



# **CommSec 2007 Emerging Companies Conference**

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**Presenters**

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# Industry Dynamics

Consumer Services / Health Care

Sometimes referred to as Death Care Industry

Industry comprises:

- Funeral homes
- Cemeteries and Crematoria
- Ancillary supplies

Client families serviced in At Need and Pre Need situations



# InvoCare's Markets

## Funerals & Cemeteries & Crematoria - Australia:

Approx. 134,000 deaths in 2006

Ageing population with number of deaths increasing approximately 1% p.a.

Strong competition at local level

Funeral competitors typically small, family run businesses

Majority of cemeteries & crematoria are government owned and operated

Investment required and land availability are key barriers to entry to cemetery & crematoria operations in major population centres



# InvoCare's Markets ...continued

## Funerals Singapore:

Approx. 16,000 deaths in 2006

Ageing population trend

Competitors typically small, family run businesses

Strong, localised, competition

Cremation is preferred with no private cemetery or crematorium operators



# InvoCare's Markets ...continued

Typical client family demand determinants are:

- Previous experience (strong brand loyalty)
- Recommendations including family, friends, clergy, hospitals and nursing homes
- Geographical location
- Concept eg White Lady and Simplicity
- Service levels
- Facilities, and
- Price



# Profile of InvoCare

Largest funeral, cemetery & crematorium operator in Australia & Singapore

ASX listed on 4 December 2003

The only Australian listed company in this industry

Relatively low company risk rating with solid financial track record

Approx. 1,000 professional, customer serviced focused employees

Operates from over 150 locations

Significant property portfolio with approx. 100 locations owned



# Profile of InvoCare ...continued

## Funerals Homes - Australia:

All States & Territories (except Tas & NT)

Market leader with 20% national market share

Closest competitor owned by private equity with only 6% share

InvoCare services major capital cities & regional centres where there is high population concentration

InvoCare has 30% share of these markets

Well known, established brands & the only 2 national funeral brands in White Lady & Simplicity



# Profile of InvoCare ...continued

## Funerals Singapore:

InvoCare operates through the Singapore Casket brand

Market leader with 10% overall market share

Closest competitor has only 2% market share

Core focus on Christian & Buddhist services

Singapore Casket has 20% share of these markets

Parlour hire income is key additional source of revenue compared to Australian funeral homes



# Profile of InvoCare ...continued

## Cemeteries & Crematoria – Australia:

Market leader with 15% overall market share

InvoCare operations restricted to NSW & QLD due to regulatory environment

Increased competition in NSW crematoria

Significant initial investment required to operate – property & facilities



# Profile of InvoCare ...continued

## General

Committed and experienced staff and management, many owning InvoCare shares

Leader in prepaid funeral funds under management

Strong cash flows and the ability to pay attractive, fully franked dividends

Simple, proven business model capable of supporting future growth



# Simple proven business model

- Multi branded “front end” businesses providing full range of funeral industry services, especially in NSW and QLD where private ownership of cemeteries & crematoria possible
- Supported by “back office” shared service functions including:
  - marketing
  - prepaid funeral administration
  - human resources
  - information technology
  - finance
  - property and facilities
- Majority of costs considered fixed, other than cost of sales and a proportion of labour costs
- Efficiencies achieved by pooling resources, including labour, vehicles and back office functions



# Future Growth opportunities

- Future profit growth:
  - Organic
  - Acquisition



# Organic Growth Opportunities

- Increasing number of deaths
- Market share improvements through:
  - Branding
  - New locations
  - People
- Pricing
- Cost control
- Prepaid funerals
- Comparable revenues expected to grow 4-6% pa for foreseeable future



# Organic Growth Opportunities ...continued

## Revised Australian Death Projections

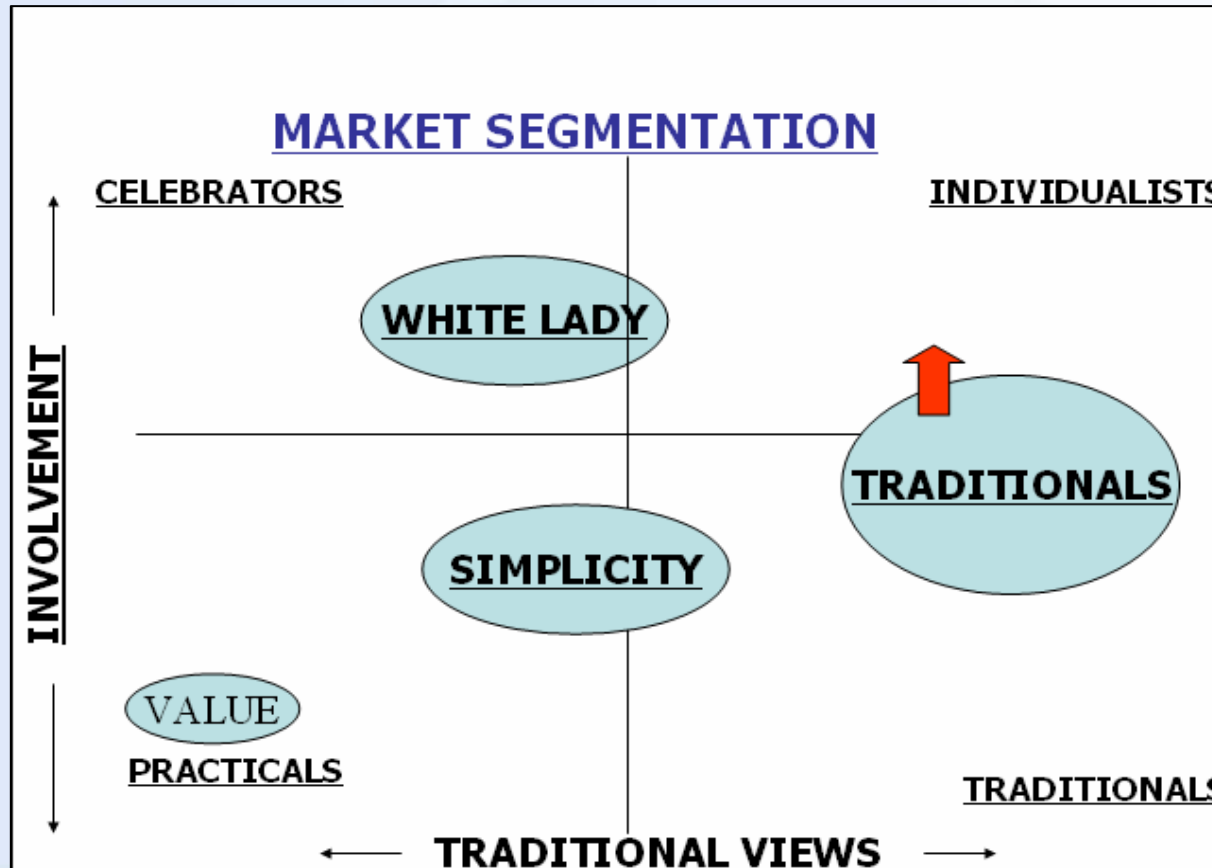


Prepared by Rice Warner Actuaries



# Organic Growth Opportunities ...continued

Research indicates consumers seeking greater involvement in all segments



Brand alignment to major customer segment needs continues



# Organic Growth Opportunities ...continued

- 8 new locations opened in 2006 - contributed \$1.2m to H1 2007 sales
- A further 7 new locations have been opened between March and September 2007
- 4 - 6 p.a. planned for next 5yrs
- Impact of new locations on existing locations being monitored



# Organic Growth Opportunities ...continued

- Investment in recruitment, training, development and retention of employees - InvoCare's most valuable asset
- Sales price increases 3-4% pa, moderately above CPI
- Continued cost control, in particular:
  - core labour (target approx. 4-5% pa)
  - cost of goods sold – supply arrangements reviewed



# Organic Growth Opportunities ...continued

## Prepaid funerals

- Revenue is recognised when funeral service is performed
- Prepaid funeral amounts are placed in trust until service is required
- Net returns on prepaid funds (after MER of 1.6%) exceed operating cost movements thus improve Operating Margins when service is booked as revenue
- Long term investment view taken as average contract is redeemed more than 10 years later
- Asset allocation biased (57%) to Australian equities and constantly monitored
- Improvement in investment returns on prepaid funds in recent years
- Gross returns to 30 June 2007 – 1 yr 17.9%, 3 yr 16.3%, 5 yr 12.4%, 7 yr 10.1%



# Organic Growth Opportunities ...continued

## Prepaid funerals

- Prepaid funeral contract funds under management \$267m at June 2007
- Estimated retail price of those contracts \$211m
- Hence, estimated prepaid funeral fund surplus \$56m as at 30 June 2007 to be booked in future years

### Note:

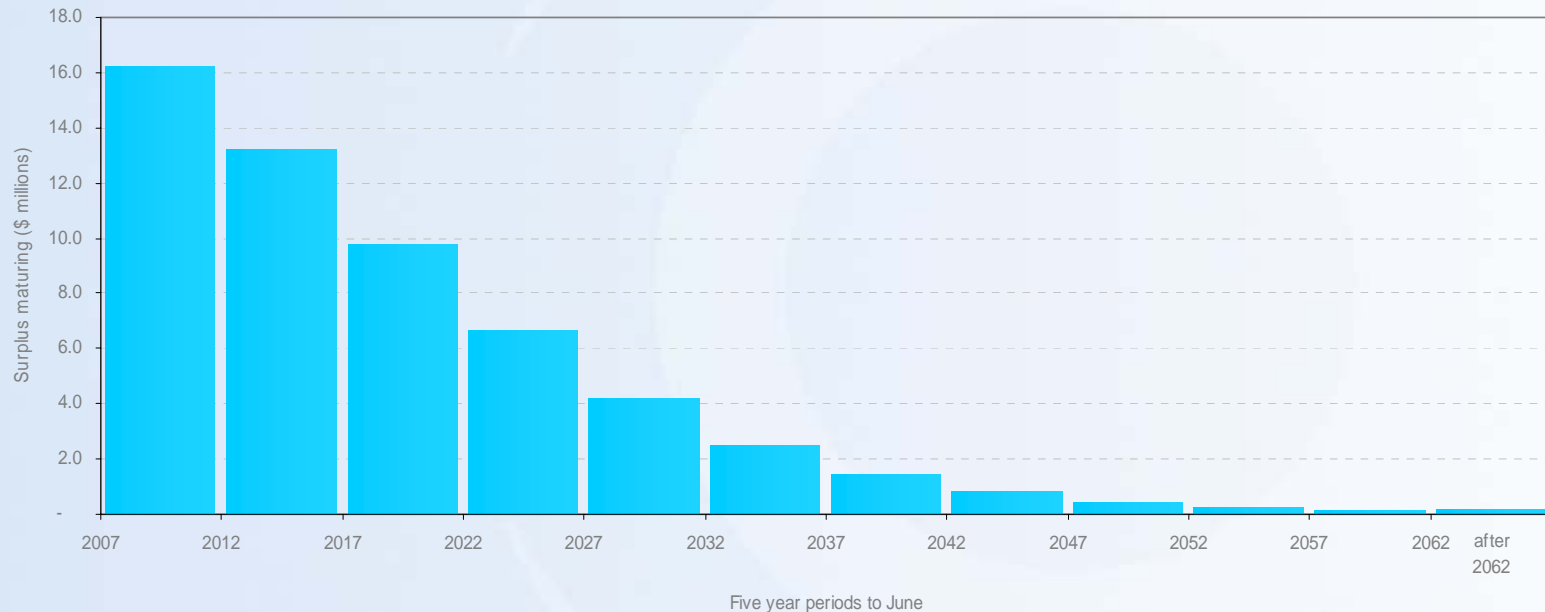
- the surplus is off balance sheet item
- the surplus is only recognised on delivery of contracts
- the surplus is not guaranteed & is subject to fluctuation
- the actual surplus redeemed is dependent on the date of delivery of contracts, plus
  - future returns on funds under management and
  - future retail price increases



# Organic Growth Opportunities ...continued

## Prepaid funerals

Expected Maturity Profile of Surplus\*



\*Actuarially determined by Rice Warner Actuaries  
using current account balances and estimates of future mortality



# Organic Growth Opportunities ...continued

## Prepaid funerals

- Prepaid funeral redemptions are making an increasingly important contribution to funeral revenues and operating margins
- 13% of the funerals performed were previously prepaid with InvoCare
- Target number of new prepaid contracts at least match contracts redeemed
- More focus on prepaid funerals by funeral homes and improved marketing
- Funeral insurance product launched



# Acquisition Growth Opportunities

- Industry fragmented with majority of businesses family owned & operated
- Succession planning an issue for most operators
- InvoCare a logical exit solution
- Ann Wilson acquired on Sydney's Northern Beaches, Dec 2005
- Drysdale Funerals on Sunshine Coast, Qld, acquired Jul 2006
- Singapore Casket Company in Singapore acquired Oct 2006
- Liberty Funerals operating from 2 Sydney locations acquired Mar 2007



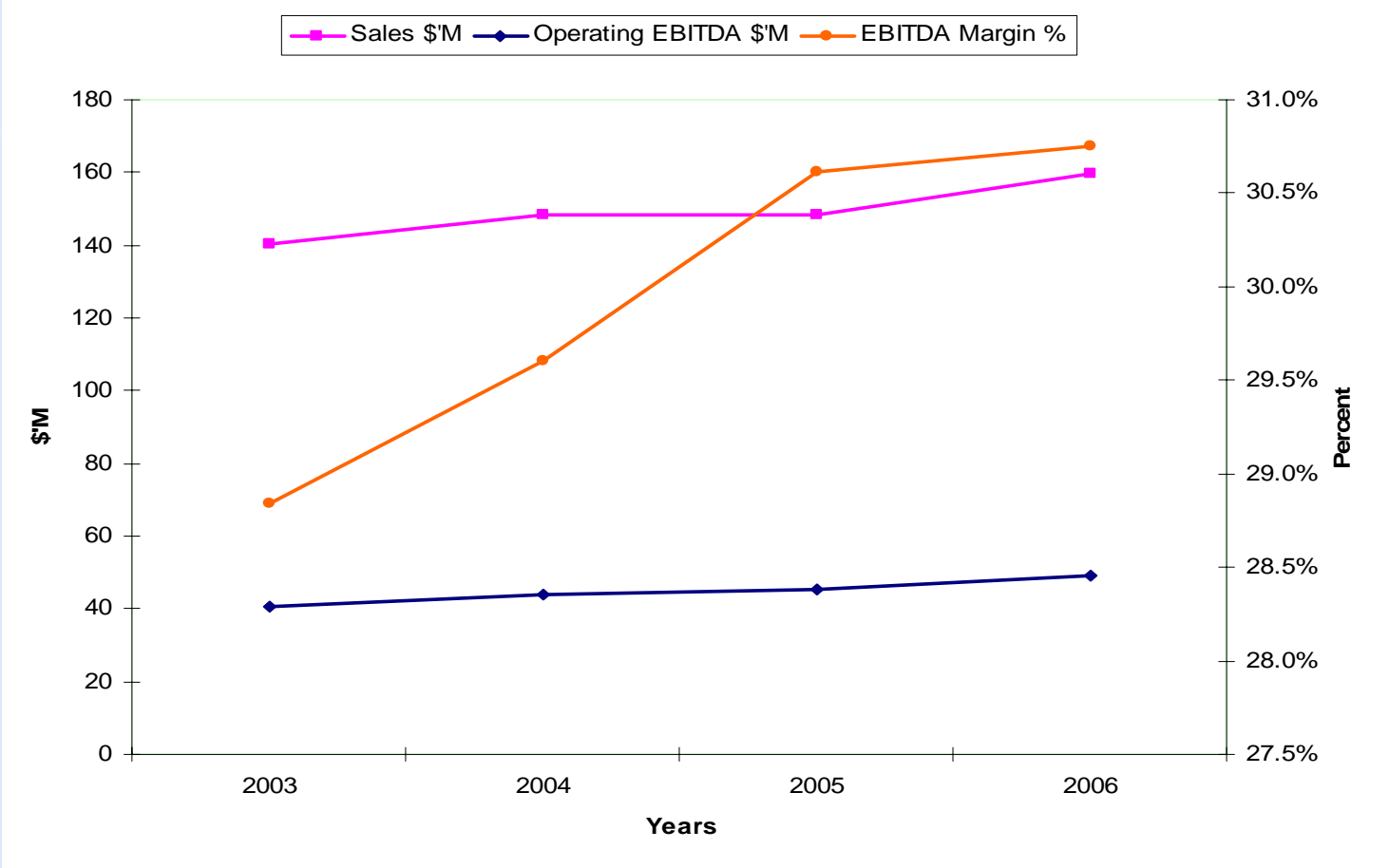
# Acquisition Growth Opportunities

## ...continued

- Confident will likely make further acquisitions in Australia or Singapore in short, medium and longer terms, but vendor timing uncertain
- InvoCare adopts a prudent, disciplined approach to assessing potential acquisitions, balancing growth opportunities against cost and risk
- Keen to expand internationally provided no material impact to overall low risk company profile
- Preliminary discussions have taken place regarding some identified regional opportunities
- Material international acquisitions unlikely in short term



# Financial performance since listing



# Sales revenues performance since listing

- Compound annual growth rate from 2003 to 2006:
  - Funeral sales 5.5%
  - Cemeteries & crematoria sales 2.3%
  - Total sales revenue 4.4%
- H1 2007 vs H1 2006 increases:
  - Funeral sales 19.6%
  - Cemeteries & crematoria sales 9.6%
  - Total sales revenue 16.3%
- The H1 2007 increases attributed to:
  - acquisitions (Singapore, Drysdale and Liberty)
  - higher number of deaths
  - higher average prices, including prepaid funeral contribution
  - small comparable market share gains



# Operating Efficiencies since listing

- Operating EBITDA margins improved from 28.8% in 2003 to 30.7% in 2006, representing a compound annual rate of growth of 2.2%
- Margin for H1 2007 30.2% - compared to H1 2006 28.9% (note first half margins are lower than second half due to seasonal variation in number of deaths)
- Margin improvements achieved through sales price increases, cost efficiencies and controls, especially labour and cost of goods sold



# Financial performance since listing

	Full Year 2004	Full Year 2005(i)	Full Year 2006(ii)	H1 2006	H1 2007
Profit after Tax	\$19.3m	\$20.1m	\$24.0m	\$9.1m	\$11.5m
EPS (basic)	20.4 ¢	21.0 ¢	24.7 ¢	9.4 ¢	11.6 ¢

## Cumulative Total Shareholder Return(iii)

from 31 Dec 2003 to 30 June 2007 was 219%

### Notes:

- (i) 2005 results impacted by a lower than expected number of deaths and asset sale gains. Excluding asset sales, PAT was \$18.7m.
- (ii) 2006 results impacted by a reversion towards the long term trend in the number of deaths, new acquisitions, asset sales & asset impairment. Excluding asset sales and impairment, PAT was \$21.5m.
- (iii) Total Shareholder Return = (dividends paid + movement in share price)/opening share price



# Operating EBITDA & Cash Flow performance since listing

	Full Year 2004	Full Year 2005	Full Year 2006	H1 2006(i)	H1 2007(i)
Operating margin (EBITDA/Sales)	29.6%	30.6%	30.7%	28.9%	30.2%
Operating EBITDA	\$43.9m	\$45.4m	\$49.1m	\$22.0m	\$26.7m
Operating Cash flows (excl finance costs & tax)	\$43.3m	\$45.3m	\$50.9m	\$27.8m	\$26.8m

Note:

- (i) The number of deaths, sales revenue, EBITDA and operating margins are generally higher in the second half compared to the first half of a year. In addition, calendar year 2007 results will benefit from the full year impact of acquisitions made in the second half of 2006, in particular Singapore Casket.



# Cash Flow performance since listing ...continued

Other key non-operating cash inflows / (outflows):

	Full Year 2004	Full Year 2005	Full Year 2006	H1 2006	H1 2007
Asset sale proceeds	\$3.7m	\$3.0m	\$5.1m	\$0.3m	\$0.3m
Capital expenditure	\$(4.0m)	\$(6.9m)	\$(9.8m)	\$(5.8m)	\$(8.7m)
Business acquisitions	-	\$(3.4m)	\$(25.2m)	-	\$(5.6m)
Dividends paid	\$(6.1m)	\$(25.5m)	\$(13.8m)	\$(9.2m)	\$(8.2m)
Debt drawn/(repaid)	\$(23.5m)	\$8.5m	\$12.5m	\$(4.0m)	\$8.4m



# Capital and debt management

- Capital management – no major change expected in 2007
- Gross debt to enterprise value 21% at Jun 2007 (22% at Dec 2006)
- IVC has capacity for increased leverage
- Net debt \$154.6m at Jun 2007 (\$146.4m at Dec 2006)
- Total debt facilities \$185m, including \$5m working capital
- \$152.9m of debt principal hedged with fixed interest rate swaps



# Capital and debt management

## ...continued

- Fully franked dividends
- Maintain minimum 75% dividend payout ratio, subject to trading & economic conditions
- Target each ordinary dividend per share to exceed previous year's dividend
- Special dividends paid where appropriate (first paid in 2005)
- DRP activated – good take up with approx. 25% of investors participating - attractive to retail investors



# Results update and outlook

- Strong performance has continued in the second half since releasing first half results in late August
- Overall sales revenues for the third quarter increased 21.3% (comparable business 15.6%) on the prior comparative quarter primarily due to:
  - Impact of acquisitions – Singapore and Liberty
  - Higher number of deaths - Australian funeral cases up 12.2% (comparable business 10.4%) and cemeteries & crematoria cases up 9.5%
  - Stronger average funeral sale - Aust up 7.0% (comparable 6.7%)



# Results update and outlook

## ...continued

- Some margin improvement in Q3 as expected
- Strong results have enabled investment in areas such as learning & development, marketing and refurbishments which will have moderate margin impact
- In past periods of lower than expected number of deaths, InvoCare has limited such investment



# Results update and outlook

## ...continued

- Based on past experience, anticipate 4<sup>th</sup> quarter softening in number of deaths
- Average prices should remain strong, unless there is a shift in where deaths occur
- 2007 3<sup>rd</sup> quarter growth due to Singapore will not be repeated in 4<sup>th</sup> quarter as the acquisition occurred in October 2006
- Also \$2.4m in after tax asset sale gains and impairments booked in 4<sup>th</sup> quarter of 2006 will not recur this year with no material asset sales planned



# Summary

- Stable industry and proven business model
- Solid earnings history with attractive earnings prospects through:
  - increasing number of deaths;
  - market share growth - both organically and by acquisition; and
  - increasing returns from prepaid funerals
- Strong cash flows
- Capacity to pay competitive fully franked dividends



# Disclaimer

This presentation contains forward looking statements, which may be subject to significant uncertainties outside of InvoCare's control. No representation is made as to the accuracy or reliability of these forecasts or the assumptions on which they are based. Actual future events may vary from these forecasts.



