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ALS delivers resilient FY21 result with strong second half recovery

FY21 financial highlights (compared to FY20):

- Revenue from continuing operations of $1,761.4 million, a decline of 5.0% (-0.1% at constant currency) due to the impact of COVID-19 pandemic in the first half
- Statutory NPAT of $172.6 million, up $44.8 million primarily due to impairment losses offset by the net effect of one-off gains in H1 FY20 from the sale of the China business
- Underlying NPAT from continuing operations of $185.9 million, down 1.5% (excludes government subsidies and related direct costs)
- EBITDA margin expansion across all three divisions demonstrating strong cost management in response to the pandemic and recovery in sample volumes in H2 FY21
- Life Sciences underlying EBIT margin of 16.2%, up 72 basis points (bps) (+41 bps at constant currency) driven by swift actions to align the cost base to client demand, strong performance of acquisitions and volume improvement in H2 FY21
- Commodities underlying EBIT margin of 27.6%, up 199 bps driven by the leveraging of the global 'hub and spoke' model as activity increased in H2 FY21
- Underlying basic earnings per share (eps) of 38.5 cents per share (cps), down 1.5%. Statutory eps of 35.8 cps, up 35.1% due to the net effect of impairment losses offset by the sale of the China business in H1 FY20
- Final dividend of 14.6 cps (70% franked) compared to 6.1 cps in H2 FY20. FY21 total declared dividend of 23.1 cps, an increase of 31.3% compared to FY20, representing a payout ratio of 60% of FY21 underlying NPAT. This dividend reflects strong current trading conditions and liquidity position
- Strong cash conversion, 102% (FY20: 98%) of underlying EBITDA* converted into cash due to reduction in DSO despite pandemic
- Strong balance sheet with 1.6x times leverage ratio, ~$650 million of liquidity available with 11.4x interest coverage and weighted average debt maturity of 6.6 years following the refinancing of bank debt facilities in May 2021
- The Group is proceeding to voluntarily repay COVID-19 related government net subsidies in all countries where repayment mechanisms exist, including $20.5 million in Canada and $3.0m in Australia received under the JobKeeper program.

ALS Limited (ASX: ALQ) today announced underlying net profit after tax (NPAT) from continuing operations of $185.9 million for FY21, a decrease of 1.5% compared to the prior corresponding period (pcp) following a strong recovery in the second half of the year.

The second half of the year saw a significant recovery across the Group as economic activity increased following shutdowns related to the COVID-19 pandemic seen earlier in the year. Life Sciences was resilient throughout the year as it provides testing services essential to the

* Underlying EBITDA calculated on a pre-AASB 16 basis

economy, reporting a revenue decline of 3.2%. Commodities revenue declined by 2.7% following a strong recovery in the second half (+7.5%), particularly in Geochemistry and Metallurgy following an increase in activity.

ALS Chairman, Bruce Phillips commented "This is a very strong performance given the heavy impact of the COVID-19 pandemic. The swift actions from management to align the cost base with client demand and strengthen the balance sheet prepared the Group well to capitalise on the improved trading conditions in the second half of the year and advance our strategic objectives".

Managing Director and CEO, Raj Naran commented "These results demonstrate the resilience of the Group. Our diverse portfolio of businesses and geographies combined with our flexible 'hub and spoke' model has allowed us to navigate the pandemic to date and support our clients during this challenging time.

"Life Sciences delivered an impressive 72 bps margin expansion despite the impact of the pandemic, driven by efficiency gains and an increase in volume later in the year. The Commodities division, particularly Geochemistry, saw a strong recovery in the second half as we captured growth opportunities as the cycle improves."

Managing the COVID-19 pandemic

Management took swift action at the beginning of the COVID-19 pandemic to prepare the Group for the upcoming volatility. The initial focus was to align the cost base to client demand by leveraging the flexible 'hub and spoke' model. Corporate costs were reduced in-line with revenue combined with a further focus on cash collection which produced a 102% cash conversion of underlying EBITDA* for the year.

Management actions resulted in the reduction of net debt by $186 million in the year. The debt maturity profile was extended to 6.6 years (from 4.9 years at March 2020) following the completion of a $281m US Private Placement (USPP) debt tranche and extension of $US350 million debt facilities (completed in May 2021). The leverage ratio fell to 1.6x (from 2.1x at March 2020), the gearing ratio was reduced to 36% (from 42% at March 2020) with ~$650 million of liquidity currently available.

Following the improvement in trading conditions in the second half of the year, the Group renewed its focus on acquisition opportunities resulting in the pharmaceutical testing business Investiga being acquired in March 2021.

* Underlying EBITDA calculated on a pre-AASB 16 basis

Overview of FY21 result

Contributions from the company's divisions for FY21 are summarised below (from continuing operations):

Full year financial results ($m)	Revenue			Underlying EBIT			Underlying margin		
	FY21	FY20	%	FY21	FY20	%	FY21	FY20	%
Life Sciences	930.0	961.2	-3.2%	150.6	148.7	1.3%	16.2%	15.5%	+72 bps
Commodities	624.8	642.2	-2.7%	172.5	164.5	4.8%	27.6%	25.6%	+199 bps
Industrial	206.6	250.5	-17.5%	20.5	25.2	-18.7%	9.9%	10.1%	-10 bps
Total segments	**1,761.4**	**1,853.9**	**-5.0%**	**343.6**	**338.4**	**1.5%**	**19.5%**	**18.3%**	**+126 bps**
Net financing costs				(40.0)	(41.3)				
FX gains / (losses)				(4.6)	6.4				
Other corporate expenses				(37.6)	(39.1)				
Income tax expense				(74.0)	(74.0)				
Net profits attributed to minority interests				(1.5)	(1.7)				
Underlying NPAT[1]				**185.9**	**188.8**	**-1.5%**	**10.6%**	**10.2%**	**+37 bps**

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

Life Sciences division delivers margin accretion of 72 bps

Life Sciences delivered revenue of $930.0 million, a decline of 3.2% driven by an organic decline of 2.7%, with scope growth of 3.9% and unfavourable currency impact of -4.5%.

Underlying EBIT increased by 1.3% to $150.6 million, with the margin expanding further to 16.2%, an improvement of 72 bps compared to FY20. This was driven by the alignment of the cost base to client demand early in the pandemic followed by a solid recovery in volumes during the second half of the year. Australia, Asia, Canada and Europe were strong performers throughout the year with Latin America making a solid recovery in the second half.

Recent acquisitions ARJ and Aquimisa made a strong contribution with the integration of Brazil and USA based pharmaceutical testing company Investiga (acquired in March 2021) proceeding as planned.

Commodities division sees strong improvement in second half

The Commodities division reported a revenue decline of 2.7% due to the impact of the COVID-19 pandemic in the first half of the year, with organic growth of 3.8% and unfavourable currency impact of -6.5%. The second half showed significant improvement with a 7.5% increase in revenue following an improvement in mining activity as commodity prices strengthened. The underlying EBIT margin of 27.6% was an increase of 199 bps for the year.

Geochemistry sample volumes were up 2% for the year (compared to pcp) following a strong recovery in the second half (+19% compared to pcp). Major miners (76% of volume) primarily drove the volume growth with an increasing contribution from junior miners (24% of volume).

The investment in capacity combined with the global ‘hub and spoke’ model are being leveraged to the manage the growth in volume.

Industrial division revenue decline of 17.5%

The Industrial division delivered a 17.5% decline in revenue (including unfavourable currency impact of -2.1%) and 18.3% decline in underlying EBIT. The underlying EBIT margin of 9.9% was down 10 bps as Asset Care continues to be impacted by the COVID-19 pandemic.

Asset Care revenue declined by 21.2% as clients delayed the start of new projects and reduced scopes of work. The welding business in the USA was closed earlier in the year as part of efforts to align the cost base with client demand. Tribology saw a revenue decline of 7.7% although there was a solid recovery in the second half of the year as commodity sector activity increased.

Capital management and balance sheet

The Group continued its prudent approach to capital management, balancing capital preservation early in the COVID-19 pandemic with investment in growth and acquisition opportunities and shareholder returns.

The balance sheet has been strengthened further during FY21 with a gearing ratio of 36% and leverage ratio of 1.6 times (down from 42% and 2.1x respectively at March 2020). The Group continues to execute its strategy focused on value enhancing acquisitions, particularly in the food and pharmaceutical markets, with a strong pipeline of opportunities. The Group is targeting opportunities that fit with existing capabilities or attractive adjacent markets.

Net debt was reduced by $186 million in the past year. The weighted average debt maturity profile was extended to 6.6 years (from 4.9 years at March 2020) following the completion of a new placement of ~$281 million of USPP debt during the first half and re-financing of $US350 million in bank facilities (completed in May 2021).

The share buy-back program is in place until December 2021 and is part of the broader capital management plan to be utilised when appropriate. Since inception of the buy-back program 21.8 million shares (representing 4.3% of the original base) have been bought back on-market for an overall consideration of $153.4 million, at an average share price of $7.04. The Dividend Reinvestment Plan (DRP) remains suspended while the buy-back program is in place.

Final dividend

Directors have declared a final dividend of 14.6 cps, partly franked to 70% (2H FY20: 6.1 cents, partly franked to 70%). The FY21 total dividend of 23.1 cps is an increase of 31.3% compared to FY20 and represents a payout ratio of 60% of FY21 underlying NPAT. This dividend reflects strong current trading conditions and liquidity position.

The dividend will be paid on 5 July 2021 to shareholders on the register at 8 June 2021.

Investment in growth

While CAPEX spend was reduced by 33% in FY21 as part of the Group’s strategy to manage through the COVID-19 pandemic, the Group maintained investment in targeted growth opportunities. These included investment in and automation of Life Sciences operations and the expansion of Geochemistry laboratory capacity due to increasing demand from major and junior miners.

Current trading update

The first half of FY21 was the most impacted by the COVID-19 pandemic due to the economic shutdowns it caused. The sustained increase in global economic activity during the second half resulted in a significant improvement in performance across the Group, although the risk of new economic shutdowns remains as the pandemic continues.

The Life Sciences division has demonstrated resiliency throughout the pandemic due to the essential services it provides to clients. This has continued into early FY22 as economic activity continues to increase across global markets.

The Commodities division saw a strong improvement in the second half as mining activity increased, driven by major miners with an increasing contribution from junior miners. This trend has continued into early FY22 as the commodity cycle remains positive. The ongoing investment in expanding Geochemistry operations which, combined with the leveraging the global 'hub and spoke' model, will see capacity continue to grow during FY22 to meet demand.

The trading environment for the Industrial division remains subdued as Asset Care's clients continue to delay and reduce the scope of projects. Tribology is seeing a solid recovery as client activity increases.

The long-term structural drivers for key markets remain strong and will continue to offer sustainable growth. The diversified portfolio of operations and geographies combined with the flexibility of the 'hub and spoke' model position ALS well to take advantage of these growth opportunities.

Approved for release by ALS Limited Board.

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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.