet cremations business operates from 17 locations across five states, providing over 99,000 private cremations annually and offers a wide range of memorial products.

Being the best in class operationally is a priority for the business. Working closely with veterinary clinics and client families, our growing team of nearly 200 uses state-of-the-art tracking technology to provide information to grieving families and veterinary clinics as to what stage of the cremation process their pet is in.

Our performance

Key performance indicators	Half year ended		Movement
	30 Jun 2023	30 Jun 2022	
NPS	+86	+81	5 points
TRIFR	41.8	59.6	(30%)
Pet cremation volumes (Number)	49,974	49,341	1%
Pet case average (\$)	364	338	8%
Operating revenue (\$'000)	18,180	16,701	9%
Operating EBITDA (\$'000)	3,827	2,575	49%
EBITDA margin %	21%	15%	6 ppts
Operating leverage	5.5x	(1x)	6.5x
OPEX to sales %	61%	64%	(3 ppts)
Capital expenditure (\$'000)	1,144	693	65%

The Pet cremations business saw the benefit of last year's investment in implementing a consistent national approach to service, product and price changes, delivering close to 50,000 cremations in the half, up 1% on the PCP and growing pet case average by 8%. This was the main driver of growth in Operating revenue of 9% to \$18.2 million, which, when combined with strong cost control, has led to significantly improved EBITDA margins and a 49% increase in Operating EBITDA to \$3.8 million.

International

Our business

InvoCare is a leading provider of funeral and related services in New Zealand and Singapore.

Through its 48 locations (including two memorial parks) and 24 locally trusted brands, our dedicated team of over 200 proudly serves the funeral and memorialisation needs of nearly 7,000 client families across New Zealand annually.

Our Singapore operations are a leading provider of funeral services in the Singaporean market with two main locations including a six-storey specially designed property with 13 newly renovated funeral parlours on Lavender St in the central region of Singapore. Our dedicated team of nearly 70 offer over 1,700 client families a wide variety of pre, at and post need funeral services annually.

Our performance – New Zealand

Key performance indicators	Half year ended		Movement
	30 Jun 2023	30 Jun 2022	
NPS	+88.4	+88	0.4 points
TRIFR	23.6	25.5	(8%)
Funeral case volumes (Number)	3,555	3,703	(4%)
Funeral case average (\$)	7,737	7,530	3%
Operating revenue (\$'000)	30,125	30,437	(1%)
Operating EBITDA (\$'000)	6,764	7,751	(13%)
EBITDA margin %	23%	26%	(3 ppts)
Operating leverage	(12.4x)	2.8x	(15.2x)
OPEX to sales %	49%	45%	4 ppts
Capital expenditure (\$'000)	2,773	819	239%

N.B Figures included in the table above are the Australian dollar equivalents.

Consistent with the Australian funerals business, the New Zealand market is also experiencing softer market conditions in terms of funeral case volumes (down 4%) but increased funeral case average (up 3%). This constrained operating revenue in NZ to \$30.1 million (down 1%). This, combined with wage inflation, has impacted EBITDA margins in NZ, leading to a 12% decline in Operating EBITDA to \$6.8 million.

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Our performance – Singapore

Key performance indicators	Half year ended		Movement
	30 Jun 2023	30 Jun 2022	
Funeral case volumes (Number)	848	889	(5%)
Funeral case average (\$)	12,791	10,541	21%
Operating revenue (\$'000)	12,423	10,867	14%
Operating EBITDA (\$'000)	5,464	4,897	12%
EBITDA margin %	44%	45%	(1 pts)
Operating leverage	0.8x	0.6x	0.2x
OPEX to sales %	33%	33%	0 pts
Capital expenditure (\$'000)	116	47	147%

N.B Figures included in the table above are the Australian dollar equivalents.

In Singapore, operating EBITDA was up 12% to \$5.5 million (up 3% on a local currency basis). The business continues to experience strong growth in funeral case average (up 21% or 12 % on a local currency basis). A tight control of costs has led to improved cost base efficiency metrics.

Other businesses

Pre-paid funerals

Our pre-paid funerals (pre-need) business allows clients to pre-pay for selected future funeral services through our national network of funeral locations.

The benefit of InvoCare pre-paid funerals is that they allow clients to plan and pay in advance for tomorrow's funeral at today's prices with no additional fees when the pre-paid contract is redeemed. Contracts can be paid all at once or in instalments over 36 months and are redeemable at any of InvoCare's branded locations across Australia. Pre-paid funerals are generally also exempt from pension entitlement tests in Australia (although independent financial advice should be sought) and payments are held securely predominantly by The Over Fifty's Guardian Friendly Society. These funds are independently invested and managed over the life of the contract and funds are only released to the funeral home on redemption.

Key performance indicators	Half year ended		Movement
	30 Jun 2023	30 Jun 2022	
Pre-paid % of at need funerals	14.4%	13.9%	0.5 pts
Unrealised gain/(loss) on pre-paid contract funds under management (\$'000)	6,728	(46,549)	(115%)
Pre-paid contract liabilities - finance (costs)/income (\$'000)	(7,133)	73,666	(110%)
Pre-paid contract volumes sold (Number)	2,393	1,956	22%

The reinvigorated pre-paid funerals strategy was enacted in the half with early signs of success. Pre-need contract volumes sold grew 22% on the PCP and pre-need contract averages were 7% higher than at-need funeral case averages in the same period. Redemption volumes remained flat on the PCP representing 14.4% of at-need funerals delivered in Australia.

A key financial statement impact of this business on the Group's profit and loss are the movements from the revaluation of pre-paid fund under management (FUM), the results of which are captured as a non-operating profit and loss item. In comparison to the PCP, when deteriorating domestic and international equity markets were reflected in a significant \$46.5 million accounting loss on revaluation of pre-paid contract FUM values, asset values have stabilised with a \$6.7 million accounting gain on revaluation recognised in the half.

As noted previously, the accounting for pre-paid funeral contracts has been impacted by the adoption of AASB 17 Insurance Contracts (see Note 3 for further details). The adoption of AASB 17 introduces a new key financial statement impact of this business on the Group's profit or loss due to the requirement to discount the pre-paid contract liabilities using long-term interest rates. A decrease in long-term interest rates in the period has resulted in the recognition of a non-cash finance costs on pre-paid contracts of \$7.1 million compared to a \$73.4 million finance income in the PCP when long-term interest rates increased significantly. This volatility in finance (costs)/income further supports the classification of the results of the pre-paid funerals business within non-operating results.

For personal use only

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Support costs

Supporting the business operations are key functions and capabilities that are recognised separately from the main business units.

Group Support Corporate are those corporate functions that support all operations, Australian and International, primarily Finance, People & Culture (HR), Legal & Compliance, Strategy and Transformation Office, Stakeholder Engagement, listed company costs and the offices of the CEO and CFO. Such costs increased by \$0.5 million in the half to \$10.3 million driven primarily by annualisation of capability investments made in the prior year and wage inflation.

The costs of the in-house IT support team and centralised technology costs such as the software licence fees for Microsoft and Oracle platforms are included in Group Support IT. These costs increased by \$0.4 million in the half to \$7.2 million due to a general increase in software licence expense driven by the ERP roll outs and increasing digital investments in the current and prior period.

Field Support are those functions that directly support the Australian operations including marketing, field HR support, Safety & Sustainability, Procurement, Accounts Receivable and Property & Facilities teams. Annualisation of capability investments in field safety and HR support teams and in marketing, have driven a \$1.1 million increase in such costs in the half to \$7.4 million.

Outlook

Mortality rates are expected to revert to long-term averages (after three years of volatility), with the impact of the 2023 flu season remaining comparatively benign mid-way through the third quarter.

The Group remains focused on maintaining strategic momentum into the second half, whilst operating the business in line with the Conduct of Business conditions (Clause 7.1) of the Scheme Implementation Deed. Completion of the Scheme of Arrangement with TPG is anticipated in the last quarter of the year.

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Reconciliation of financial information

InvoCare's results are reported under Australian Accounting Standards. This report and associated market releases include 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 Operating profit after income tax as key performance measures. These measures are considered to provide more useful indications of the Group's recurring earnings base. Accounting standards require net gains and losses from undelivered pre-paid contracts to be included in reported profit; these gains and losses are non-cash and do not impact on InvoCare's core business operations.

The table below presents a reconciliation of Operating results to Statutory results as disclosed in the consolidated statement of comprehensive income and operating results in Note 1 Operating segments.

	Half year ended 30 Jun 2023			Restated half year ended 30 Jun 2022		
	Operating results ^a	Non-operating results	Statutory results	Operating results ^a	Non-operating results	Statutory results
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	289,160	(8,981)	280,179	283,332	(1,599)	281,733
Expenses ^b	(226,798)	(1,195)	(227,993)	(214,853)	(2,480)	(217,333)
EBITDA	62,362	(10,176)	52,186	68,479	(4,079)	64,400
Depreciation and amortisation	(26,606)	2,115	(24,491)	(23,925)	1,996	(21,929)
SaaS arrangements	(1,166)	(9,340)	(10,506)	(496)	(4,673)	(5,169)
Business acquisition costs	(245)	(1,338)	(1,583)	(382)	-	(382)
Restructuring costs	-	-	-	-	(1,476)	(1,476)
Net gain/(loss) on pre-paid contract funds under management	-	6,728	6,728	-	(46,549)	(46,549)
Accounting standard transition expenses	-	(596)	(596)	-	-	-
Net gain on lease modifications/terminations	2	-	2	337	-	337
Asset sales gain	-	82	82	-	361	361
EBIT	34,347	(12,525)	21,822	44,013	(54,420)	(10,407)
Net finance (costs)/income	(8,212)	(7,133)	(15,345)	(5,604)	73,666	68,062
Income tax (expense)/benefit	(7,777)	5,781	(1,996)	(10,770)	(5,664)	(16,434)
Non-controlling interests	(22)	-	(22)	(91)	-	(91)
Net profit/(loss) after income tax attributable to equity holders of InvoCare Limited	18,336	(13,877)	4,459	27,548	13,582	41,130
EPS (cents per share)	12.8	(9.7)	3.1	19.5	9.3	28.8
OPEX to sales %	53%		56%	51%		53%
EBITDA margin (%)	22%		19%	24%		23%
EBIT margin (%)	12%		8%	16%		(4%)

a Refer to the table on next page for the reconciliation of Underlying results to Operating results due to the impact of AASB15 transition benefit unwind.

b SaaS arrangements is regrouped from expenses before EBITDA as a separate line item in the table above in Operating and Non-operating results.

The table above summarises the key reconciling items between net profit after tax attributable to InvoCare's equity holders and Operating EBITDA and EBIT. The Operating EBITDA and EBIT information included in the table above has not been subject to any specific audit or review procedures by the auditor but has been extracted from the accompanying financial report.

As well as impairments, recognition of SaaS arrangement expensed as incurred, and gains or losses arising from disposals of assets, items included in the non-operating column also include the financial consequences of all activities related to the administration and financial impacts of the pre-paid funerals business.

The Directors also consider that the presentation of all activities related to the mark-to-market fair value movements in the independently controlled funds under management and pre-paid contract liabilities as non-operating in nature and therefore these are also excluded from Operating EBIT and Operating profit after income tax. This is considered to provide a better reflection of InvoCare's core business performance and results. It also removes volatility from the reported profit and loss that arises from the fair value activities required by accounting standards on these pre-paid funerals related assets and liabilities.

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Additionally, as 2022 was the last year of a material contribution of the unwind of transition benefits from adoption of AASB 15 in 2018, financial commentary in this Directors Report has referred to 'Underlying' Operating revenue and Operating EBITDA. This is to allow for better like-for-like comparability between the financial periods being presented. Included in the table below is a reconciliation of underlying to operating results that support this commentary.

	Half year ended 30 Jun 2023			Restated half year ended 30 Jun 2022			
	Underlying results \$'000	AASB 15 transition unwind \$'000	Operating results \$'000	Underlying results \$'000	AASB 15 transition unwind \$'000	Operating results \$'000	Movement ^a %
Revenue	287,367	1,793	289,160	274,413	8,919	283,332	5
Expenses ^b	(226,489)	(309)	(226,798)	(212,994)	(1,859)	(214,853)	6
EBITDA	60,878	1,484	62,362	61,419	7,060	68,479	(1)
Depreciation and amortisation	(26,606)	-	(26,606)	(23,925)	-	(23,925)	11
SaaS arrangements	(1,166)	-	(1,166)	(496)	-	(496)	135
Business acquisition costs	(245)	-	(245)	(382)	-	(382)	(36)
Net gain on lease modifications/terminations	2	-	2	337	-	337	(99)
EBIT	32,863	1,484	34,347	36,953	7,060	44,013	(11)
Net finance costs	(8,139)	(73)	(8,212)	(5,385)	(219)	(5,604)	51
Income tax expense	(7,354)	(423)	(7,777)	(8,718)	(2,052)	(10,770)	(16)
Non-controlling interests	(22)	-	(22)	(91)	-	(91)	(76)
Net profit after income tax attributable to equity holders of InvoCare Limited	17,348	988	18,336	22,759	4,789	27,548	(24)

^a Movement % refers to % change in underlying results compared to the PCP.

^b SaaS arrangements is regrouped from expenses before EBITDA as a separate line item in the table above in Operating results.

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Glossary

Term	Description
Average capital employed	Average of opening and closing capital employed
Average working capital % of sales	Average of opening and closing working capital divided by Operating revenue for a 12-month period. r12 measure uses rolling 12-month Operating revenue
CAPEX	Capital expenditure
Capital employed	As used in ROCE % calculation. Calculated as Net assets + Net debt
Cash conversion %	Ungeared, tax free operating cash flows divided by Operating EBITDA
Dividend payout ratio	Dividend per share divided by Operating EPS
EBITDA margin	Operating EBITDA divided by Operating revenue
EPS	Earnings per share, calculated as Reported profit/(loss) divided by weighted average number of shares
ERP	Enterprise Resource Planning, e.g. the main Oracle general ledger financial system used by the business
Free cash flow	Operating cash flow + interest paid less CAPEX - maintenance less CAPEX – investment – platform
Funeral case average	Calculated as funeral gross revenue divided by funeral case volume
Funeral case volume	Number of funeral services undertaken
FUM	Funds under management in the pre-paid funerals business
Interest cover ratio	Calculated as Operating EBITDA divided by Net finance costs excluding AASB 16 interest, merchant fees and interest on customer advance payments. Interest cover calculation used for bank covenant testing purposes uses an Adjusted EBITDA measure (primarily adjusted to include proforma earnings from acquisitions and costs arising from restructuring initiatives)
Investment CAPEX	CAPEX undertaken to expand existing operations or further growth prospects, includes platform investments (IT and Shared Service Centre projects)
Leverage ratio	Calculated for disclosure purposes as Net debt divided by Operating EBITDA. Leverage calculation used for bank covenant testing purposes uses an Adjusted EBITDA measure (primarily adjusted to include proforma earnings from acquisitions and costs arising from restructuring initiatives). r12 measure uses rolling 12-month Operating EBITDA
LTIFR	Lost time injury frequency rate
Maintenance CAPEX	Recurring annual CAPEX required to maintain facilities
Memorialisation revenue	Revenue earned from the sale of memorials, plaques, burial plots etc. in the Cemeteries & Crematoria business
MTM	Mark-to-market
Net debt	Cash and cash equivalents + Borrowings + Finance leases liabilities
NPS	Net Promoter Score, calculated based on customer feedback with Group score representative of Australia and New Zealand only
Operating EBITDA	Operating earnings before interest, tax, depreciation & amortisation and business acquisition costs and SaaS arrangements
Operating EBIT	Operating earnings before interest and tax
Operating EPS	Operating net profit after tax divided by Weighted average number of shares
Operating leverage	Means the percentage growth in Operating EBITDA divided by the percentage growth in Operating revenue
Operating NPAT	Reported profit excluding non-operating items and associated tax
Operating revenue	Revenue for the Group excluding revenue earned from pre-paid funerals business
OPEX % Sales	Operating expenses divided by Operating revenue
PCP	Prior corresponding period
Pet case average	Gross pet cremations revenue divided by pet cremation volumes
Pet cremation volumes	The number of pet cremations conducted
Reported profit/(loss)	Net profit/(loss) attributable to shareholders of InvoCare Limited

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Term	Description
ROCE	Return on capital employed
ROCE %	Calculated as Operating EBIT divided by Average capital employed. r12 measure uses rolling 12-month Operating EBIT
SaaS	Software-as-a-Service
TRIFR	Total recordable injury frequency rate
Ungeared, tax free cash flows	Calculated as operating cash flow excluding net finance costs paid and tax paid adjusted by net funds from pre-paid contracts (Payments to funds under management for pre-paid contract sales and receipts from funds under management for pre-paid contracts performed) sourced from investing cash flows and other cash flows related to pre-paid contracts
Underlying Operating Revenue or Operating EBITDA	Measures excluding impact of AASB 15 transition benefit unwind to allow for greater like-for-like comparability of the business performance
Working capital	Inventories + Trade and other receivables + Trade and other payables

INVOCARE LIMITED AND SUBSIDIARIES

Directors' report

Subsequent events

Other than the following matters, no other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

- On 4 August 2023 the Group acquired the remaining 17% of shares in Lake Macquarie Memorial Park Pty Limited. It is now 100% owned by the Group.
- On 9 August 2023 a Scheme Implementation Deed (SID) was signed with TPG Capital Asia (TPG) under which TPG agree to acquire 100% of the shares in InvoCare by way of a Scheme of Arrangement.

Refer to Note 11 Events after reporting period for further details of the above matters.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after the Directors' Report.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars (where rounding is applicable) in accordance with that instrument.

Signed in accordance with a resolution of the Board of Directors.



Bart Vogel

Director

Sydney

28 August 2023

28 August 2023

The Board of Directors
InvoCare Limited
Level 5, 40 Mount Street
North Sydney NSW 2060

Dear Board Members

Auditor's Independence Declaration to InvoCare Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of InvoCare Limited.

As lead audit partner for the review of the half year financial report of InvoCare Limited for the half year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Sandeep Chadha
Partner
Chartered Accountants

INVOCARE LIMITED AND SUBSIDIARIES

Consolidated financial statements

Introduction

This financial report is for the half year ended 30 June 2023 and comprises of the consolidated financial statements of InvoCare Limited (the Company) and its subsidiaries (together referred to as InvoCare or the Group).

InvoCare Limited (ABN 42 096 437 393) is a for-profit listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 5, 40 Mount Street
North Sydney NSW 2060

A description of the nature of the Group’s operations and its principal activities is included in the Directors’ Report.

This half year financial report was authorised for issue by the Directors on 28 August 2023. The Directors have the power to amend and reissue the financial report.

This half year financial report of the Group does not include all information required for annual financial statement presentation in accordance with International Financial Reporting Standards (IFRS). Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2022 and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Financial report content

	Page
Consolidated financial statements	
Consolidated statement of comprehensive income	20
Consolidated balance sheet	21
Consolidated statement of changes in equity	22
Consolidated statement of cash flows	23
Basis of preparation	24
Notes to the consolidated financial statements	
Note 1. Operating segments	26
Note 2. Revenue	28
Note 3. Pre-paid contracts	29
Note 4. Significant profit and loss items	47
Note 5. Earnings per share	48
Note 6. Dividends	49
Note 7. Deferred revenue and selling costs	50
Note 8. Borrowings	51
Note 9. Contributed equity	52
Note 10. Contingencies	52
Note 11. Events after reporting period	52

INVOCARE LIMITED AND SUBSIDIARIES

Consolidated financial statements

Consolidated statement of comprehensive income

For the half year ended 30 June 2023

	Notes	Half year ended	
		30 Jun 2023 \$'000	Restated* 30 Jun 2022 \$'000
Revenue from continuing operations	2	280,179	281,733
Finished goods, consumables and funeral disbursements		(69,946)	(68,607)
Employee benefits expense		(104,407)	(96,653)
Advertising and public relations expenses		(6,463)	(6,305)
Occupancy and facilities expenses		(13,105)	(11,769)
Motor vehicle expenses		(3,728)	(3,701)
Technology expenses	4	(19,893)	(13,265)
Other expenses		(7,384)	(8,309)
Pre-paid contract service expenses	3	(13,573)	(13,893)
Depreciation and amortisation expenses	4	(24,491)	(21,929)
Finance costs	4	(16,657)	67,485
Interest income		1,312	577
Gain/(loss) on pre-paid contract funds under management	3	6,728	(46,549)
Acquisition related costs		(1,583)	(382)
Restructuring costs		-	(1,476)
Accounting standard transition expenses		(596)	-
Net gain on lease modifications/terminations		2	337
Net gain on disposal of non-current assets		82	361
Profit before income tax		6,477	57,655
Income tax expense		(1,996)	(16,434)
Net profit after income tax from continuing activities		4,481	41,221
Net profit after income tax for the half year		4,481	41,221
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges, net of tax		-	102
Changes in foreign currency translation reserve, net of tax		1,083	(3,489)
Other comprehensive income/(loss) for the half year, net of tax		1,083	(3,387)
Total comprehensive income for the half year, net of tax		5,564	37,834
Profit is attributable to:			
Equity holders of InvoCare Limited		4,459	41,130
Non-controlling interests		22	91
		4,481	41,221
Total comprehensive income for the period is attributable to:			
Equity holders of InvoCare Limited		5,542	37,743
Non-controlling interests		22	91
		5,564	37,834
	Notes	Half year ended	
		30 Jun 2023 cents	Restated* 30 Jun 2022 cents
Earnings per share for profit attributable to the ordinary equity holders of InvoCare Limited			
Basic earnings per share	5	3.1	28.8
Diluted earnings per share	5	3.1	28.7

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

* Comparative financial information has been restated for the application of AASB 17 Insurance Contracts. Further details are provided in Note 3.G.

INVOCARE LIMITED AND SUBSIDIARIES

Consolidated financial statements

Consolidated balance sheet

As at 30 June 2023

		As at	
	Notes	30 Jun 2023 \$'000	Restated* 31 Dec 2022 \$'000
Assets			
Current assets			
Cash and cash equivalents		21,914	31,659
Trade receivables		50,141	49,290
Other receivables		15,852	17,537
Inventories		48,660	45,463
Pre-paid contract funds under management	3	40,208	40,081
Pre-paid technology assets		2,746	2,278
Current tax receivable		4,011	-
Deferred selling costs	7	2,698	3,274
Deferred contract assets		6,812	5,496
Total current assets		193,042	195,078
Non-current assets			
Trade receivables		19,599	20,410
Other assets		688	640
Other financial assets		8,229	5,918
Property, plant and equipment		518,463	526,141
Right of use assets		153,889	158,447
Pre-paid contract funds under management	3	562,610	566,283
Intangibles		234,725	233,045
Pre-paid technology assets		13,363	13,431
Deferred selling costs	7	12,582	11,445
Deferred contract assets		140	161
Total non-current assets		1,524,288	1,535,921
Total assets		1,717,330	1,730,999
Liabilities			
Current liabilities			
Trade and other payables		48,159	85,820
Lease liabilities		22,309	21,475
Current tax liabilities		2,361	11,933
Pre-paid contract liabilities	3	28,949	28,375
Deferred revenue	7	18,495	15,090
Provision for employee entitlements		18,300	17,943
Total current liabilities		138,573	180,636
Non-current liabilities			
Borrowings	8	240,924	200,596
Lease liabilities		157,868	160,989
Deferred tax liabilities		70,501	70,463
Pre-paid contract liabilities	3	405,748	402,478
Deferred revenue	7	61,914	64,987
Provision for employee entitlements		3,708	3,214
Total non-current liabilities		940,663	902,727
Total liabilities		1,079,236	1,083,363
Net assets		638,094	647,636
Equity			
Contributed equity	9	498,043	498,786
Reserves		14,495	12,021
Retained profits		124,164	135,452
Parent entity interests		636,702	646,259
Non-controlling interests		1,392	1,377
Total equity		638,094	647,636

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

* Comparative financial information has been restated for the application of AASB 17 Insurance Contracts. Further details are provided in Note 3.G.

INVOCARE LIMITED AND SUBSIDIARIES

Consolidated financial statements

Consolidated statement of changes in equity

For the half year ended 30 June 2023

Half year ended	Attributable to equity holders of InvoCare Limited						Total equity
	Contributed equity	Share-based payment reserve	Hedging reserve	Foreign currency translation reserve	Retained profits	Non-controlling interests	
30 Jun 2023	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2023	498,786	9,261	-	2,760	135,452	1,377	647,636
Total comprehensive income/(loss) for the half year	-	-	-	1,083	4,459	22	5,564
Transactions with owners in their capacity as owners:							
Dividends paid (Note 6)	-	-	-	-	(15,747)	(7)	(15,754)
Employee share plan shares exercised during the half year	1,713	(1,309)	-	-	-	-	404
Acquisition of shares by the InvoCare Employee Share Trust	(2,456)	-	-	-	-	-	(2,456)
Employee shares – value of services	-	2,700	-	-	-	-	2,700
Balance at 30 June 2023	498,043	10,652	-	3,843	124,164	1,392	638,094
Restated* half year ended 30 Jun 2022							
Balance at 1 January 2022	497,780	5,503	8	5,354	70,857	1,419	580,921
Change in accounting policy	-	-	-	-	34,568	-	34,568
Restated balance at the beginning of the half year	497,780	5,503	8	5,354	105,425	1,419	615,489
Total comprehensive income/(loss) for the half year	-	-	102	(3,489)	41,130	91	37,834
Transactions with owners in their capacity as owners:							
Dividends paid (Note 6)	-	-	-	-	(16,566)	(77)	(16,643)
Employee share plan shares exercised during the half year	326	(293)	-	-	-	-	33
Employee shares – value of services	-	1,451	-	-	-	-	1,451
Balance at 30 June 2022	498,106	6,661	110	1,865	129,989	1,433	638,164

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

* Comparative financial information has been restated for the application of AASB 17 Insurance Contracts. Further details are provided in Note 3.G.

For personal use only

INVOCARE LIMITED AND SUBSIDIARIES

Consolidated financial statements

Consolidated statement of cash flows

For the half year ended 30 June 2023

	Half year ended	
	30 Jun 2023	30 Jun 2022
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (including GST)	290,687	286,548
Payments to suppliers and employees (including GST)	(278,038)	(253,064)
Other revenue	4,207	3,120
	16,856	36,604
Interest received	905	170
Finance costs	(8,456)	(6,729)
Income tax paid	(14,873)	(4,209)
Net cash flows from operating activities	(5,568)	25,836
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	880	978
Purchase of subsidiaries and other businesses including acquisition costs, net of cash acquired	(2,291)	(382)
Purchase of property, plant and equipment, intangibles and pre-paid technology assets	(25,665)	(18,380)
Purchase of other financial assets	(2,311)	-
Payments to funds under management for pre-paid contract sales	(14,017)	(9,197)
Receipts from funds under management for pre-paid contracts service delivered	27,416	21,497
Net cash flows from investing activities	(15,988)	(5,484)
Cash flows from financing activities		
Payment for shares acquired by InvoCare Deferred Employee Share Plan trust	(2,456)	-
Proceeds from share option vested and exercised	404	33
Proceeds from borrowings	64,600	25,000
Repayment of borrowings	(24,547)	(19,097)
Principal elements of lease payments	(10,421)	(10,171)
Dividends paid to InvoCare Limited equity holders	(15,747)	(16,566)
Dividends paid to non-controlling interests in subsidiaries	(7)	(77)
Net cash flows from financing activities	11,826	(20,878)
Net (decrease)/increase in cash and cash equivalents	(9,730)	(526)
Cash and cash equivalents at the beginning of the half year	31,659	53,630
Effects of exchange rate changes on cash and cash equivalents	(15)	(127)
Cash and cash equivalents at the end of the half year	21,914	52,977

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

INVOCARE LIMITED AND SUBSIDIARIES

Basis of preparation

This half year financial report has been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standard AASB 134 Interim Financial Reporting, the recognition and measurement and requirements of other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board, as appropriate for for-profit oriented entities and the Australian Securities Exchange (ASX) Listing Rules.

The accounting policies adopted in the preparation of this financial report have been applied consistently by all entities in the Group and are the same as those applied for the most recent annual financial report except as described below. These financial statements have been prepared under the historical cost convention, modified, where applicable, by the measurement at fair value of certain non-current assets, financial assets and financial liabilities. The principal accounting policies adopted are consistent with those of the previous financial year and corresponding half year reporting period, unless otherwise stated.

The financial report is presented in Australian dollars, which is the functional currency of InvoCare.

New or amended Accounting Standards and Interpretations adopted

There are no new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period except for AASB 17 Insurance Contracts.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

AASB 17 Insurance Contracts

AASB 17 *Insurance Contracts* applies to annual reporting periods beginning on or after 1 January 2023.

Pre-paid contracts meet the definition of insurance contracts under the criteria detailed within AASB 17, refer to Note 3 Pre-paid contracts for details.

Critical accounting estimates and judgements

The preparation of a financial report that complies with AASBs requires management to make judgements, estimates and assumptions.

This can affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Impairment test for goodwill

All cash generating units (CGUs) to which goodwill has been allocated were reviewed for potential indicators of impairment at 30 June 2023. There is no indicators of impairment and thus no impairment tests were performed at 30 June 2023. Impairment analysis indicates headroom exists in the value-in-use calculations for Funeral services, Cemeteries & Crematoria, Pet Cremations, New Zealand and Singapore CGUs compared to the carrying value of the assets of each CGU. There is no reasonable possible long-term shift in key assumptions considered likely which will cause impairment of any of these CGUs.

Fair value measurements – Pre-paid contract funds under management

The fair values of the pre-paid contract funds under management are recognised and measured based on inputs that require judgements and estimates. To provide an indication about the reliability of the inputs used in determining fair value of the pre-paid contract funds under management, the Group has used Level 2 inputs as prescribed under the accounting standards. Refer to Fair value measurement section below for further information how the fair value of pre-paid contract funds under management are determined, including the valuation technique and inputs used.

Current and non-current split – Pre-paid contract funds under management

The Group determines the classification of current and non-current portions of pre-paid contract assets and liabilities based on an independent actuarial review associated with the expected timing of pre-paid contract redemptions.

INVOCARE LIMITED AND SUBSIDIARIES

Basis of preparation

Comparatives

Where necessary, comparatives have been reclassified, repositioned and restated for consistency with current year disclosures.

The following disclosures have been changed during the financial year ended 31 December 2022 which are different to the disclosure for the half year ended 30 June 2022 and thus comparatives in this half year financial report are prepared for consistency with the 2022 Annual Report disclosures:

- Note 1 Operating segments – identifiable reportable segments are updated to align with the latest discrete financial information reported to the Chief Operating Decision Maker and the Board of Directors and impact by the application of AASB 17
- Note 3 Pre-paid contracts – AASB 17 is applied to the Group's pre-paid contracts

Rounding

The Group is of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities & Investment Commission. In accordance with that Instrument, amounts in the Directors' report and financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

Fair value measurement

The Group's financial assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of financial assets and liabilities are determined, including the valuation technique and inputs used. For the Group's financial assets and liabilities not measured at fair value, their carrying amount provides a reasonable approximation of their fair values.

Financial assets or liabilities	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Pre-paid contract funds under management	Level 2	The fair value is calculated based on the number of units multiplied by the unit price of the funds which administers the invested funds. The unit price of the funds is based on the fair value of the underlying investments, which include equities, cash, fixed interest deposits and property.	Not applicable	Not applicable

There were no transfers between levels during the reporting period.

Price risk

The Group is the ultimate beneficiary of pre-paid contract funds under management (Invested Funds) invested in various pre-paid contract trusts, as described in the table above. There are a significant number of trusts in existence with various investment profiles.

Accordingly, the Group's future income is sensitive to the price risk relating to the investment returns of these funds under management.

These funds are invested in a range of asset classes with different price risk variables including cash, fixed interest, Australian and international equities, hybrids and direct and indirect property. The return on these funds (net of the increase in the liability to deliver the future services) is recognised as net gain/loss on undelivered pre-paid contracts in the statement of comprehensive income.

Refer to Note 3F Pre-paid contract funds under management for the profit and loss impact for the half year ended 30 June 2023.

The asset allocation at reporting date of pre-paid contract funds under management is as follows:

	30 Jun 2023	31 Dec 2022
	%	%
Equities	34	33
Property	41	41
Cash and fixed interest (includes hybrid securities)	25	26

Non-IFRS information

Some of the financial data in the notes to the financial statements as listed below are not disclosures in accordance with the current AASBs' requirements:

- EBITDA (earnings before interest, tax, depreciation and amortisation) and EBIT (earnings before interest and tax) in Note 1 Operating segments
- Operating earnings per share in Note 4 Earnings per share
- Non-operating revenue as described in Note 3 Pre-paid contracts

However, all financial data is based on the information disclosed in the reviewed financial statements and notes to the financial statements of InvoCare and follow the recognition requirement of AASBs.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

Note 1. Operating segments

A. Identification of reportable segments

The Group's pre-paid contracts meet the definition of insurance contracts under the criteria detailed within AASB 17. As this is the Group's first applicable reporting period, the comparative financial statement balances for the half-year ended 30 June 2022 have been restated to reflect the requirements of AASB 17. Due to the change in accounting for its pre-paid contracts, the Group has re-organised its reportable segments to separately report the results for pre-paid contracts to provide clarity to the users of financial report. The comparative reportable segments information has been restated in Section B below:

- Australia – Funeral services
- Australia – Pre-paid contracts
- Australia – Cemeteries & Crematoria
- Australia – Pet cremations
- International – New Zealand
- International – Singapore
- Other/unallocated

These reportable segments are based on the internal reports that are reviewed and used by the Chief Executive Officer & Managing Director (who is identified as the Chief Operating Decision Maker (CODM)) in assessing performance and in determining the allocation of resources. There is no aggregation of reportable segments.

The reportable segments are identified by management based on the products sold or services provided in Australia and other countries where their products and services are mainly related to the provision of Funeral services. Discrete financial information about each of these operating segments is reported to CODM and the Board of Directors regularly.

The CODM reviews Group and segment performance using, among other key financial and non-financial measures, Operating EBITDA (for each reportable segment) and Operating EBIT (only for the consolidated group).

The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the consolidated financial statements.

B. Reportable segments information

I. Key segment financial information and results

		Segment revenue ^a	Segment expenses ^b	Segment EBITDA	Depreciation and amortisation	Net gain/(loss) on lease modification/ terminations
		\$'000	\$'000	\$'000	\$'000	\$'000
Half year ended 30 Jun 2023						
Australia	Funeral services	173,611	(129,795)	43,816	(15,003)	-
	Intersegment elimination	(35,092)	19,678	(15,414)	2,115	-
	Pre-paid contracts	17,898	(13,573)	4,325	-	-
	Cemeteries & Crematoria	61,978	(34,582)	27,396	(2,828)	-
	Pet cremations	18,180	(14,353)	3,827	(1,583)	-
International	New Zealand	30,125	(23,361)	6,764	(2,947)	(10)
	Singapore	12,423	(6,959)	5,464	(780)	12
Other	Other/unallocated	1,056	(25,048)	(23,992)	(3,465)	-
Total		280,179	(227,993)	52,186	(24,491)	2
Restated half year ended 30 Jun 2022						
Australia	Funeral services	166,567	(122,710)	43,857	(14,154)	339
	Intersegment elimination	(28,496)	18,515	(9,981)	1,996	-
	Pre-paid contracts	17,754	(13,893)	3,861	-	-
	Cemeteries & Crematoria	65,760	(33,339)	32,421	(2,963)	-
	Pet cremations	16,701	(14,126)	2,575	(1,125)	-
International	New Zealand	30,437	(22,686)	7,751	(2,761)	(2)
	Singapore	10,867	(5,971)	4,896	(730)	-
Other	Other/unallocated	2,143	(23,123)	(20,980)	(2,192)	-
Total		281,733	(217,333)	64,400	(21,929)	337

a Other/unallocated balance includes support office costs and other non-operating activities revenue.

b Segment expenses excludes SaaS arrangements

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

II. Reconciliation of segment results to net profit after income tax

The table below provided the reconciliation of the reportable segments' operating EBITDA to the statutory segment EBITDA (as disclosed in Section I above).

		Half year ended	
		30 Jun 2023	Restated 30 Jun 2022
		\$'000	\$'000
Operating activities:			
Australia	Funeral services	43,816	43,857
	Cemeteries & Crematoria	27,396	32,421
	Pet cremations	3,827	2,575
International	New Zealand	6,764	7,751
	Singapore	5,464	4,896
Other	Support costs	(24,905)	(23,021)
Operating EBITDA		62,362	68,479
Non-operating activities:			
Australia	Pre-paid contracts	4,325	3,861
Other	Other/unallocated/intersegment elimination	(14,501)	(7,940)
Statutory segment EBITDA		52,186	64,400

The table below provided the reconciliation of the statutory segment EBITDA to net profit after income tax attributable to equity holders of InvoCare Limited.

		Half year ended	
		30 Jun 2023	Restated 30 Jun 2022
		\$'000	\$'000
Statutory segment EBITDA		52,186	64,400
Depreciation and amortisation		(24,491)	(21,929)
Net gain on lease modifications/terminations		2	337
SaaS arrangements		(10,506)	(5,169)
Acquisition related costs		(1,583)	(383)
Restructuring costs		-	(1,476)
Accounting standard transition expenses		(596)	-
Gain/(loss) on pre-paid contract funds under management before income tax		6,728	(46,549)
Net gain on disposal of non-current assets before income tax		82	361
EBIT		21,822	(10,407)
Net finance costs		(15,345)	68,062
Income tax expense		(1,996)	(16,434)
Net profit after income tax		4,481	41,220
Non-controlling interests		(22)	(91)
Net profit after tax attributable to equity holders of InvoCare Limited		4,459	41,129

For personal use only

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

Note 2. Revenue

A. Disaggregation of revenue from contracts with customers

The tables below provide detailed disaggregation of revenue derived by the Group.

The Group's pre-paid contracts are required to apply AASB 17 retrospectively, refer to Note 3 for further information.

	Australia \$'000	Singapore \$'000	New Zealand \$'000	Total \$'000
Half year ended 30 Jun 2023				
Funeral services	138,504	12,364	28,619	179,487
Cemeteries & Crematoria	61,429	-	1,400	62,829
Pet cremations	18,180	-	-	18,180
Pre-paid contract revenue	17,898	-	-	17,898
Rent	146	23	53	222
Sundry revenue	1,474	36	53	1,563
Total revenue from continuing operations	237,631	12,423	30,125	280,179
Restated half year ended 30 Jun 2022				
Funeral services	139,266	10,787	28,989	179,042
Cemeteries & Crematoria	65,618	-	1,340	66,958
Pet cremations	16,723	-	-	16,723
Pre-paid contract revenue	17,754	-	-	17,754
Rent	139	23	67	229
Sundry revenue	929	57	41	1,027
Total revenue from continuing operations	240,429	10,867	30,437	281,733

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

Note 3. Pre-paid contracts

This note contained disclosures related to the Group's pre-paid contract liabilities and pre-paid contract funds under management.

Section	Balance sheet items	Description
A to E	Pre-paid contract liabilities	The Group's pre-paid funeral contracts which are accounted for in accordance with AASB 17 <i>Insurance Contracts</i> .
F	Pre-paid contract funds under management	The cash received (funds) from customers upon the sale of a pre-paid contract. The funds (only 90% of the pre-paid contract amount) is passed to independently managed trusts to be invested.
G	Changes in accounting policies – pre-paid contract liabilities	Financial impact of pre-paid contracts on the consolidated balance sheet and in the consolidated statement of comprehensive income for the current and preceding reporting periods.

Sections A to E provide details on pre-paid contract liabilities, including:

- Definition and classification of pre-paid contracts
- Summary of significant accounting policies for pre-paid contracts
- How the financial results of pre-paid contracts are recognised in the consolidated statement of comprehensive income
- How pre-paid contract liabilities are recognised and measured on the consolidated balance sheet
- Significant judgements and estimates in applying AASB 17

A. Definition and classification of pre-paid contracts

Pre-paid contracts meet the definition of insurance contracts under the criteria detailed within AASB 17 *Insurance Contracts* (AASB 17), (the Standard). AASB 17 applies to annual reporting periods beginning on or after 1 January 2023. As this is the Group's first applicable reporting period, the comparative financial statement balances for the half-year ended 30 June 2022, year ended 31 December 2022 and opening balances at 1 January 2022 have been restated (for details refer to Section G).

In this section, the following information is provided:

- What is a pre-paid contract
- Rationale on why pre-paid contracts are in the scope of AASB 17
- AASB 17 and pre-paid contracts terminology
- The life cycle of pre-paid contracts and the impact on the consolidated balance sheet, the consolidated statement of comprehensive income and the consolidated statement of cash flows.

Rather than describing its pre-paid contracts as 'insurance contracts', the Group continues to use the term 'pre-paid contracts' throughout the financial report.

What is a pre-paid contract

A pre-paid contract is a three-way agreement (between the customer, an independent financial institution, and the Group) whereby the Group agrees to deliver to a customer a specified funeral service, cremation or burial at a future date (usually greater than one year but could be more than 20 years after the signing of the pre-paid contract). Pre-paid contracts are currently only entered into in Australia and all services are provided in Australia. Pre-paid contracts are either paid in full at inception or via instalments for a period as specified in the contract. The customer invests funds equal to the agreed cost of the service to be delivered with an independent financial institution and conditionally assigns the benefit to the Group.

The cash received (funds) from the customer is passed to the independent financial institution and invested in managed trusts. The Group is the ultimate beneficiary to the invested funds of the pre-paid contracts, that is, the total future value of the invested funds (including the investment returns, either gains or losses), but only receives those funds once the Group has demonstrated it has performed the funeral services.

Part of the initial pre-paid contract amount relates to an administration fee (usually 10% of the contract value) which is recognised within the pre-paid contract liability on the balance sheet. Similarly, any commission paid to pre-paid contract salespersons is recognised within the pre-paid contract liability on the balance sheet as an acquisition cost.

Rationale on why pre-paid contracts are in the scope of AASB 17

AASB 17 identifies insurance contracts as those contracts under which *the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder*. AASB 17 applies to such contracts, regardless of the nature of the core business of the issuer. The Standard states it applies to pre-paid funeral contracts.

Unlike funeral insurance (a product the Group does not sell), by entering a pre-paid contract a customer (beneficiary) is benefiting from the ability to lock in the delivery of their chosen future funeral service at today's price. The Group receives payment from customers for pre-paid contracts prior to the transfer of the promised goods or services to the customer. The beneficiary of a pre-paid contract is certain to use the service, however the timing of redemption, being the beneficiary's death, is uncertain.

Due to the potentially significant period between sale and redemption, the Group is accepting the risk associated with the uncertainty over the future cost to service the contract (i.e., increases in the cost of employee salaries and other goods to be supplied as part of the specified funeral service in the contract), as well as the timing of when the service will be provided.

It is the uncertainty of timing of redemption of the contract and the significant risk of future cost increases that results in the Group's pre-paid contracts meeting the definition of insurance contracts under AASB 17.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

AASB 17 and pre-paid contracts terminology

The following table summarises the terminology as defined in AASB 17 and the equivalent terminology as applied to the Group's pre-paid contracts. These terminologies might be used interchangeably throughout the financial report to assist users' understanding of how the measurement and disclosure requirements of AASB 17 have been applied to the Group's pre-paid contracts.

InvoCare considers the use of pre-paid contracts terminology instead of AASB 17 terminology will provide more useful information to the users of the Group's financial report.

AASB 17	Pre-paid contracts	Description
Insurance contracts	Pre-paid contracts	A pre-paid contract is a three-way agreement (the customer, an independent financial institution, and the Group) whereby the Group agrees to deliver to a customer a specified funeral service at a future date, usually greater than one year but could be more than 20 years after the signing of the pre-paid contract.
Policyholders	Beneficiaries/customers	The customer(s), specified in a pre-paid contract, for whom the specified funeral service will be delivered at a future date.
Acquisition cash flows	Pre-paid contract acquisition cash flows	Commission paid to the pre-paid sales consultants and other relevant costs incurred via the initiation of a pre-paid contract. These costs are included within the measurement of the pre-paid contract liabilities (i.e. within the measurement of fulfilment cash flows 'FCF').
Insurance contract liabilities	Pre-paid contract liabilities	The estimated future value of the obligation to provide a funeral service for the beneficiary at an uncertain future date. The liability arising from pre-paid contracts represents two elements, the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). The LRC is measured as the sum of: <ul style="list-style-type: none"> fulfilment cash flows (FCF) - representing the Group's assessment of the future cost to provide future funeral services at initial recognition of the contract and subsequently at the balance date, comprising estimates of expected cash flows, discounting, and an explicit risk adjustment for non-financial risk the contractual service margin (CSM) - representing the unearned profit from in-force contracts that the Group will recognise as part of pre-paid contract revenue over the period funeral services are expected to be provided to the beneficiaries (i.e. for future redemptions) due to the uncertainty of timing of redemption, pre-paid contract liabilities are adjusted to reflect the change in the time value of money at each reporting period The liability for incurred claims (LIC) comprises the fulfilment cash flows related to past funeral services (i.e., redemptions). Due to the short time between date of death and date of providing a funeral service the Group's liability for incurred claims is not material. Pre-paid contracts issued are required to be initially recognised and re-measured because of changes in the following measurement components: <ul style="list-style-type: none"> estimates of present value of cash outflows arising from: <ul style="list-style-type: none"> claims and other pre-paid service expenses payable acquisition cash flows (as defined above) estimates of present value of cash inflows, being the initial pre-paid contract value risk adjustment for non-financial risk CSM
Incurred claims/claims	Redemption	The performance of the funeral services as agreed within the pre-paid contract, whereby the pre-paid contract becomes redeemed.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

AASB 17	Pre-paid contracts	Description
Insurance revenue	Pre-paid funeral service revenue	Revenue under AASB 17 is determined by: <ul style="list-style-type: none"> Expected number of funeral services and other expenses charged during the reporting period risk adjustment for non-financial risks during the reporting period CSM of the services to be allocated during the reporting period recovery of acquisition cash flows, being commission paid to pre-paid contract salespersons (i.e. as acquisition cash flows are recognised as insurance expenses, insurance revenue is recognised at an equal amount)
Insurance service expenses/claims expenses	Pre-paid funeral service expenses	Costs of providing the agreed funeral services relating to the pre-paid contract. <p>The value includes the expenses incurred during the reporting period for:</p> <ul style="list-style-type: none"> finished goods, consumables and funeral disbursements funeral arrangers' salaries and wages and other attributable expenses depreciation and amortisation of right of use assets – properties etc amortisation of acquisition cash flows (as defined above)

B. Summary of significant accounting policies for pre-paid contracts

This section provides details on the significant accounting policies applied to pre-paid contracts, including defining certain key terms arising from AASB 17.

I. Unit of account

The Group has a single portfolio of pre-paid contracts that are subject to similar risks relating to the provision of funeral services. The portfolio is further disaggregated into groups of contracts that are issued within a calendar year (annual cohorts). These groups represent the level of aggregation at which pre-paid contracts are initially recognised and measured in accordance with AASB 17. Such groups are not subsequently reconsidered.

For each cohort of contracts, the Group determines the appropriate level at which reasonable and supportable information is available to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. This level of granularity determines sets of contracts. The Group uses significant judgement to determine at what level of granularity the Group has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

The Group prices pre-paid contracts equal to the equivalent at-need funeral services at the time when the pre-paid contracts are signed up by the customers for the beneficiaries of the pre-paid contracts. There is no premium applied to pre-paid contracts and there are no adjustments to pricing in consideration of the beneficiary's age or gender. Based on the guidance in AASB 17, the Group is required to analyse whether the contract contains components that should be separated. The Group does not have any pre-paid contracts that require further separation or combination as required by AASB 17.

II. Recognition and derecognition

Pre-paid contracts issued are initially recognised when the customer has paid an initial deposit and a 10-day 'cooling off period' has lapsed ('contract inception'). A pre-paid contract is derecognised when it is redeemed (i.e., when the funeral service has been performed). Pre-paid contracts are not able to be modified after the cooling off period has lapsed. If a customer wishes to change any elements of their pre-paid contract, the original contract is cancelled and a new pre-paid contract is issued.

III. Measurement

The Group measures all pre-paid contracts using the general measurement model (GMM).

The general model measures a group of pre-paid contracts as the sum of the following components, or 'building blocks', for each group of pre-paid contracts:

- Fulfilment cash flows, which comprise:
 - Estimates of expected future cash flows arising from:
 - Claims and other pre-paid contract service expenses payable
 - Acquisition cash flows
 - Estimates of present value of cash inflows, being the initial pre-paid contract value
 - Risk adjustment for non-financial risk
- A CSM representing unearned profit the Group will recognise over the expected period between the signing of the initial contract and its redemption (i.e., when the funeral service is performed).

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of pre-paid contracts, including timing, currency and liquidity of cash flows.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the pre-paid contracts requires significant judgement and estimation. Refer to Section E.IV below.

IV. Contract boundary

The Group uses the concept of 'contract boundary' to determine what cash flows should be considered in the measurement of groups of pre-paid contracts. This assessment is reviewed every reporting period.

Cash flows are within the boundary of a pre-paid contract if they arise from the rights and obligations that exist during the period in which the Group has a substantive obligation to provide the beneficiaries with the agreed funeral service (i.e. the period starting from contract inception to the date the contract is redeemed).

The coverage period for the Group's pre-paid contracts starts on the date when the initial deposit is paid and the 10-day 'cooling off period' has lapsed. The Group has only one insurance obligation event under each pre-paid contract, being the delivery of the related funeral. As such, the coverage period (contract boundary) ends when the Group performs the agreed funeral service for the beneficiary.

V. Acquisition costs

Acquisition costs represent the commissions paid to pre-paid contract salespersons.

VI. Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows and reflects the compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Group fulfils the pre-paid contracts.

Methods and assumptions used to determine the risk adjustment for non-financial risk are discussed in Section E.VIII below.

VII. Initial measurement

Contractual service margin

The CSM represents the unearned profit that the Group will release to the consolidated statement of comprehensive income over the period that services are expected to be provided to the beneficiaries. Therefore, at initial recognition, no profit should normally be recognised.

A negative CSM at the date of inception means the group of pre-paid contracts issued is onerous. A loss from onerous pre-paid contracts is recognised in the consolidated comprehensive income immediately with no CSM recognised on the balance sheet on initial recognition.

For pre-paid contracts acquired, at initial recognition, the CSM is an amount that results in no income or expenses arising from:

- the initial recognition of the FCF; and
- cash flows arising from the contracts in the group at that date, including the fair value of the groups of contracts acquired as at the acquisition date as a proxy of the funeral service revenue to be received.

No contracts acquired were assessed as onerous at initial recognition.

VIII. Subsequent measurement

After initial recognition of a group of pre-paid contracts, the carrying amount of the group at each reporting date is the sum of:

- The liability for remaining coverage (LRC), comprising:
 - the fulfilment cash flows related to future service allocated to the group at that date
 - the CSM of the group at that date
- The liability for incurred claims (LIC) comprising the fulfilment cash flows related to past funeral services (i.e., redemptions). Due to the short time between date of death and date of providing a funeral service the Group's liability for incurred claims is not material.

a. Changes in fulfilment cash flows

The FCF are updated by the Group for current assumptions at the end of every reporting period, using the current estimates of the amount, timing and uncertainty of future cash flows and discount rates.

The way in which the changes in estimates of the FCF are treated depends on which estimate is being updated:

- changes that relate to current or past service are recognised in profit or loss
- changes that relate to future service are recognised by adjusting the CSM or the loss component within the LRC as follows:
 - i. experience adjustments arising from funeral service revenue received in the period that relate to future service and related cash flows such as pre-paid contract acquisition cash flows
 - ii. changes in estimates of the present value of future cash flows in the LRC, except those described in the following paragraph
 - iii. changes in the risk adjustment for non-financial risk that relate to future service.

Adjustments related to i. & ii. as described above are measured using the locked-in discount rates as described in the Section b.i. Interest accretion on the CSM below.

The following adjustments do not relate to future service and thus do not adjust the CSM:

- changes in the FCF for the effect of the time value of money and the effect of financial risk and changes thereof
- changes in the FCF relating to the LIC
- experience variances relating to past service expenses (i.e. the variance between expected service expenses and actual service expenses).

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

b. Changes to the contractual service margin

For pre-paid contracts issued, at the end of each reporting period (which the Group defines as six-month interim), the carrying amount of the CSM is adjusted to reflect the effect of the following changes:

- the effect of any new contracts added to the group
- interest accreted on the carrying amount of the CSM
- changes in the FCF relating to future service are recognised by adjusting the CSM. Changes in the FCF are recognised in the CSM to the extent the CSM is available. When an increase in the FCF exceeds the carrying amount of the CSM, the CSM is reduced to zero, the excess is recognised in pre-paid contract service expenses and a loss component is recognised within the LRC. When the CSM is zero, changes in the FCF adjust the loss component within the LRC with a corresponding amount recognised as pre-paid contract service expenses. The excess of any decrease in the FCF over the loss component reduces the loss component to zero and reinstates the CSM
- the amount recognised as pre-paid contract revenue for services provided during the period determined after all other adjustments above

i. Interest accretion on the CSM

Interest is accreted on the CSM using discount rates determined at initial recognition that are applied to nominal cash flows that do not vary based on the returns of underlying items (locked-in discount rates). For new contracts, the Group has adopted a simplified approach to discount rates, whereby the locked-in rates are applied based on rates effective from the middle of the financial year.

ii. Adjusting the CSM for changes in the FCF relating to future service

The CSM is adjusted for changes in the FCF measured applying the discount rates as specified in Section a. Changes in fulfilment cash flows above.

iii. Release of the CSM to profit or loss

The amount of the CSM recognised in the consolidated statement of comprehensive income for services in the period is determined by the allocation of the CSM remaining at the end of the reporting period over the current and remaining expected coverage period of the group of pre-paid contracts based on the number of pre-paid contracts (i.e. coverage units).

For pre-paid contracts issued, the Group determines the coverage period for the CSM recognition corresponds to the pre-paid contracts coverage for mortality risk.

The total number of coverage units in a group is the quantity of coverage provided by the contracts in the group over the expected coverage period. The coverage units are determined at each reporting period-end prospectively by considering:

- the quantity of benefits and claims handling costs provided by contracts in the group
- the expected coverage duration (refer to Section B.IV above for definition) of contracts in the group

The Group uses the amount that it expects to pay to perform the pre-paid funeral for the beneficiary in each period if the beneficiary were to die as the basis for the quantity of benefits.

The Group determines coverage units based on the initial contract value of the funeral service when the pre-paid contract was initially entered.

The Group reflects the time value of money in the allocation of the CSM to coverage units.

c. Onerous contracts – Loss component

When adjustments to the CSM exceed the amount of the CSM, the group of contracts becomes onerous and the Group recognises the excess in pre-paid funeral service expenses and records it as a loss component of the LRC.

When a loss component exists, the Group allocates the following between the loss component and the remaining component of the LRC for the respective group of contracts, based on the ratio of the loss component to the FCF relating to the expected future cash outflows:

- expected expenses for the period
- changes in the risk adjustment for non-financial risk for the risk expired
- finance income (expenses) from pre-paid contracts issued

The amounts of loss component allocation in the first two bullet points above reduce the respective components of pre-paid funeral service revenue and are reflected in pre-paid funeral service expenses.

Decreases in the FCF in subsequent periods reduce the remaining loss component and reinstate the CSM after the loss component is reduced to zero. Increases in the FCF in subsequent periods increase the loss component.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

C. Impact on consolidated statement of comprehensive income

In this section, analysis of how the financial results of the Group's pre-paid contracts are accounted for in accordance with AASB 17 for the half year ended 30 June 2023 and the restated six month period ended 30 June 2022 is included. Additional information on amounts recognised in the consolidated balance sheet is included in the pre-paid contract balances reconciliations in Section D below.

I. Pre-paid contract service revenue

As the Group provides services under the group of pre-paid contracts, it reduces the LRC and recognises pre-paid funeral service revenue. The amount of pre-paid funeral service revenue recognised in the reporting period depicts the expected number of pre-paid funeral services to be performed at an amount that reflects the portion of consideration the Group expects to be entitled to in exchange for those services.

Pre-paid funeral service revenue comprises the following:

- Amounts relating to the changes in the LRC:
 - expected funeral services to be delivered, and expenses to be incurred in the period measured at the amounts expected at the beginning of the period, excluding:
 - amounts related to any loss component
 - amounts of goods and service taxes (i.e. GST)
 - pre-paid contract acquisition expenses
 - changes in the risk adjustment for non-financial risk (e.g. mortality rate or excess deaths and/or expense risk resulting from inflation), excluding:
 - changes that relate to future coverage (which adjust the CSM)
 - amounts allocated to any loss component
 - amounts of the CSM recognised in profit or loss for the services expected to be provided in the period
 - experience adjustments arising from past and current service and related cash flows for the portfolio of pre-paid contracts
- Pre-paid contract revenue also includes the portion of premiums that relate to recovering those acquisition cash flows included in the pre-paid contract service expenses in each period. Both amounts are measured on a systematic way on the basis of the passage of time over the expected coverage of a group of pre-paid contracts.

II. Pre-paid contract service expenses

Pre-paid contract service expenses include the following:

- the costs of delivering redeemed pre-paid contracts (e.g. funeral goods and services)
- other incurred directly attributable pre-paid contract service expenses
- amortisation of pre-paid contract acquisition cash flows
- losses/reversals on onerous groups of contracts from changes in the loss components for future service

Amortisation of pre-paid contract acquisition cash flows is reflected in pre-paid funeral service expenses in the same amount as pre-paid contract acquisition cash flows recovery reflected within pre-paid funeral service revenue as described in Section C.I. above.

Other expenses not meeting the above categories are included in other operating expenses in the consolidated statement of comprehensive income.

III. Pre-paid contract finance income or costs

Pre-paid contract finance income or costs (i.e., insurance finance income or expenses) comprise the change in the carrying amount of the group of pre-paid contracts arising from:

- the effect of the time value of money and changes in the time value of money
- the effect of financial risk and changes in financial risk

The main amounts within pre-paid contract finance income or costs are:

- interest accreted on the FCF and the CSM
- the effect of changes in interest rates and other financial assumptions

The Group selected the option in the accounting policy to include all pre-paid contract finance income or costs for the period in the consolidated statement of comprehensive income.

INVOCARE LIMITED AND SUBSIDIARIES

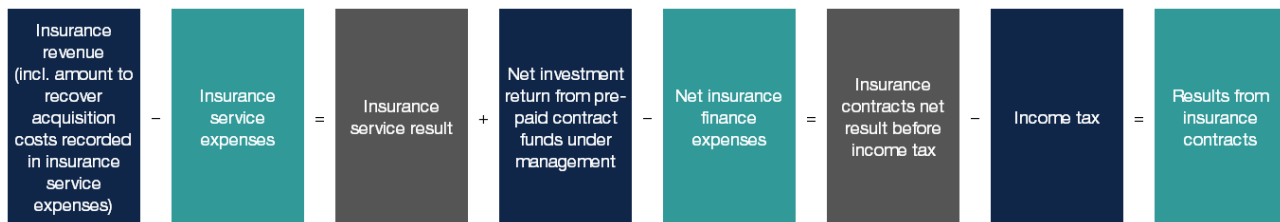
Notes to the consolidated financial statements

IV. Pre-paid contracts financial impact details

The diagram below shows how pre-paid contract results are recognised within the consolidated statement of comprehensive income.



The diagram below shows the financial results of the Group's pre-paid contracts and how they are recognised using the AASB 17 disclosure terminology.



The following tables are provided in accordance with AASB 17 disclosure requirements:

- Amounts recognised as pre-paid contract revenue
- Amounts recognised as pre-paid contract expenses
- Analysis of pre-paid contract revenue for new issued contracts and the contractual service margin relating to the transition cohort of pre-paid contracts
- Expected recognition of the CSM

	Half year ended	
	30 Jun 2023	30 Jun 2022
	\$'000	\$'000
Pre-paid contract revenue		
Amounts relating to the changes in the LRC		
- Expected incurred claims and other pre-paid contract service expenses	14,506	13,500
- Change in the risk adjustment for non-financial risk for the risk expired	1,149	1,159
- CSM recognised in profit and loss for services provided	1,947	3,095
Acquisition cash flows recovery	296	-
Total pre-paid contract revenue	17,898	17,754
Pre-paid contract service expenses	(13,277)	(13,893)
Acquisition cash flows amortisation	(296)	-
Total pre-paid contract expenses	(13,573)	(13,893)
Total pre-paid contract service result	4,325	3,861
Gain/(loss) on pre-paid contract funds under management*	6,728	(46,549)
Finance (costs)/income from pre-paid contracts issued	(7,133)	73,666
Net pre-paid contract service and funds under management results before income tax	3,920	30,978
Income tax expenses	(1,176)	(9,293)
Net profit after income tax on pre-paid contracts	2,744	21,685

* The recognition, measurement, and disclosure of the pre-paid contract funds under management remains unchanged.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

V. Amounts determined on transition to AASB 17

An analysis of pre-paid contract revenue for new issued contracts in the period and the contractual service margin (CSM) by fair value method at transition is included in the following table.

	Half year ended	
	30 Jun 2023	30 Jun 2022
	\$'000	\$'000
Pre-paid contracts issued		
Pre-paid contract revenue		
New contracts	1,353	-
Contracts measured under the fair value approach at transition	16,545	17,754
	17,898	17,754
	As at	
	30 Jun 2023	30 Jun 2022
	\$'000	\$'000
CSM at reporting date		
New contracts	13,117	4,206
Contracts measured under the fair value approach at transition	29,173	60,695
	42,290	64,901

VI. Expected recognition of the contractual service margin

Analysis of the expected recognition of the CSM remaining at the end of the reporting date in the consolidated statement of comprehensive income in the future reporting periods is provided in the table below.

	As at	
	30 Jun 2023	30 Jun 2022
	\$'000	\$'000
Number of years until expected to be recognised		
1	3,280	5,603
2	2,964	4,890
3	2,766	4,318
4	2,600	3,975
5	2,498	3,820
6	2,378	3,661
7	2,242	3,466
8	2,065	3,190
> 8	21,497	31,978
	42,290	64,901

D. Impact on consolidated balance sheet

In this section, the following tables are provided in accordance with AASB 17 disclosure requirements:

- I. Movement of the liability for remaining coverage and the liability for incurred claims
- II. Movement of the measurement components of pre-paid contract liabilities
- III. Movement of assets for pre-paid contract acquisition cash flows
- IV. Impact of new pre-paid contracts recognised in the financial period
- V. Movement of CSM determined on transition to AASB 17

Total pre-paid contract liabilities (included current and non-current split) as at 30 June 2022 are also provided in the table below as additional information for closing balances in Section I and II below.

	30 Jun 2023	As at	
	\$'000	31 Dec 2022	30 Jun 2022
	\$'000	\$'000	\$'000
Pre-paid contract liabilities			
Current	28,949	28,375	26,651
Non-current	405,748	402,478	411,160
Balance at reporting date	434,697	430,853	437,811

I. Movement of the liability for remaining coverage and the liability for incurred claims

The movement table below provides the financial impact of the liability for remaining coverage (LRC) and liability for incurred claims (LIC) of the pre-paid contracts issued for the half year ended 30 June 2023 with the comparative information for the half year ended 30 June 2022.

The time frame from a redemption request received to the delivery of the funeral service for the pre-paid contracts is predominantly within 7-10 days and generally finalised within the same reporting period. Therefore, the opening and closing LIC were assumed to be close to zero. The Group has little uncertainty about the timing and/or the amount of funeral services expenses for the redemption request received. Thus, this column only includes actual unpaid expenses incurred for delivering the pre-paid contracts redeemed in the period (excluding any risk adjustment for non-financial risk).

No onerous contracts were identified in the cohorts of pre-paid contracts issued at transition and new contracts for both 2022 and 2023. Therefore, no loss component is recognised in the pre-paid contract liabilities. The reconciliation table provided below is only for the liability for remaining coverage.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

The balance of pre-paid contract revenue, pre-paid contract service expenses, pre-paid contract service results and cash flows are matched to corresponding items in Section B.I Impact to consolidated statement of comprehensive income above and the consolidated statement of cash flows.

	LRC \$'000	LIC \$'000	Total \$'000
Half year ended 30 Jun 2023			
Opening balance at 1 January	430,853	-	430,853
Pre-paid contract revenue	(17,898)	-	(17,898)
Pre-paid contract service expenses			
Pre-paid contract service expenses	-	13,277	13,277
Acquisition cash flows amortisation	296	-	296
Total pre-paid contract service expenses	296	13,277	13,573
Pre-paid contract service result	(17,602)	13,277	(4,325)
Finance costs from pre-paid contracts issued	7,133	-	7,133
Total amounts recognised in comprehensive income	(10,469)	13,277	2,808
Cash flows			
Receipts from sale of new pre-paid contracts*	18,674	-	18,674
Net cash flows on existing pre-paid contracts	(717)	-	(717)
Expenses paid directly attributable to delivering pre-paid funerals	-	(13,277)	(13,277)
Acquisition cash flows	(3,644)	-	(3,644)
Total cash flows	14,313	(13,277)	1,036
Closing balance at 30 Jun	434,697	-	434,697
Half year ended 30 Jun 2022			
Opening balance at 1 January	515,825	-	515,825
Pre-paid contract revenue	(17,754)	-	(17,754)
Pre-paid contract service expenses			
Pre-paid contract service expenses	-	13,893	13,893
Acquisition cash flows amortisation	-	-	-
Total pre-paid contract service expenses	-	13,893	13,893
Pre-paid contract service result	(17,754)	13,893	(3,861)
Finance income from pre-paid contracts issued	(73,666)	-	(73,666)
Total amounts recognised in comprehensive income	(91,420)	13,893	(77,527)
Cash flows			
Receipts from sale of new pre-paid contracts*	14,874	-	14,874
Net cash flows on existing pre-paid contracts	1,434	-	1,434
Expenses paid directly attributable to delivering pre-paid funerals	-	(13,893)	(13,893)
Acquisition cash flows	(2,902)	-	(2,902)
Total cash flows	13,406	(13,893)	(487)
Closing balance at 30 Jun	437,811	-	437,811

* Amount represents 100% of pre-paid contracts sold during the financial period. 90% of the cash receipts are passed to independently managed trusts to be invested and 10% of the cash receipts are held by the Group as an administration fee.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

II. Movement of the measurement components of pre-paid contract liabilities

The movement table below provides the reconciliation from the opening to the closing balance of each of the measurement components of the pre-paid contracts issued for the half year ended 30 June 2023 with the comparative information for the half year ended 30 June 2022.

	Measurement components			
	PV of future cash flows	Risk adjustment for non-financial risk	Contractual service margin	Total
	\$'000	\$'000	\$'000	\$'000
Half year ended 30 Jun 2023				
Opening balance at 1 January	360,986	27,951	41,917	430,853
Changes that relate to current service				
CSM recognised in profit and loss for services provided	-	-	(1,947)	(1,947)
Change in the risk adjustment for non-financial risk for the risk expired	-	(1,149)	-	(1,149)
Experience adjustments	(1,229)	-	-	(1,229)
	(1,229)	(1,149)	(1,947)	(4,325)
Changes that relate to future service				
Changes in estimates that adjust the CSM	3,799	173	(3,972)	-
Contracts initially recognised in the period	(6,753)	833	5,920	-
	(2,954)	1,006	1,948	-
Pre-paid contract service result	(4,183)	(143)	1	(4,325)
Finance costs from pre-paid contracts issued	6,307	454	372	7,133
Total amounts recognised in comprehensive income	2,124	311	373	2,808
Cash flows				
Receipts from sale of pre-paid contracts	18,674	-	-	18,674
Net cash flows on existing pre-paid contracts	(717)	-	-	(717)
Pre-paid contract service expenses	(13,277)	-	-	(13,277)
Acquisition cash flows	(3,644)	-	-	(3,644)
Total cash flows	1,036	-	-	1,036
Closing balance at 30 Jun	364,145	28,262	42,290	434,697
Half year ended 30 Jun 2022				
Opening balance at 1 January	415,554	35,553	64,718	515,825
Changes that relate to current service				
CSM recognised in profit and loss for services provided	-	-	(3,095)	(3,095)
Change in the risk adjustment for non-financial risk for the risk expired	-	(1,159)	-	(1,159)
Experience adjustments	393	-	-	393
	393	(1,159)	(3,095)	(3,861)
Changes that relate to future service				
Changes in estimates that adjust the CSM	1,166	(39)	(1,127)	-
Contracts initially recognised in the period	(4,922)	726	4,196	-
	(3,756)	687	3,069	-
Pre-paid contract service result	(3,363)	(472)	(26)	(3,861)
Finance (income)/costs from pre-paid contracts issued	(66,290)	(7,585)	209	(73,666)
Total amounts recognised in comprehensive income	(69,653)	(8,057)	183	(77,527)
Cash flows				
Receipts from sale of pre-paid contracts	14,874	-	-	14,874
Net cash flows on existing pre-paid contracts	1,434	-	-	1,434
Pre-paid contract service expenses	(13,893)	-	-	(13,893)
Acquisition cash flows	(2,902)	-	-	(2,902)
Total cash flows	(487)	-	-	(487)
Closing balance at 30 Jun	345,415	27,496	64,901	437,811

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

III. Impact of new pre-paid contracts recognised in the financial period

The table below provides information about the Group's pre-paid contracts that were initially recognised in the half years ended 30 June 2022 and 2023. There are no onerous contracts identified during these financial reporting periods and hence no loss component is recognised in the pre-paid contract liabilities.

	Half year ended	
	30 Jun 2023	30 Jun 2022
	\$'000	\$'000
Estimates of the present value of future cash outflows		
Acquisition cash flows	3,644	2,902
Pre-paid contract service and other directly attributable expenses	8,277	7,050
Estimates of the present value of future cash outflows	11,921	9,952
Estimates of the present value of future cash inflows	(18,674)	(14,874)
Risk adjustment for non-financial risk	833	726
CSM	5,920	4,196
Increase in pre-paid contract liabilities from contracts recognised in the period	-	-

IV. Movement of CSM determined on transition to AASB 17

The following tables show the effect on pre-paid contract revenue and the CSM of pre-paid contracts issued that were measured at the transition date by applying the fair value approach. These disclosures remain applicable for pre-paid contracts measured under this approach at the transition date and still recognised at the reporting date.

	New contracts	Contracts measured under fair value approach at transition	Total
	\$'000	\$'000	\$'000
Half year ended 30 Jun 2023			
CSM at 1 January	7,522	34,395	41,917
Changes that relate to current service			
CSM recognised in profit or loss for the services provided	(385)	(1,562)	(1,947)
Changes that relate to future service			
Changes in estimates that adjust the CSM	(78)	(3,894)	(3,972)
Contracts initially recognised in the period	5,920	-	5,920
Finance costs from pre-paid contracts issued	138	234	372
CSM at 30 Jun	13,117	29,173	42,290
Half year ended 30 Jun 2022			
CSM at 1 January	-	64,718	64,718
Changes that relate to current service			
CSM recognised in profit or loss for the services provided	-	(3,095)	(3,095)
Changes that relate to future service			
Changes in estimates that adjust the CSM	-	(1,127)	(1,127)
Contracts initially recognised in the period	4,196	-	4,196
Finance costs from pre-paid contracts issued	10	199	209
CSM at 30 Jun	4,206	60,695	64,901

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

E. Significant judgements and estimates in applying AASB 17

Area of potential judgement	Applicable to the Group
Financial performance	
Insurance revenue - methods and assumptions used in the determination of the CSM to be recognised in profit or loss for the services provided or received in the period.	The Group applied significant judgements in the following aspects of the determination of the CSM amounts that were recognised in profit or loss in 2023 and 2022:
Areas of potential judgement are:	<ul style="list-style-type: none"> The number of coverage units in a group is the quantity of pre-paid contracts, determined by considering for each contract the quantity of the benefits to be provided under a contract and its expected coverage period; the coverage period corresponds to the period in which pre-paid funeral services are expected to be provided, which is based on the weighted average duration of the Group's pre-paid contracts in scope of AASB 17
<ul style="list-style-type: none"> the determination of the coverage units provided or received in the current period and expected to be provided in future periods the determination of the expected coverage period over which the CSM is allocated into profit or loss for the services provided or received 	In performing the above determination, management applied judgement that might materially impact the CSM carrying values and amounts of the CSM allocation recognised in profit or loss for the period.

I. Methods used and judgements applied in determining the AASB 17 transition amounts

The Group has adopted AASB 17 retrospectively, applying an alternative transition method where the full retrospective approach was impracticable. The fair value approach was applied to pre-paid contracts that were originated more than one year prior to transition.

The transition approach was determined at a group of pre-paid contracts level and affected the approach to calculating the CSM on initial adoption of AASB 17. By using the fair value approach, the pre-transition FCF and experience are not considered in the valuation of the pre-paid contract liabilities at transition.

The Group has determined that it would be impracticable to apply the full retrospective approach where any of the following conditions existed:

- The effects of the full retrospective application were not determinable, for example:
 - Some reasonable and supportable information about actual historical cash flows may have been available from the Group's systems, but in many cases such information was only available at higher levels or different levels of aggregation compared to the groups required by AASB 17. This lack of information makes it impracticable to accurately calculate the FCF on a retrospective basis and segregate groups based on profitability.
 - The information necessary to estimate the effect of pre-paid contracts derecognised before the transition date on allocation of the CSM between past and future periods on the transition date was not available in many cases.
- The full retrospective application required assumptions that would have been made in an earlier period, for example:
 - Difficulties in retrieving relevant reliable information existed where assumptions developed at the date of initial recognition were not on an AASB 17 basis (e.g., discount rates, risk adjustment for non-financial risk, expenses).
 - Changes in assumptions have not been historically documented on an ongoing basis.
 - The age of some of the in-force contracts (i.e. initiated several decades prior), makes it the more challenging to retrieve data from the past on assumptions that would have existed when the contracts were initiated.
- The full retrospective application required significant estimates of amounts, and it was impossible to distinguish objectively between information about those estimates that provided evidence of circumstances that (i) existed on the date at which those amounts were to be recognised, measured or disclosed; and (ii) would have been available when the consolidated financial statements for that prior period were authorised for issue, and other information, for example:
 - The Group had limited, or no information, required for the allocation of acquisition expenses and claims handling costs to respective groups under AASB 17. Systems have not been tracking or allocating acquisition costs and claims handling costs as previous accounting policies did not require this.
 - The Group has not historically been accumulating information about the changes in estimates that would have been recognised in profit or loss for each accounting period because they did not relate to future service, and the extent to which changes in the FCF would have been allocated to the loss component.

II. Fair value approach

After making reasonable efforts to gather necessary historical information, the Group has determined that for pre-paid contracts, such information was not available or not available in a form that would enable it to be used without undue cost and effort. It was therefore impracticable to apply the full retrospective approach, or the modified retrospective approach. The Group has therefore applied the fair value approach to determine the transition adjustments to measure pre-paid contracts that were originated more than one year prior to transition to AASB 17. The Group applied significant judgement in determining the transition amounts under this approach.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

Judgements in applying the fair value approach

Applying the fair value approach, the Group determined the CSM to be the difference between the fair value of a group of pre-paid contracts, measured in accordance with AASB 13, *Fair Value Measurement* (AASB 13), and their FCF at the transition date.

The fair value of a pre-paid contract liability is the price a market participant would be willing to pay to assume the obligation and the remaining risks of the in-force contracts as at the transition date. There are no market transactions (recent or historic) available to estimate the fair value of groups of pre-paid contracts as pre-paid contracts are typically sold together with a funeral business that operates as a going concern, where the volume of At Need funeral services are typically greater than the pre-paid contract portfolio. Absent recent market transactions, a present value technique was used to value the pre-paid contracts at the transition date, based on:

- total assets less the present value of future profits for in-force policies

where total assets represent the pre-paid contract liabilities and administration fee liability values as previously reported in the Group's Annual Report for the year ended 31 December 2021.

In estimating the fair value of pre-paid contracts, the following considerations were applied:

- only future cash flows within the boundaries of the pre-paid contracts (refer to B.IV above) were included in the fair value estimation excluding new business that would be outside the contract boundary of the contracts under AASB 17
- assumptions about expected future cash flows and risk allowances were adjusted for the market participant's view as required by AASB 13
- profit margins were included to reflect what a market participant would require for accepting obligations under pre-paid contracts, beyond the risk adjustment for non-financial risk

The Group used significant judgement to determine adjustments required to reflect market participant's view and considered the following:

Discount rates	The discount rates at the date of initial recognition were determined at the transition date as described in the Section IV. Discount rates below.
FCF	The FCF were estimated prospectively as at the transition date.
CSM	The CSM was estimated to be the difference between the fair value of a group of pre-paid contracts, measured in accordance with AASB 13 as described above, and their FCF at the transition date.

III. Estimates and assumptions

Refer to Section B for a summary of significant accounting policies applied to pre-paid contracts.

The preparation of financial statements requires the use of accounting estimates, which, by definition, will seldom equal the actual results.

This section provides an overview of items that are more likely to be materially adjusted due to changes in estimates and assumptions in subsequent periods. Detailed information about each of these estimates is included in the notes below together with information about the basis of calculation for each affected line item in the consolidated financial statements.

In applying AASB 17 measurement requirements, the following inputs and methods were used that include significant estimates. The present value of future cash flows is estimated using deterministic scenarios. The assumptions used in the deterministic scenarios are derived to approximate the probability weighted mean of a full range of scenarios.

For the sensitivities with regard to the assumptions made that have the most significant impact on measurement under AASB 17, refer to Section IX below.

IV. Discount rates

A bottom-up approach was applied in the determination of the discount rates for pre-paid contracts.

Under this approach, the discount rate is determined as the risk-free yield adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an illiquidity premium). The risk-free yield was derived using Commonwealth Government Securities that relate to the term of the future liability cash flows.

Management uses judgement to assess liquidity characteristics of the liability cash flows. Pre-paid contracts are considered less liquid than the financial assets used to derive the risk-free yield. For these contracts, there is no market observable discount rate that reflects the liquidity characteristics of pre-paid contracts issued. Accordingly, the Group has adopted an academic approach to determine an illiquidity premium estimated based on market observable A-rated Australian Corporate Bond yields with 7-year duration, reflecting the expected duration of the liability cash flows.

For pre-paid contracts, the yield curves that were used to discount the estimates of future cash flows that do not vary based on the returns of the underlying items (i.e. the returns generated from the invested funds) are as follows:

Financial period	Year 1 %	Year 5 %	Year 10 %	Year 20 %	Year 30 %
30 Jun 2023	5.01	4.50	5.03	5.25	5.25
30 Jun 2022	3.05	4.58	4.75	4.79	4.79
31 Dec 2021	0.61	2.44	2.64	3.55	3.55

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

V. Estimates of future cash flows to fulfill pre-paid contracts

Included in the measurement of pre-paid contracts in the scope of AASB 17 are all the future cash flows within the boundary of the pre-paid contracts.

Acquisition costs (i.e. commissions paid to pre-paid contract salespersons) and maintenance costs (i.e. the customer facing administration team) relating to pre-paid contract are directly attributable to pre-paid contracts by cohort. However, the Group does not allocate employee expenses or perform expense monitoring at a funeral arrangement level (i.e. by each funeral service). In determining the fulfilment cash flows, assumptions are required to determine the proportion of expenses that should be allocated to pre-paid contracts as claims handling costs.

The proportion of pre-paid contracts relative to the total number of pre-paid and at-need funeral services performed by the Group in Australia determines the proportion of the Australian funerals expenses that are directly attributable to the Group's pre-paid contracts. The claim handling cost is then allocated to pre-paid contracts based on the number of redemptions (i.e. claims) expected.

For pre-paid contracts, uncertainty in the estimation of timing of delivery of funeral services (i.e. future claims), costs of finished goods, consumables and funeral disbursements for delivery of funeral services (i.e. benefit payments), employee benefits expenses and pre-paid contract funeral service revenue receipts (i.e. insurance revenue) arises primarily from the unpredictability of long-term changes in the mortality rates and uncertainties regarding future inflation rates and expenses growth.

Assumptions used to develop estimates about future cash flows are reassessed at each reporting date and adjusted where required.

Significant methods and assumptions used are detailed below.

VI. Mortality

The Group derives mortality rates assumptions (i.e. the expected rate of contract redemptions) from the most recent credible national mortality tables published by the Australian Government Actuary (ALT 2015-17 tables). An investigation into the Group's experience over the five year period from 2017 to 2021 was performed, and statistical methods are used to adjust the mortality tables to produce the probability weighted expected mortality rates in the future over the duration of the pre-paid contracts. Mortality rates are differentiated between beneficiary groups based on gender. The percentages in the table below are applied as multipliers to the mortality tables published by the Australian Government Actuary reflecting the Group's redemptions experience in each age group and gender.

Assumptions and methods used to derive mortality assumptions have not changed in 2023. The following mortality assumptions were used for both financial periods ended 30 June 2022 and 30 June 2023:

Gender	Mortality table	Percentage of table
Male	ALT 2015-17: Males	83-966%
Female	ALT 2015-17: Females	82-1894%

A possible increase in mortality rates increases estimates of future cash outflows and thus decreases the CSM. For a sensitivity analysis, refer to Section IX below.

VII. Expenses

The nature of the Group's pre-paid contracts is such that there is very little cost associated with maintaining a contract between inception and redemption. Most of the costs are experienced upon redemption/claim (i.e. performing the funeral service). As such the Group treats these costs as 'claims handling' expenses.

As detailed in paragraph V above, the Group does not allocate employee expenses or perform expense monitoring at a funeral arrangement level (i.e. by each funeral case). Therefore, the measurement of the LRC required the estimates of future expenses relating to fulfilment of pre-paid contracts (adjusted for inflation) to be determined by an allocation of the total expenses incurred by the Australian funerals business. The allocation was determined by the proportion of pre-paid contracts relative to the total number of funeral services performed by the Group in Australia.

Other expenses comprise:

- benefits (i.e. the finished goods, consumables provided in performing the funeral service, such as coffins, caskets, flowers etc and funeral disbursement, such as death certificates etc), where estimates of future payments are adjusted for inflation
- acquisition costs (i.e. commissions paid to pre-paid contract salespersons)

The expense inflation assumption, applied to both benefits and claims handling expenses, is based on the long-term implied CPI inflation rate and is considered to be a non-financial risk. The Group has not changed its methods or assumptions used to project expenses in 2023.

Possible increases in expense assumptions increase estimates of future cash outflows and thus decrease the CSM within the LRC for pre-paid contracts. For a sensitivity analysis, refer to Section IX below.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

VIII. Methods used to measure the risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the pre-paid contract is fulfilled.

The Group's pricing approach for pre-paid contracts does not factor in insurance risk factors such as gender, age or pre-existing health conditions, (i.e., the cost of services is the same for men and women, is independent of age and does not consider any pre-existing or potential medical conditions). As a result, the Group's risk adjustment policy, which is consistent with observed Australian life insurance industry practice, is to use the confidence-level technique for calculating the risk adjustment for non-financial risk. The targeted confidence level is the 80th percentile (80%; 2022: 80%).

The Group considers there are two primary non-financial risks being:

- Insurance risk (i.e. mortality rate), resulting from excess deaths relative to best-estimate assumptions, which can result in higher incurred funeral service costs; and
- Expense and benefits risk (i.e. including expense and benefit inflation), resulting from expense overruns or the cost of providing pre-paid funeral services in excess of the best-estimate assumptions.

The Group has determined these risks are independent of each other, as wages are the primary source of expenses, and these are fixed in nature and independent of the number of deaths.

The Group estimates an adjustment for non-financial risk separately from all other estimates.

The methods and assumptions used to determine the risk adjustment for non-financial risk were not changed in 2022 and 2023.

IX. Sensitivity analysis to risk variables

The following tables present information on how reasonably possible changes in assumptions made by the Group with regard to risk variables impact pre-paid contract liabilities and profit or loss before income tax and equity. The analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

		Mortality rate, +1%		Expenses, +5%		Interest rates, -1%		Interest rates, +1%	
	Carrying value	Profit/ (loss)	Equity	Profit/ (loss)	Equity	Profit/ (loss)	Equity	Profit/ (loss)	Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 Jun 2023									
Pre-paid contract liabilities									
FCF	392,407	-	-	-	-	35,811	-	(30,624)	-
CSM	42,290	-	-	-	-	-	-	-	-
Total increase/ (decrease)*		(248)	(174)	(2,160)	(1,512)	(35,811)	(25,068)	30,624	21,437
Remaining CSM		39,690		23,076		42,290		42,290	
30 Jun 2022									
Pre-paid contract liabilities									
FCF	372,910	-	-	-	-	35,742	-	(30,194)	-
CSM	64,901	-	-	-	-	-	-	-	-
Total increase/ (decrease)*		(188)	(132)	(1,714)	(1,200)	(35,742)	(24,831)	30,194	21,136
Remaining CSM		62,881		46,491		64,901		64,901	

* Total increase/(decrease) in profit/loss reflects the annual amortisation of the CSM resulting from the change in each assumption. The Equity movement reflects the financial impact of the changes net of tax.

No changes were made by the Group in the methods and assumptions used in preparing the above analysis.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

F. Pre-paid contract funds under management

This note provides details on the movements for the pre-paid contract funds under management for the half year ended 30 June 2023 with the comparative information for the half year ended 30 June 2022.

What happens when a pre-paid contract is signed

For details on the accounting for pre-paid contract liabilities, refer to Sections A to E above.

This section details the accounting for the cash received (funds) from customers upon the sale of a pre-paid contract.

The cash received is passed to independently managed trusts to be invested. The Group is the ultimate beneficiary to the invested funds of the pre-paid contracts, that is, the total future value of the invested funds (including the investment returns, either gains or losses), but only receives those funds once the Group has demonstrated it has performed the funeral services.

Sale of new pre-paid contracts (listed in the movement table in Section I and II below) represents cash received from customers for new pre-paid contracts sold during the period. The sale of new pre-paid contracts increases both the pre-paid contract funds under management and pre-paid contract liabilities and represents the value of the remaining 90% of the pre-paid contracts as 10% of the proceeds from the sale of a pre-paid contract is held by the Group as an administration fee and recognised within the pre-paid contract liabilities.

What happens during the periods when pre-paid contracts remain undelivered

Australian Accounting Standards require InvoCare to update the carrying value of the pre-paid contract funds under management to fair value each reporting period. The Group uses asset statement reports issued by the trusts to revalue the pre-paid contract funds under management to reflect the current fair value of the invested funds. Such an adjustment may give rise to unrealised gains or losses on these assets. Due to the volatility of such movements, and because these unrealised movements are 'non-cash revaluations', the unrealised gains or losses are excluded from the Group's Operating earnings.

What happens when a pre-paid contract is delivered

When the funeral service is delivered, the fair value of the pre-paid contract is redeemed from the trusts and the Group receives the cash. The Group's right to redeem the invested funds only becomes unconditional when the Group demonstrates it has delivered the services specified in the pre-paid contract with the customer.

I. Statement of comprehensive income impact of pre-paid contract funds under management

	Half year ended	
	30 Jun 2023	30 Jun 2022
	\$'000	\$'000
Unrealised gain/(loss) on pre-paid contract funds under management for undelivered pre-paid contracts	6,728	(46,549)

II. Movements in pre-paid contract funds under management

	Half year ended	
	30 Jun 2023	Restated 30 Jun 2022
	\$'000	\$'000
Balance as at 1 January	606,364	656,256
Sale of new pre-paid contracts	14,017	9,197
Receipts from pre-paid contracts paid by instalment*	3,125	4,786
Redemption of pre-paid contract funds following service delivery	(27,416)	(21,497)
Increase/(decrease) in fair value of pre-paid contract funds under management	6,728	(46,549)
Balance as at 30 June	602,818	602,192
Current	40,208	36,794
Non-current	562,610	565,398
Balance as at 30 June	602,818	602,192

* Receipts from pre-paid contracts paid by instalments are paid by customers directly to the independent trust manager and are not reported within the Group's cash flow statement.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

G. Changes in accounting policies – pre-paid contract liabilities

Pre-paid contracts were previously accounted for in accordance with AASB 15 *Revenue from Contracts with Customers*. As explained in Section A above, they meet the definition of insurance contracts under the criteria detailed within AASB 17 *Insurance Contracts* (AASB 17). AASB 17 applies to annual reporting periods beginning on or after 1 January 2023.

On 1 January 2022, the Group applied the fair value approach for all pre-paid contracts issued before 1 January 2022 on transition to AASB 17 (refer to Section E.II above).

The sections below provide the impact of the accounting policy change on the results reported in the comparative reporting period.

I. Impact on consolidated statement of comprehensive income

	As previously reported \$'000	AASB 17 adjustments \$'000	Restated \$'000
Half year ended 30 Jun 2022			
Revenue from continuing operations	285,373	(3,640)	281,733
Finish goods, consumables and funeral disbursements	(70,531)	1,924	(68,607)
Employee benefits expense	(104,776)	8,123	(96,653)
Advertising and public relations expenses	(7,805)	1,500	(6,305)
Occupancy and facilities expenses	(12,739)	970	(11,769)
Motor vehicle expenses	(4,731)	1,030	(3,701)
Technology expenses	(13,548)	283	(13,265)
Other expenses	(8,812)	503	(8,309)
Pre-paid contract service expenses	-	(13,893)	(13,893)
Depreciation and amortisation expenses	(23,927)	1,998	(21,929)
Finance costs	(6,608)	74,093	67,485
Interest income	577	-	577
Loss on pre-paid contract funds under management	(56,365)	9,816	(46,549)
Acquisition related costs	(382)	-	(382)
Restructuring costs	(1,476)	-	(1,476)
Net gain on lease modifications/terminations	337	-	337
Net gain on disposal of non-current assets	361	-	361
(Loss)/profit before income tax	(25,052)	82,707	57,655
Income tax benefit/(expense)	8,378	(24,812)	(16,434)
Net (loss)/profit after income tax from continuing activities	(16,674)	57,895	41,221
Net (loss)/profit after income tax for the year	(16,674)	57,895	41,221
Total comprehensive (loss)/income for the year, net of tax	(20,061)	57,895	37,834
(Loss)/profit is attributable to:			
Equity holders of InvoCare Limited	(16,765)	57,895	41,130
Non-controlling interests	91	-	91
	(16,674)	57,895	41,221
Total comprehensive (loss)/income for the year is attributable to:			
Equity holders of InvoCare Limited	(20,152)	57,895	37,743
Non-controlling interests	91	-	91
	(20,061)	57,895	37,834
Equity per share for (loss)/profit attributable to the ordinary equity holders of InvoCare Limited			
Basic earnings per share	(11.7)	40.5	28.8
Diluted earnings per share	(11.7)	40.4	28.7
Operating earnings per share	19.3	-	19.3

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

II. Impact on consolidated balance sheet

	As previously reported \$'000	AASB 17 adjustments \$'000	Restated \$'000
As at 31 Dec 2022			
Assets			
Current Assets			
Pre-paid contract funds under management	48,985	(8,904)	40,081
Deferred selling costs	4,945	(1,671)	3,274
Deferred contract assets	204	5,292	5,496
Total current assets	200,361	(5,283)	195,078
Non-current assets			
Pre-paid contract funds under management	548,702	17,581	566,283
Deferred selling costs	29,982	(18,537)	11,445
Total non-current assets	1,536,877	(956)	1,535,921
Total assets	1,737,238	(6,239)	1,730,999
Liabilities			
Current liabilities			
Trade and other payables	80,528	5,292	85,820
Pre-paid contract liabilities	45,174	(16,799)	28,375
Deferred revenue	26,216	(11,126)	15,090
Total current liabilities	203,269	(22,633)	180,636
Non-current liabilities			
Deferred tax liabilities	26,569	43,894	70,463
Pre-paid contract liabilities	503,306	(100,828)	402,478
Deferred revenue	94,079	(29,092)	64,987
Total non-current liabilities	988,753	(86,026)	902,727
Total liabilities	1,192,022	(108,659)	1,083,363
Net assets	542,216	102,420	644,636
Equity			
Retained profits	33,032	102,420	135,452
Parent entity interests	543,839	102,420	646,259
Total equity	545,216	102,420	647,636
As at 31 Dec 2021			
Assets			
Current Assets			
Pre-paid contract funds under management	52,959	(19,359)	33,600
Deferred selling costs	6,244	(1,673)	4,571
Deferred contract assets	1,811	2,871	4,682
Total current assets	219,335	(18,161)	201,174
Non-current assets			
Pre-paid contract funds under management	596,916	25,740	622,656
Deferred selling costs	29,511	(18,573)	10,938
Total non-current assets	1,537,779	7,167	1,544,946
Total assets	1,757,114	(10,994)	1,746,120
Liabilities			
Current liabilities			
Trade and other payables	69,226	2,871	72,097
Pre-paid contract liabilities	44,437	(18,032)	26,405
Deferred revenue	34,076	(3,313)	30,763
Total current liabilities	197,640	(18,474)	179,166
Non-current liabilities			
Deferred tax liabilities	42,307	14,813	57,120
Pre-paid contract liabilities	496,003	(6,583)	489,420
Deferred revenue	93,883	(35,318)	58,565
Total non-current liabilities	978,553	(27,088)	951,465
Total liabilities	1,176,193	(45,562)	1,130,631
Net assets	580,921	34,568	615,489
Equity			
Retained profits	70,857	34,568	105,425
Parent entity interests	579,502	34,568	614,070
Total equity	580,921	34,568	615,489

III. Impact on consolidated statement of cash flows

The adoption of AASB 17 had no impact on the cash flows related to pre-paid contracts.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

Note 4. Significant profit and loss items

The table below provides further details on significant profit and loss items as reported in the consolidated statement of comprehensive income.

	Half year ended	
	30 Jun 2023	Restated 30 Jun 2022
	\$'000	\$'000
A. Finance costs		
Interest paid and payable	5,578	3,443
Interest expense: customer advance payments	73	219
Interest expense on lease liabilities	3,192	2,874
Finance costs/(income) on pre-paid contracts	7,133	(73,666)
Other finance costs/(income)	681	(355)
	16,657	(67,485)
B. Depreciation, amortisation and impairment of non-current assets		
Buildings	3,383	3,122
Property, plant and equipment	9,153	8,426
Right of use assets	9,602	9,442
Total depreciation	22,138	20,990
Amortisation of non-current assets	4,473	2,937
Total depreciation and amortisation recognised	26,611	23,927
Less: Depreciation and amortisation expenses reclassified as pre-paid contract service expenses	(2,120)	(1,998)
Total depreciation and amortisation as disclosed on the consolidated statement of comprehensive income	24,491	21,929
C. Technology expenses		
SaaS arrangements expensed as incurred	9,340	4,673
Pre-paid technology expenses unwind	1,166	496
Total SaaS arrangements	10,506	5,169
Other technology expenses	9,387	8,096
Technology expenses	19,893	13,265

For personal use only

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

Note 5. Earnings per share

A. Reportable period value

	Half year ended 30 Jun 2023 cents	Restated 30 Jun 2022 cents
Basic earnings per share	3.1	28.8
Diluted earnings per share	3.1	28.7
Operating earnings per share	12.8	19.3

InvoCare determines the dividends to be paid for any financial periods from Operating earnings after tax. Operating earnings is derived from basic earnings after excluding the impact of significant items such as material impairments, asset sales gains/losses and costs of restructuring operations. Operating earnings also exclude the impact of accounting for the Group's funds under management and pre-paid funerals business which requires net gains and losses from undelivered pre-paid contracts to be included in reported profit. This is a financial measure which is not prescribed by Australian Accounting Standards and represents the earnings prepared under Australian Accounting Standards adjusted for specific items as per the table below from the statement of comprehensive income.

B. Reconciliation of earnings used in calculating earnings per share

	Half year ended 30 Jun 2023 \$'000	Restated 30 Jun 2022 \$'000
Net profit after income tax	4,481	41,221
Less: Non-controlling interests	(22)	(91)
Net profit after income tax attributable to InvoCare Limited's equity holders for calculating statutory basic and diluted earnings per share	4,459	41,130
Net profit after income tax attributable to InvoCare Limited's equity holders for calculating statutory basic earnings per share	4,459	41,130
Less: Non-operating activities results		
Non-operating EBITDA	10,176	4,079
Depreciation and amortisation	(2,115)	(1,996)
SaaS arrangements	9,340	4,673
Acquisition related costs	1,338	-
Restructuring costs	-	1,476
Accounting standard transition expenses	596	-
(Gain)/loss on pre-paid contract funds under management before income tax	(6,728)	46,549
Non-current assets disposal gain before income tax	(82)	(361)
Net finance costs/(income)	7,133	(73,666)
Loss/(profit) before income tax on non-operating activities	19,658	(19,246)
Income tax (benefit)/expense on non-operating activities	(5,781)	5,664
Net loss/(profit) after income tax on non-operating activities	13,877	(13,582)
Operating earnings after income tax for calculating operating earnings per share	18,336	27,548

C. Weighted average number of shares used in calculating basic, diluted and operating earnings per share

	Half year ended 30 Jun 2023 Number '000	30 Jun 2022 Number '000
Weighted average number of shares used in calculating basic and operating earnings per share	143,062	142,989
Adjustments for calculation of diluted earnings per share:		
Share options and rights	466	352
Weighted average number of shares used in calculating diluted earnings per share	143,528	143,341

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

Note 6. Dividends

A. Dividends paid

	Cents per share	Total amount \$'000	Tax rate for franking credit %	Percentage franked %
Half year ended 30 Jun 2023				
Dividends on InvoCare Limited's ordinary shares				
2022 final dividend	11.0	15,747	30%	100%
Half year ended 30 Jun 2022				
2021 final dividend	11.5	16,566	30%	100%

* The 2022 final dividend excluded \$101,000 paid to treasury shares held in trust.

B. Dividends determined and not recognised at period end

No interim dividend will be paid with respect to the half year ended 30 June 2023 in accordance with Clause 7.1 of the Scheme Implementation Deed signed with TPG on 9 August 2023.

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

Note 7. Deferred revenue and selling costs

This note provides details on the movements for the deferred revenue and deferred selling costs arising from the undelivered memorials and merchandise of Cemeteries and Crematoria business for the half year ended 30 June 2023 with the comparative information for the half year ended 30 June 2022.

The comparatives are restated as the deferred revenue and deferred selling costs for the pre-paid contracts are accounted for in accordance with AASB 17, refer to Note 3 for further information.

The movements are disclosed according to the activities performed to align with the disclosure in Note 2 Revenue.

A. Deferred revenue

For the Cemeteries & Crematoria business, deferred revenue represents the undelivered contractual obligations relating to burial, cremation and memorial services/merchandise products.

The transfer of control of these distinct performance obligations determines when revenue should be recognised.

Billing and collection of the pre-paid contracts can be immediate and in full upon contract signing. However, most pre-paid contracts are paid via instalments over a period of up to five years (although the payment periods do vary).

The following diagram details the key activities throughout the life cycle of a pre-paid Cemeteries & Crematoria contract and how these activities are recognised within deferred revenue.

Life cycle of a pre-paid Cemeteries & Crematoria contract

Activities/ Financial impact	Customer payments - by instalments	Finance costs*	Repeated activities until services/goods delivered		Services/goods delivered
			Customer payments - by instalments	Finance costs*	
Balance sheet impact					
Cemeteries & Crematoria services/goods	↑ Deferred revenue	↑ Deferred revenue	↑ Deferred revenue	↑ Deferred revenue	↓ Deferred revenue
Profit and loss impact					
Cemeteries & Crematoria services/goods	N/A	Finance costs - Customers advance payments	N/A	Finance costs - Customers advance payments	Operating revenue - Cemeteries & Crematoria
Cash flows impact					
Cemeteries & Crematoria services/goods	↑ InvoCare bank account	N/A	↑ InvoCare bank account	N/A	N/A

* This represents the Australian Accounting Standards requirement to account for the time value of money.

II. Deferred revenue movement

	Half year ended	
	30 Jun 2023	Restated 30 Jun 2022
	\$'000	\$'000
Balance as at 1 January	80,077	89,328
Add/(less): Changes during the period		
Cash received from customer instalment payments	274	1,537
Revenue recognised on service delivery during the period	(1,793)	(9,086)
Revenue deferred during the period:		
Revenue deferred	1,778	1,391
Recognition of financing costs on customer advance payments	73	219
Balance at reporting date	80,409	83,389

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

B. Deferred selling costs

Deferred selling costs in relation to the Cemeteries & Crematoria business represent selling commissions and directly related fulfillment costs which are deferred and recognised as cost of sales in line with the recognition of the related deferred revenue of the business (that is, upon delivery/performance of the underlying services/goods).

The movement table below provides the financial impact of selling costs arising from the undelivered memorials and merchandise for the half year ended 30 June 2023 with the comparative information for the half year ended 30 June 2022.

	Half year ended	
	30 Jun 2023	Restated 30 Jun 2022
	\$'000	\$'000
Balance as at 1 January	14,719	15,509
Add/(less): Changes during the period		
Selling costs recognised in profit and loss related to service delivery during the period	(190)	(982)
Selling costs deferred on sales during the period	751	423
Balance at the end of the half year	15,280	14,950

Note 8. Borrowings

As at 30 June 2023, the Group had access to \$382,440,000 of loan facilities as follows:

- \$100,000,000 Note Purchase Agreement with MetLife, fully drawn at 31 December 2022 and due for repayment in February 2028
- \$275,000,000 Amended Syndicated Debt Facility Agreement supported by ANZ, Westpac, Mizuho and SMBC providing available funds through a Multi-Currency Revolving Cash Advance facility, with a tenor of three years to the end of August 2024
- \$7,440,000 working capital overdraft facility provided by ANZ

The \$275,000,000 debt facility is currently drawn as follows: A\$117,100,000 and SG\$22,500,000.

The financial covenant ratios included on the debt facilities are calculated on an adjusted Operating EBITDA basis (primarily to include the proforma earnings contributions from acquisitions and to adjust for costs arising from restructuring and other initiatives). The covenant target ratios are as follows:

- Leverage ratio (being net debt to adjusted Operating EBITDA) must be no greater than 3.5 times
- Interest cover ratio (being adjusted Operating EBITDA to net interest adjusted to remove interest related to AASB 16 Leases) must be greater than 3.0 times

The above ratios continued to be met as of 30 June 2023.

As at reporting date, the details of the facilities available, drawn down, unused by facilities are disclosed in the table below.

	As at	
	30 Jun 2023	31 Dec 2022
	\$'000	\$'000
Total facilities available		
Working capital facility - expiring within one year	7,440	7,440
Unsecured loan facility - expiring in one to two years	275,000	275,000
Unsecured loan facility - expiring in two to five years	100,000	100,000
	382,440	382,440
Drawn down at reporting date		
Working capital facility - expiring within one year	-	-
Unsecured loan facility - expiring in one to two years	142,143	102,150
Unsecured loan facility - expiring in two to five years	100,000	100,000
	242,143	202,150
Unused at reporting date		
Working capital facility - expiring within one year	7,440	7,440
Unsecured loan facility - expiring in one to two years	132,857	172,850
Unsecured loan facility - expiring in two to five years	-	-
	140,297	180,290
* As at reporting date, the balance of the long-term borrowings – unsecured loan facility outstanding after loan establishment costs is set out in the table below.		
Long-term borrowings outstanding at reporting date		
Unsecured loan facility	242,143	202,150
Less: Loan establishment costs	(1,219)	(1,554)
	240,924	200,596

INVOCARE LIMITED AND SUBSIDIARIES

Notes to the consolidated financial statements

Note 9. Contributed equity

	As at 30 Jun 2023 Number '000	31 Dec 2022 Number '000	As at 30 Jun 2023 \$'000	31 Dec 2022 \$'000
Ordinary shares - fully paid	144,061	144,061	511,293	511,293
Treasury shares - fully paid	(1,153)	(1,007)	(13,250)	(12,507)
	142,908	143,054	498,043	498,786

A. Ordinary shares

	Half year ended 30 Jun 2023 Number '000	Year ended 31 Dec 2022 Number '000	Half year ended 30 Jun 2023 \$'000	Year ended 31 Dec 2022 \$'000
Movement during the period				
Balance at 1 January and at reporting date	144,061	144,061	511,293	511,293

B. Treasury shares

	Half year ended 30 Jun 2023 Number '000	Year ended 31 Dec 2022 Number '000	Half year ended 30 Jun 2023 \$'000	Year ended 31 Dec 2022 \$'000
Movement during the period				
Balance as at 1 January	(1,007)	(1,086)	(12,507)	(13,513)
Disposal of shares - vested share rights/options	123	53	1,713	739
Disposal of shares - transfer to Exempted Employee Share Plan's members	-	26	-	267
Acquisition of shares by the Trust	(269)	-	(2,456)	-
Balance at reporting date	(1,153)	(1,007)	(13,250)	(12,507)

Note 10. Contingencies

There were no unrecognised contingent assets as at 30 June 2023 and 31 December 2022.

As at 30 June 2023, the Group had contingent liabilities in the form of bank guarantees given for leased premises of subsidiaries to a maximum of \$3,367,000 (31 December 2022: \$3,517,000).

Note 11. Events after reporting period

Other than the events listed below, no other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

- On 4 August 2023, the Group acquired the remaining 16.83% of the equity in Lake Macquarie Memorial Park Pty Limited (LMMP). LMMP is now 100% owned by the Group.
- On 9 August 2023, a Scheme Implementation Deed (SID) was signed with TPG Capital Asia (TPG) under which TPG agree to acquire 100% of InvoCare Limited's ordinary shares on issue by way of a Scheme of Arrangement.

INVOCARE LIMITED

Directors' declaration

In the directors' opinion:

- the consolidated financial statements and Notes 1 to 11 are in accordance with the Corporations Act 2001, including:
 - complying with Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



Bart Vogel

Director

Sydney

28 August 2023

For personal use only

Independent Auditor's Review Report to the Members of InvoCare Limited

Conclusion

We have reviewed the half-year financial report of InvoCare Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated balance sheet as at 30 June 2023, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 Review of a *Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

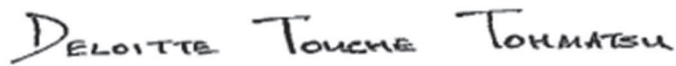
Directors' Responsibilities for the Half-year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



DELOITTE TOUCHE TOHMATSU



Sandeep Chadha
Partner
Chartered Accountants
Sydney, 28 August 2023