

25 August 2020

FY20 Full Year Results

- Revenue of \$110.8 million, up 16.5% on the prior year and above guidance
- Operating EBITDA¹ of \$32.4 million, up 36.4% on the prior year and above guidance
- Operating NPAT² of \$14.2 million, up 6.5% on the prior year
- Total dividends of 10.0 cents per share fully franked, including a final dividend of 6.0 cents per share
- New acquisition announced, strong cash flows and funding position, despite COVID-19 impacts

Dear Shareholders,

On behalf of the board, we are pleased to report the financial performance of Propel Funeral Partners Limited (ASX: PFP) (**Propel** or **Company**) for the year ended 30 June 2020 (**FY20**).

Financial performance

FY20 was another record year for Propel and, despite COVID-19 impacts, its financial performance proved resilient. The Company exceeded Revenue and Operating EBITDA¹ guidance and achieved material growth in key financial metrics, as set out below:

	FY20 Statutory	FY19 Statutory	Change
Revenue (\$m)	110.8	95.1	↑ 16.5%
Operating EBITDA (\$m) ¹	32.4	23.8	↑ 36.4%
Margin	29.2%	25.0%	+420bps
Operating NPAT (\$m) ²	14.2	13.3	↑ 6.5%
NPAT (\$m)	10.6	12.3	↓ 13.9%
Earnings per share (cents) adjusted ³	14.4	13.6	↑ 6.1%
Cash flow conversion (%) ⁴	103.4%	97.4%	+600 bps

In relation to the FY20 financial results, please note:

- the Company adopted accounting standard AASB 16 'Leases' (**AASB 16**) on 1 July 2019 under the modified retrospective approach and as such, FY19 has not been restated;
- Operating EBITDA¹ and margin were positively impacted by higher funeral volumes, Average Revenue Per Funeral⁵ growth and AASB 16;
- NPAT was negatively impacted by AASB 16 and the \$4.1 million Performance Fee⁶ earned by the Manager⁶ (Total Shareholder Return⁶ of 24.2% achieved in the second Calculation Period⁶) as previously disclosed; and
- the results only include a circa eight month contribution from two acquisitions completed in November 2019 and do not include any contributions from two proposed acquisitions expected to complete by 31 December 2020 (refer below).

The following table compares the FY20 Revenue, Operating EBITDA¹, margin and Operating NPAT² with the prior year on a consistent accounting basis (i.e. excluding the impact of AASB 16 (**Pro forma**)):

	FY20 Pro forma	FY19 Statutory	Change
Revenue (\$m)	110.8	95.1	↑ 16.5%
Operating EBITDA (\$m) ¹	28.5	23.8	↑ 19.7%
Margin	25.7%	25.0%	+70bps
Operating NPAT (\$m) ²	14.4	13.3	↑ 8.4%

Further details are provided in the Appendix 4E, Annual Report and FY20 Investor Presentation.

¹ Earnings before interest, tax, depreciation, amortisation, the Performance Fee and certain non-operating items, such as acquisition costs.

² Net profit after tax adjusted for the Performance Fee and certain non-operating items, such as acquisition costs.

³ Operating NPAT divided by the weighted average number of shares on issue for the year ended 30 June 2020.

⁴ The percentage of Operating EBITDA converted into ungeared, pre-tax, operating cash flows, excluding the Performance Fee.

⁵ Revenue from funeral operations, excluding direct disbursements (such as third party cemetery fees and third party cremation fees) and delivered pre-paid impacts, divided by the number of funerals performed in the relevant period.

⁶ As defined in the prospectus prepared in connection with Propel's initial public offering (**IPO**) dated 25 October 2017.

Final dividend

The board has declared a fully franked final dividend of 6.0 cents per share, bringing the total dividends declared in connection with FY20 to 10.0 cents per share fully franked (FY19: 11.5 cents per share), which represents:

- a payout ratio of approximately 85% of Distributable Earnings⁷; and
- a fully franked dividend yield of ~3.5% (or ~5.0% grossed up for tax⁸), based on Propel's closing share price on 21 August 2020.

The final dividend of 6.0 cents per share fully franked will be paid on 1 October 2020, with a record date of 31 August 2020. Since Propel's IPO in November 2017, it has declared fully franked dividends totalling 27.9 cents per share (or 39.9 cents per share, grossed up for tax⁸).

Funeral volumes

Propel performed 13,299 funerals in FY20, up 17.6% on the prior corresponding period (**PCP**).

As previously disclosed, in the 12 months ended 30 April 2020, Propel's comparable funeral volume growth was approximately 1.0% over the PCP. However, in the final two months of FY20:

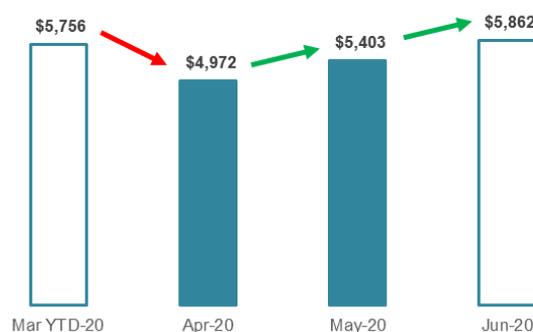
- the Company cycled a strong PCP of comparable funeral volumes;
- reported flu cases in Australia were more than 95%⁹ below the PCP; and
- funeral volumes were approximately 350 below the Company's pre COVID-19 expectations.

The above factors contributed to Propel's comparable funeral volume growth in FY20 ending approximately 2.2% below the prior year.

Average Revenue Per Funeral⁵

Propel's Average Revenue Per Funeral⁵ was \$5,672 in FY20, up 1.6% on the PCP. Comparable Average Revenue Per Funeral⁵ was up 2.1% on the prior year.

Funeral attendee limits imposed during FY20¹⁰ due to COVID-19 affected the Company's ability to offer a full range of services to its client families, which negatively impacted Propel's Average Revenue Per Funeral⁵ in Q4 FY20. The chart to the right illustrates the Company's Average Revenue Per Funeral⁵ in the nine months to 31 March 2020 (**Mar YTD-20**), the impact of funeral attendee limits on Average Revenue Per Funeral⁵ in the month of April 2020 and the subsequent recovery experienced in the months of May 2020 and June 2020, as funeral attendee limits were progressively eased.



Other COVID-19 impacts and responses

Propel's core operating focus is on people safety, essential service continuity and financial resilience. During Q4 FY20, the Company and its subsidiaries implemented measures to mitigate potential operating and financial impacts from COVID-19, such as:

- providing client families with the option of streaming services at many of its locations and a memorial service at a later date;
- ensuring government guidelines and directives were followed by staff and mourners;
- controlling operating costs, by:
 - temporarily reducing staff costs, while maintaining headcount, including optimising staffing mix, rostering 8-9 day working fortnights and encouraging permanent staff to take leave;
 - the Independent Directors and the Manager waiving 100% of their fees for the months of April and May 2020; and
 - ceasing non-essential operating expenditure;
- receiving wage subsidies for eligible businesses;
- deferring non-essential capital expenditure; and
- prudently increasing cash at bank.

⁷ Net profit after tax adjusted for non-cash, one-off and non-recurring items including the net financing charge and acquisition costs.

⁸ Based on the corporate tax rate of 30% in Australia.

⁹ Source: <https://www.immunisationcoalition.org.au/news-media/2020-influenza-statistics/>.

¹⁰ Social distancing measures for funeral services in Australia and New Zealand have changed numerous times, as summarised on slide 8 of Propel's FY20 Full Year Results Investor Presentation dated 25 August 2020.

Acquisitions

During FY20 and consistent with its Investment Strategy⁶, Propel:

- acquired the entire issued share capital of Gregson & Weight Pty Ltd, three substantial freehold properties and a parcel of vacant land on the Sunshine Coast in Queensland;
- acquired the business, assets and certain freehold properties relating to Grahams Funeral Services Limited in the North Island of New Zealand; and
- purchased three freehold properties, two of which were previously tenanted by Propel.

Propel is pleased to announce that subsequent to 30 June 2020, it executed a conditional sale agreement to acquire the business, assets and freehold property of Mid West Funerals in Geraldton in Western Australia, for approximately \$1.1 million. Mid West Funerals performs approximately 120 funerals and generates approximately \$0.7 million of revenue, per annum. Completion of the Mid West Funerals acquisition, and the previously announced acquisition of the Dils Group, is expected to occur by 31 December 2020.

Propel is exploring other potential acquisitions, however, the timing associated with any future acquisitions is uncertain.

Funding position

As at 30 June 2020, the Company:

- held \$53.9 million of cash at bank;
- had \$40.2 million of funds available from its \$150 million debt facilities with Westpac, which have term debt maturity dates in August 2022 and August 2023; and
- was comfortably in compliance with its debt covenants, with a Net Leverage Ratio of approximately 1.7x¹¹ (must be less than 3.0x) and a Fixed Charge Cover Ratio of approximately 5.5x (must not be less than 1.75x).

Propel is in a strong funding position, with approximately \$66.6 million¹² of available funding capacity.

Outlook

In the month of July 2020:

- resilience in operating earnings continued;
- Average Revenue Per Funeral⁵ continued to improve, with growth over the PCP within the Company's target range of 2-4%; and
- Propel performed ~1,200 funerals, in line with the PCP but below the Company's expectations (potential deferral of death volumes into future periods).

Expected growth drivers for FY21 and beyond include:

- the growing and ageing population;
- the Company's strong funding position; and
- acquisitions signed and completed to date and other potential future acquisitions in a fragmented industry (although timing is uncertain).

COVID-19 related disruptions and uncertainties are expected to continue:

- funeral attendance in Victoria and Auckland currently limited to 10 mourners, with Average Revenue Per Funeral⁵ impacts expected to be temporary;
- Propel's diversification in providing essential funeral and related services across seven states and territories of Australia and in New Zealand, including regional and metropolitan markets, has delivered considerable resilience in earnings and operating cash flows in recent months; and
- with a strong funding position, no near term debt maturities, the support of our dedicated staff and the understanding of client families, Propel is well placed to navigate COVID-19 related disruptions and uncertainties.

¹¹ Including the annualised impact of acquisitions and other adjustments. Covenant of 3.0x until Propel notifies the Financier of an election given in connection with a Permitted Acquisition to increase the covenant to 3.5x which will endure for two consecutive testing dates, following which, the covenant will reduce to 3.25x. The Company's \$10 million working capital facility is excluded from the Net Leverage Ratio calculation.

¹² Cash at bank and undrawn debt as at 30 June 2020, less the estimated cash that will be required to complete the proposed acquisitions of the Dils Group and Mid West Funerals and to pay the FY20 final dividend.

For personal use only

ASX ANNOUNCEMENT

PFP PROPEL
FUNERAL
PARTNERS

Our people and client families

We wish to make special mention of our staff in Australia and New Zealand. We thank them for their hard work, professionalism, flexibility and commitment to providing essential and caring funeral and related services to the communities they served throughout FY20, particularly during the COVID-19 pandemic. Finally, we also acknowledge bereaved client families, many of whom have farewelled loved ones in particularly challenging circumstances in recent months.

We look forward to reporting the Company's further progress to shareholders, as and when appropriate.



Brian Scullin
Chairman



Albin Kurti
Managing Director

END

About Propel:

Propel is listed on the Australian Securities Exchange and is the second largest private provider of death care services in Australia and New Zealand. Propel currently operates from 130 locations, including 31 cremation facilities and 9 cemeteries.

For further information, please contact:

Lilli Gladstone
Head of Finance
+ 612 8514 8644

Authority to release:

This document has been authorised for release by the Company's board of directors.

Important notice:

This announcement may contain forward-looking statements, which include all matters that are not historical facts. Without limitation, indications of, and guidance on, future earnings and financial position and performance are examples of forward-looking statements. Forward-looking statements, including projections or guidance on future earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including Propel). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. Actual results, performance or achievement may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based.

For personal use only