asx/media release

20 November 2018

## ALS underlying profit up 30% on prior year

- **1HFY2019 Underlying NPAT exceeds guidance at $93.3million, up 29.8% on prior year**
- **Interim dividend 11 cents per share, up 3 cents on prior year**
- **Revenue up 15.2% to $826.1 million**
- **EPS growth of 33.6%**
- **On-market Share Buyback extended for additional 12 months to a total of $225 million**
- **Business outlook remains positive - FY19 Underlying NPAT expected to be $170 - $175 million**

**ALS Limited (ASX Code: ALQ)** today announced an **underlying net profit** after tax from continuing operations of $93.3million for 1HFY2019, exceeding the guidance range of $85 million to $90 million provided to the market at the Annual General Meeting on 1 August 2018.

The result was 29.8% higher than the $71.9 million comparative underlying net profit after tax earned in the previous corresponding period (pcp). This was primarily due to increased earnings from those businesses servicing mineral commodities markets and improved performance from the Life Science businesses.

The 1HFY2019 **statutory result** from all operations was a net profit after tax attributable to equity holders of the Company of $85.5million, compared with a net loss of $8.9 million recorded in the half year to September 2017.

Revenue from continuing operations of $826.1 million was up 15.2% on the $716.8 million recorded in the pcp. This was driven by revenue gains from acquisitions in Life Sciences and strong organic growth across all business streams.

The recovery being experienced in mineral commodities markets helped increase revenue in that segment up 24.8% above the pcp at an improved EBIT margin of 26.7%. Revenue in Life Sciences grew by 11.0% and while the EBIT margin of 15.1% was down slightly from 15.3% in the pcp, it remains on track to improve by 50 to 100 basis points on a full year basis. While the Industrial segment recorded a 6.6% growth in revenue, the segment's margins declined from the compounding effects of increased competition and a changing revenue mix.

## Overview of 1HFY2019 Result

The Chairman, Bruce Phillips commented –

"It is pleasing the Company's performance for the first half now sees it tracking slightly ahead of the 5-year strategic plan. There is much work to do, but shareholders and the broader community should be pleased our highly skilled workforce is not just striving, but delivering good returns for shareholders in a safe & sustainable manner."

Commenting on the half year result, Managing Director Raj Naran noted that it was significant that all segments had enjoyed solid increases in sales revenue reflecting strong organic growth across all businesses. In particular, he noted the improvement in Life Sciences profits on a pcp basis and the ongoing work within the business to ensure that this trend continues.

"The business has continued to perform solidly and is well positioned to benefit from strong customer relationships and improved global conditions. ALS will continue to maintain its disciplined focus on service excellence to its clients to increase market share and profitability."

Contributions from the Company's business segments for the half year to September 2018 are summarised below.

| **Full year Financial Results (from continuing operations)** | **Revenue** | | | **Underlying EBIT**** | | |
|---|---|---|---|---|---|---|
| *In millions of AUD* | **FY19** | **FY18** | **+/-** | **FY19** | **FY18** | **+/-** |
| Life Sciences | 406.0 | 365.7 | +11.0% | 61.2 | 55.9 | +9.5% |
| Commodities | 313.8 | *251.4 | +24.8% | 83.8 | *57.9 | +44.7% |
| Industrial | 106.3 | 99.7 | +6.6% | 12.6 | 15.0 | -16.0% |
| **Total segments (from continuing operations)** | 826.1 | 716.8 | +15.2% | 157.6 | 128.8 | +22.4% |
| Net financing costs | | | | (14.9) | (13.1) | |
| Foreign exchange gains | | | | 4.1 | (4.0) | |
| Other corporate expenses | | | | (18.2) | (12.4) | |
| Income tax expense | | | | (35.0) | (26.5) | |
| Net profit attributable to minority interests | | | | (0.3) | (0.9) | |
| **Underlying** net profit after tax (from continuing operations)** | | | | **93.3** | **71.9** | **+29.8%** |

* *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 division delivered revenue growth during the half year to September 2018. Underlying profit contributions increased in most geographies, though this was offset by weaker performance in the US and some parts of Asia. Competitive pressures across these jurisdictions, together with the impact of Asian greenfield activities, resulted in a small decline in overall divisional profit margin.

Pleasingly the Company can report improvement in the profitability of the UK businesses due to recent contract wins. This business is now consistently delivering the contributions we anticipated in our business acquisition model. A global improvement project continues across Life Sciences in the Americas to improve business productivity through process optimisation, sample miniaturisation and elimination of waste. Positive results from this initiative have started to flow through to the bottom line of the Canadian and Latin American operations. These improvements are now being introduced to ALS' environmental operations in the US and are a key element of management's response to the increasingly competitive landscape for the business in that country.

Both of the key Life Sciences business streams (Environmental and Food/Pharmaceutical) achieved solid revenue gains compared with the previous corresponding period. The business has a strong pipeline of bolt-on acquisition opportunities in food and pharmaceutical testing where the value proposition is strong.

**Commodities**

Stronger market conditions and scalable business models drove significant improvements in the Commodities division's financial results for the year. Geochemistry sample flows increased globally as both established mining clients and junior explorers continued to lift their activity and spending levels.

Sample flow into the Geochemistry business stream was 14% higher than the pcp at an underlying margin of 31% as the business gained market share globally. The Geochemistry management team continued to focus on ensuring that productivity and sample turnaround time met or exceeded clients' expectations. Management remains optimistic about an ongoing recovery and the likely demand for services. The business continues to invest in workforce and physical capacity to ensure demand is met.

ALS Coal continues to perform well in an improved operating environment increasing its market share across both the bore core and superintending service lines. While pricing remains competitive, the business achieved a 38% improvement in underlying contribution compared with the pcp. The Metallurgy and Commodities Inspection business streams also experienced strong growth in demand for their services, with both recording revenue increases in excess of 30% and more than doubling their profit contributions compared with the September 2017 half year.

**Industrial**

Revenue gains were achieved across all regions of the Industrial division with Asset Care and Tribology business streams benefitting from joint business development.

The Australian Asset Care business was successful in more than compensating for lost LNG construction revenue with maintenance-related services to the power, mining and water sectors. However, the shift from contracts with 100% labour utilisation to more ad-hoc projects, plus the effects of overall price competition, impacted profit margins. The US operations were successful in growing revenue by more than 15% versus the pcp as they commenced execution of a new business development plan.

The Tribology business stream grew global revenue by 5% during the half year and continued to deliver strong profitability. New global sales and marketing efforts have recently resulted in contract wins which are expected to deliver increased work volumes during the second half of FY2019.

**Share Buyback**

In November 2017 Directors announced an on-market share buyback of up to $175 million. As at 30 September 2018 a total of 17.5 million shares (representing 3.5% of the original base) have been bought back on-market for an overall consideration of $121.7 million.

Directors have determined to increase the total potential amount of the share buy-back to $225 million, extending the buy-back period for an additional twelve months to December 2019 on the basis that an on-market share buy-back remains the most efficient long-term means of delivering excess capital to shareholders.

Managing Director Raj Naran said the increase in the size and extension of the buy-back program was further evidence of prudent and efficient capital management whilst retaining the flexibility to pursue investments in innovation and growth opportunities.

"The Company's balance sheet and cash flow position remains strong and supports our business strategy of development and execution of acquisitions in key sectors and geographies around the globe. Opportunities totalling $60 million to $70 million are currently in the pipeline and are expected to be presented to the Board during the second half of FY2019."

The Company will continue to use its existing cash balances and free cash flow to fund the buy-back program. An Appendix 3D in respect to the on-market share buy-back program is attached to this announcement.

**Interim Dividend**

Directors have declared an interim dividend of 11.0 cents per share partly franked to 20% (FY2018: 8.0 cents, partly franked to 40%), representing a payout ratio of 57.4% of full year underlying profit. This is toward the upper end of the Board's policy of paying out 50-60% of underlying NPAT and considered appropriate in the current market environment. The dividend will be paid on 18 December 2018 to shareholders on the register at 30 November 2018. The dividend will include conduit foreign income of 8.8 cents per share. Considering the Company's plans to continue with an on-market share buyback program the dividend reinvestment plan will not operate for the FY2019 interim dividend.

**Oil and Gas Laboratories**

As previously announced, ALS made the decision to exit the Oil & Gas laboratories business. The company remains in discussions with potential acquirers and is targeting completion of a transaction during the second half of FY2019. The results of this operation have been classified as "discontinued operations" in the financial report.

**Refinancing**

On 23 October 2018, the Group completed the refinancing of its bank debt by executing a series of new committed, multi-currency, bilateral, revolving credit facilities totalling USD 300 million (AUD 415.7 million). ALS's new revolving bank lines replaced the maturing bank facilities totalling USD 40 million (AUD55.4 million) all of which were undrawn. The new bank debt facilities are for a tenor of 3 years and will provide the Group with funding flexibility to cover the upcoming maturity of US Private Placement notes as well as for acquisitions and general corporate purposes.

**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 strong second half in FY2019. The Company anticipates ongoing year-on-year improvements in earnings in the Geochemistry business stream as sample flows continue to grow and from the Life Sciences operations on the back of cost rationalisation and new contracts.

Group underlying profit after tax from continuing operations for the full financial year to March 2019 is expected to be in the range of $170 million to $175 million, based on current market trends, reflecting the seasonality of the business and subject to no material changes in the operating or economic environment.

-ENDS-

**Further information:**

Raj Naran
Managing Director
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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.**

*Rule 3.8A*

# Appendix 3D

## Changes relating to buy-back
## (*except* minimum holding buy-back)

*Information and documents given to ASX become ASX's property and may be made public.*

Introduced 1/9/99. Origin: Appendix 7B. Amended 13/3/2000, 30/9/2001, 11/01/10

| Name of entity | ABN/ARSN |
|---|---|
| ALS LIMITED | 92 009 657 489 |

We (the entity) give ASX the following information.

| | | |
|---|---|---|
| 1 | Date that an Appendix 3C or the last Appendix 3D was given to ASX | 20 November 2017 |

## Information about the change

*Complete each item for which there has been a change and items 9 and 10.*

| | | **Column 1** (Details announced to market in Appendix 3C or last Appendix 3D) | **Column 2** (Details of change to buy-back proposals) |
|---|---|---|---|
| | On-market buy-back | | |
| 2 | Name of broker who will act on the company's behalf | Merrill Lynch Equities (Australia) Limited | No change |
| 3 | Deleted 30/9/2001. | | |
| 4 | If the company/trust intends to buy back a maximum number of shares/units – that number<br>Note: This requires a figure to be included, not a percentage. The reference to a maximum number is to the total number including shares/units already bought back and shares/units remaining to be bought back. If the total has not changed, the item does not need to be completed. | Up to the number of shares for which the total buy-back consideration paid or payable is A$175million | Up to the number of shares for which the total buy-back consideration paid or payable is A$225million |

| **Column 1** (Details announced to market in Appendix 3C or last Appendix 3D) | **Column 2** (Details of change to buy-back proposals) |
|---|---|

+ See chapter 19 for defined terms.

| | | | |
|---|---|---|---|
| 5 | If the company/trust intends to buy back a maximum number of shares/units – the number remaining to be bought back | Shares having a total consideration of A$175million may be acquired under the buy-back. The remaining consideration to be paid for shares under the buy-back is A$53,261,461.86 | Shares having a total consideration of A$225million may be acquired under the buy-back. The remaining consideration to be paid for shares under the buy-back is A$103,261,461.86 |
| | If the company/trust intends to buy-back shares/units within a period of time – that period of time; if the company/trust intends that the buy-back be of unlimited duration - that intention | The Company intends to buy back shares in the 12-month period between 5 December 2017 to 4 December 2018 (inclusive) or earlier if the amount in Item 4 is bought back prior to date | The Company intends to buy back shares in the 12-month period between 5 December 2018 to 4 December 2019 (inclusive) or earlier if the amount in Item 4 is bought back prior to date |
| 7 | If the company/trust intends to buy back shares/units if conditions are met – those conditions | The Company will only buy back shares at such times and in such circumstances as are considered beneficial to the efficient capital management of the Company | No change |

## All buy-backs

| | | | |
|---|---|---|---|
| 8 | Any other change | N/A | N/A |

+ See chapter 19 for defined terms.

| | | |
|---|---|---|
| 9 | Reason for change | Extension and increase of share buy back for ongoing efficient capital management of the Company |
| 10 | Any other information material to a shareholder's/unitholder's decision whether to accept the offer *(eg, details of any proposed takeover bid)* | N/A |

# Compliance statement

1. The company is in compliance with all Corporations Act requirements relevant to this buy-back.

*or, for trusts only:*

1. The trust is in compliance with all requirements of the Corporations Act as modified by Class Order 07/422, and of the trust's constitution, relevant to this buy-back.

2. There is no information that the listing rules require to be disclosed that has not already been disclosed, or is not contained in, or attached to, this form.

Sign here: ............................................................ Date: 20 November 2018
Company secretary

Print name: Michael Pearson.

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