ALS LIMITED

asx/media release

20 November 2017

ALS result up 18% as commodities recovery continues

- **H1FY18 Underlying NPAT[1] within guidance at $70.1 million**
- **Goodwill impairment charges of $63 million**
- **Asset Care business retained**
- **Interim dividend 8.0 cents per share**
- **$175 million on-market Share Buyback**
- **FY18 underlying profit expected to be $135 - $145 million**

ALS Limited (ASX Code: ALQ) today announced an **underlying net profit** after tax[1] from continuing operations of $70.1 million for the half year ended 30 September 2017 (H1FY18) – at the lower end of the guidance range of $70 million to $75 million provided to the market at the Company's Annual General Meeting on 20 July 2017.

The result was 17.6% higher than the $59.6 million comparative underlying net profit after tax earned in the previous corresponding period (pcp) primarily due to improvements in the performance of those businesses servicing mineral commodities markets.

The half year **statutory result** was a net loss after tax[2] attributable to equity holders of the Company of $8.9 million, compared with a net profit of $48.7 million recorded in the half year to September 2016. In recognition of uncertain market conditions being experienced in the sectors serviced by the Coal and Industrial businesses, goodwill impairment charges amounting to $63 million have been taken in respect of these cash generating units: Coal - $40 million and Industrial - $23 million.

Revenue from continuing operations of $721.6 million was up 14.5% on the $630.2 million recorded from the same businesses in the previous corresponding period. This reflects strong organic growth in the Commodities business and acquired and organic revenue gains in Life Sciences. The recovery being experienced in mineral commodities markets helped to push revenue in that segment up 22.3% over the pcp at an improved contribution margin of 21.7%. While revenue in Life Sciences grew by 13.9%, competitive pressures in Europe and North America saw contribution margin soften to 15.3%. Despite a flat revenue outcome in the Industrial segment strong cost disciplines resulted in the business recording a 3.5% improvement in contribution compared with the pcp.

As previously announced, the Group sold the majority of its Oil & Gas technical services business in July 2017, retaining only the laboratory testing component. The divestment resulted in a gain on sale after tax of $0.9 million and recognition in the profit and loss statement of foreign exchange losses (relating to inter-company balances and previously recorded in the foreign currency translation reserve) of $11.1 million after tax.

1 attributable to equity holders of the Company, and excluding restructuring and other one-off items, divestment and impairment losses and amortisation of acquired intangibles

2 including restructuring and other one-off items, divestment and impairment losses and amortisation of acquired intangibles

In June this year the Company announced that following the receipt of inbound enquiries it was evaluating strategic options for the Asset Care business stream within the Industrial division. While the business received interests from a number of parties, directors have resolved that value of the business will be maximized by ALS retaining the Asset Care business.

ALS Chairman, Bruce Phillips said that the Company remains supportive of the strategic growth plans of the Industrial division, including continued capital investment, geographic expansion and further development of technical and systems capabilities.

Share Buyback

Directors have announced an on-market share buyback of up to $175 million (refer separate ASX Announcement). Following the divestment of its Oil & Gas business and review of ongoing capital requirements, the directors have determined that an on-market share buyback is the most efficient means of returning excess capital to shareholders.

Managing Director, Raj Naran said the buyback program reflects ALS's commitment to efficient capital management and delivering improved returns to shareholders.

"Given the Company's strong cash flow and balance sheet as well as our confidence in ALS's future trajectory, the Board considers that a share buyback provides the most appropriate use of the company's capital at this point in time."

"The buy-back program will not impact ALS's existing dividend policy and business strategy. We will maintain the flexibility to respond to changes in market conditions and take advantage of growth opportunities that may arise in the future."

The Company will use its existing cash balances and free cash flow to fund the buy-back program. Based on the Company's closing share price of $8.05 on 17 November 2017, the buyback would represent up to 4.3% of ALS's issued share capital.

The share buy-back program will be within the '10/12 limit' permitted by the Corporations Act 2001 (Cth) and therefore does not require shareholder approval. The number of shares and timing of purchase will be dependent on ALS's share price and market conditions. The Company reserves the right to vary, suspend or terminate the share buy-back program.

Interim Dividend

Directors have declared an interim dividend of 8.0 cents per share partly franked to 40% (H1FY17: 5.5 cents, partly franked to 60%), representing a payout ratio of 58% of first half underlying profit. This is in line with the Board's policy of paying out at the upper end of its

50-60% range of underlying NPAT in a market where the Commodities sector is cycling up. The dividend will be paid on 18 December 2017 to shareholders on the register at 30 November 2017. The dividend will include conduit foreign income of 4.8 cents per share. In light of the Company's plans to undertake an on-market share buyback program the dividend reinvestment plan will not operate for the FY2018 interim dividend.

Overview of H1FY18 Result

Commenting on the half year result, Managing Director Raj Naran said that it was pleasing that all segments delivered improvements in underlying contribution compared with the pcp, the highlight being the Geochemistry business stream which achieved a 51% increase at a margin of 27%.

"The half year results of the UK Life Sciences group were impacted by the integration of Alcontrol (acquired December 2016). Operational site combinations were completed during the September quarter and the final cost and process optimisation stages of the integration will run through to March 2018."

The Company's underlying financial performance from **continuing operations** by division for the half year to 30 September 2017 is summarised as follows:

Interim Financial Results	**Revenue**			**Underlying EBIT**		
In millions of AUD	**H1FY18**	**H1FY17**	**+/-**	**H1FY18**	**H1FY17**	**+/-**
Life Sciences	365.7	321.0	+13.9%	55.9	55.6	+0.5%
Industrial	99.7	99.8	-0.1%	15.0	14.5	+3.5%
Commodities	256.2	* 209.4	+22.3%	55.7	* 36.7	+51.8%
Total segments	721.6	630.2	+14.5%	126.6	106.8	+18.5%
Net financial costs				(13.1)	(14.1)	
Foreign exchange (loss)/gain				(4.0)	1.3	
Other corporate expenses				(12.4)	(10.2)	
Income tax expense				(26.1)	(23.9)	
Net profit attributable to minority interests				(0.9)	(0.3)	
Underlying net profit after tax**				**70.1**	**59.6**	**+17.6%**

* *restated*

** *attributable to equity holders of the Company and excluding restructuring and other one-off items, divestment and impairment losses and amortisation of acquired intangibles.*

Operating Businesses overview

Life Sciences

All regions of the Life Sciences segment experienced revenue growth compared with the pcp. Successful cost management and rationalisation led to improved underlying EBIT contributions from most regions, though competitive pressures in the US and UK resulted in lower earnings in North America and Europe. Pleasingly the resolution of management issues and successful business development initiatives in both Canada and Latin America led to significant turnarounds in the performance of those regions.

Both of the key Life Sciences business streams (Environmental and Food/Pharmaceutical) achieved solid revenue gains compared with the September 2016 half. While the Food/Pharma business delivered an underlying EBIT improvement of 27%, increased price competition in environmental testing markets produced a flat half-on-half profit performance for that business stream.

Industrial

Revenue remained flat in the Industrial division, with gains from the Tribology business stream offset by the effects of softening market conditions for the Asset Care operations in both Australia and the US. A continued focus on cost base across the segment has delivered a small improvement in contribution margin.

Successful Asset Care business development efforts have largely replaced Australian LNG construction revenue with maintenance-related services to the oil & gas, mining and water sectors. However, work volumes in the power station maintenance sector were affected by short-term delays with clients' outage programs. While the US Asset Care operations delivered a small profit contribution, turning around a loss position in the September 2016 half, the business continues to be affected by weaker than expected activity levels in the downstream oil & gas sector. The Tribology business continued to grow profitably, with underlying contribution margin remaining above 24%.

In recognition of the softening market conditions being experienced by the division, leading to an increased uncertainty in earnings projections, a goodwill impairment charge of $23 million has been taken against the Industrial cash generating unit.

Commodities (now including Oil & Gas Laboratories)

Commodities recorded much improved financial results over the half year to September 2017 as Geochemistry sample flows increased globally. Established mining clients continued to lift their spending on existing brownfield sites even in the higher risk countries and junior explorers have started to increase activity.

Sample flows into the Geochemistry business stream were up by 34%. While cost management remained a focus for the Geochemistry business, equal attention was paid to productivity and the timely injection of human and capital resources to service the increasing workloads. Management remains optimistic about a continued recovery and the likely demand for services and therefore is investing in capacity as required to ensure turnaround times meet or exceed client expectations.

While competitive pricing and reduced activity in the exploration and resource definition sectors of the coal market continue to impact the Coal business stream, the Superintending service line has however maintained consistent work volumes and revenues versus pcp. ALS Coal continues to manage its cost base well in a difficult operating environment. The first half was affected significantly by Cyclone Debbie in Queensland and continued price volatility and market uncertainty across the industry.

In light of the impact of this increasing volatility and uncertainty on future earnings, a goodwill impairment charge of $40 million has been taken against the Coal cash generating unit.

Outlook for the Second Half

The underlying fundamentals surrounding most ALS business streams continue to improve and it is expected that the Company will have a stronger second half in FY2018 than the corresponding period last year. We anticipate ongoing year-on-year improvements in earnings in the Geochemistry business stream as sample flows continue to grow and from the Life Sciences operations in Europe and the Americas on the back of cost rationalisation and new contracts.

Group underlying profit after tax for the full financial year to March 2018 is expected to be in the range of $135 million to $145 million, based on current market trends, reflecting the seasonality of the business and subject to no material changes in the operating or economic environment.

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About ALS Limited

ALS is a global Testing, Inspection & Certification business. The company's strategy is to broaden its exposure into new sectors and geographies where it can take a leadership position.