

20 November 2019

ALS delivers underlying NPAT of \$98.2 million, exceeding guidance

H1 FY20 financial highlights (compared to H1 FY19):

- Revenue from continuing operations of \$919.1 million, up 11.3%
- Underlying NPAT from continuing operations of \$98.2 million, up 5.3% and exceeding guidance of \$90 million - \$95 million
- Life Sciences organic revenue growth of 10.2% and underlying EBIT margin expansion (pre-AASB 16 impact) of 15.8%, up 73 basis points (bps)
- Industrial organic revenue growth of 20.3%
- Underlying basic earnings per share (eps) of 20.3 cents per share (cps), up 6.3%
- Interim dividend of 11.5 cps, up 4.5% and partially franked to 30%
- FY20 underlying NPAT expected to be between \$185 million to \$195 million
- Statutory NPAT of \$135.6 million, up \$50.7 million due to one-off gains

ALS Limited (ASX: ALQ) today announced underlying net profit after tax (NPAT) from continuing operations of \$98.2 million for H1 FY20, exceeding the guidance range of \$90 million to \$95 million provided to the market in July 2019. This is an increase of 5.3% in NPAT compared to the prior corresponding period (pcp).

This performance was primarily driven by strong organic growth across all regions in the Life Sciences and Industrial divisions combined with some acquisition growth, including an initial contribution from ARJ, a Mexico-based pharmaceutical laboratory acquired in August 2019. The Commodities division grew revenue by 1.9%, driven by Metallurgy, Inspection and Coal. Geochemistry sample volumes were down by 11% in the half resulting in a 2.9% reduction in revenue.

ALS Chairman, Bruce Phillips commented "This is a pleasing result, particular given the level of global macroeconomic uncertainty. The Group has exceeded guidance for the first half and is well positioned for the full year, allowing the Board to declare an interim dividend increase of 4.5%."

Managing Director and CEO, Raj Naran commented "This strong organic performance in the Life Sciences business demonstrates our continuing drive towards our 2022 strategy of growing non-cyclical earnings to 50% of our underlying EBIT. The additional margin expansion in the half is especially pleasing as we have grown in our key markets, focused on innovation and maintained strict cost control measures. We continue to focus on the food and pharmaceutical markets to support our organic and acquisitive growth.

"As previously flagged, we saw some global macroeconomic uncertainty impact the Geochemistry business in H1 FY20. We have seen good growth in other parts of the Commodities division which should see a low single digit revenue increase in FY20."

Life Sciences division improved underlying EBIT margin by 73 bps

Life Sciences delivered 15.4% revenue growth to \$468.6 million. The division achieved organic revenue growth of 10.2%. Underlying EBIT grew by 20.9% to \$74.0 million while the margin continued to expand to 15.8% (pre-AASB16 impact), an improvement of 73 bps compared to H1 FY19.

All regions contributed to this result which was driven by investment in green field opportunities combined with a focus on business development, productivity and client service improvements leading to growth in market share. The USA, under a new management team, continued to drive productivity improvements, new business wins and saw underlying EBIT margin expansion of 700 bps compared to pcg.

Environmental saw revenue increase by 15.6% driven by strong growth in the USA, Latin America as well as in Australia due to infrastructure programs and a stable mining sector.

The company acquired Mexican-based pharmaceutical testing laboratory ARJ in the first half, a business with ~\$30 million of annual revenue and 500 employees. ARJ will act as a hub for the existing Latin American operations to grow in Argentina, Brazil, Colombia and Mexico.

Food and pharmaceutical delivered revenue growth of 18.1% primarily driven by acquisition growth. This included an initial contribution from ARJ, which delivered performance in-line with expectations and is expected to continue to benefit from ALS' regional and global presence.

Life Sciences continues to remain a key focus for acquisition opportunities with a strong pipeline of bolt-on opportunities in the food and pharmaceutical sector.

Commodities division delivered \$81.4m of underlying EBIT despite Geochemistry headwind

The Commodities division increased revenue by 1.9% to \$319.9 million. There was a reduction in underlying EBIT (pre-AASB16 impact) of 2.9%, with subdued equity funding for junior miners in the period impacting Geochemistry.

Metallurgy saw revenue growth of 5.5% after gaining market share in Australia and Canada while Inspection had revenue growth of 14.6%. Coal delivered revenue growth of 9.5% due to the diversification of its offering into less cyclical activities such as superintending and mine site services.

Industrial division grew underlying EBIT by 27.0%

The Industrial division delivered a 23% increase in revenue and 27% increase in underlying EBIT (pre-AASB16 impact) at a margin of 12.2% (+38 bps).

Asset Care organic revenue growth of 23.3% was driven by an increase in maintenance related revenue and contract wins in the USA chemical sector. Tribology saw organic growth of 12.5% supported by a strong oil and gas and mining production environment in Australia and expansion of service offering the USA leading to new contract wins.

Capital management and balance sheet

The company's strategy is to utilise capital across a share buy-back program, dividends and bolt-on acquisition opportunities to deliver returns for shareholders while maintaining a strong balance sheet.

The share buy-back continued early in the period with an additional \$22.0 million worth of shares acquired, bringing to the total to \$153.4 million for the entire program, at an average share price of \$7.04.

The share buy-back program has been extended to December 2020, with a total amount of \$250 million, which is an increase of \$25 million compared to the latest program amount of \$225 million. 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.

The balance sheet remains strong with a gearing ratio of 38% and leverage ratio of 1.9 times.

Interim dividend up 4.5% year-on-year

The Directors have declared an interim dividend of 11.5 cps, partially franked to 30%. This represents a 4.5% increase over the prior year and a payout ratio of 56.5% of underlying NPAT, in-line with Board's target of 50 – 60%. The dividend is subject to a record date of 28 November 2019 and a payment date of 16 December 2019.

The dividend reinvestment plan continues to be suspended while the share buy-back program is in place.

Overview of H1 FY20 result

Contributions from the company's divisions for H1 FY20 are summarised below:

Half year financial results (from continuing operations)	Revenue			Underlying EBIT*		
\$m (AUD)	H1 FY20	H1 FY19	+/-	H1 FY20	H1 FY19	+/-
Life Sciences	468.6	406.0	+15.4%	74.0	61.2	+20.9%
Commodities	319.9	313.8	+1.9%	81.4	83.8	(2.9)%
Industrial	130.7	106.3	+23.0%	16.0	12.6	27.0%
Total segments	919.1	826.1	+11.3%	171.4	157.6	+8.6%
Net financing costs				(16.6)	(14.9)	
Foreign exchange gains				3.3	4.1	
Other corporate expenses				(19.7)	(18.2)	
Income tax expense				(39.3)	(35.0)	
Net profit attributable to minority interests				(0.8)	(0.3)	
Underlying NPAT*				98.2	93.3	+5.3%

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

Outlook for FY20

The fundamentals of the business continue to be strong despite some impact from macroeconomic uncertainty.

The Life Sciences division continues to grow on an organic basis and is expected to deliver an overall FY20 margin expansion of 50 bps.

Geochemistry sample flows are expected to see a small improvement in H2 FY20, as investment in the mining sector slowly increases, but are anticipated to be slightly lower than pc. The Commodities division is expected to deliver low single digit revenue growth for FY20 driven by price and mix in Geochemistry, and growth in Metallurgy, Inspection and Coal.

The Industrial division expects to see an improvement in contribution in H2 FY20 compared to pc, from new business wins and operational improvements.

Group underlying NPAT from continuing operations for the full year is expected to be in the range of \$185 million to \$195 million. This is based on current market trends, reflecting the seasonality of the business and subject to no material changes in the operating or economic environment, including US and China trade tensions, Brexit and the political and social situation in LATAM, Africa and Hong Kong.

Conference call details

Raj Naran (Managing Director and CEO) and Luis Damasceno (Chief Financial Officer) will host a conference call today (20 November) at 9.30am (AEST).

To participate in the call, please dial 1800 590 693 (toll free Australia) or +61 7 3105 0937 (international) and quote the passcode 472646.

-ENDS-

For further information please contact:

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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.

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 2018
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Information about the change

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

On-market buy-back

	Column 1 (Details announced to market in Appendix 3C or last Appendix 3D)	Column 2 (Details of change to buy-back proposals)
2	Name of broker who will act on the company's behalf	Merrill Lynch Equities (Australia) Limited
3	Deleted 30/9/2001.	

If the company/trust intends to buy back a maximum number of shares/units – that number

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\$225million	Up to the number of shares for which the total buy-back consideration paid or payable is A\$250million
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	Column 1 (Details announced to market in Appendix 3C or last Appendix 3D)	Column 2 (Details of change to buy-back proposals)
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\$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	Shares having a total consideration of A\$250million may be acquired under the buy-back. The remaining consideration to be paid for shares under the buy-back is A\$96,551,149.51
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 2018 to 4 December 2019 (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 2019 to 4 December 2020 (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
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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 2019

Company secretary

Print name: Michael Pearson.

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