ALS LIMITED

asx/media release

18 November 2020

ALS delivers resilient H1 FY21 result with strong Q2 performance

H1 FY21 financial highlights (compared to H1 FY20):

- Group has demonstrated resilience during the COVID-19 pandemic with a diverse portfolio of businesses and geographies and flexible ‘hub and spoke’ model
- Revenue from continuing operations of $838.8 million, down 8.7% due to the impact of COVID-19 pandemic. Q2 improved with a 7.8% decline compared to a 9.7% decline in Q1
  - Life Sciences revenue decline of 3.5%, reflecting the resiliency of the division
  - Commodities revenue decline of 13.0%, strong Geochemistry sample flow volume growth in late Q2 and early Q3
  - Industrial revenue decline of 17.1%
- Statutory NPAT of $70.3 million, down $65.3 million primarily due to one-off gains from the sale of the China business in H1 FY20
- Underlying NPAT from continuing operations of $80.6 million, down 17.9% (excludes government subsidies and related direct costs)
- EBITDA margin expansion across all three divisions demonstrating strong cost management in response to the pandemic
- Life Sciences underlying EBIT margin of 16.4%, up 10 basis points (bps) driven by swift actions to align the cost base to client demand, efficiency gains and strong performance of acquisitions
- Underlying basic earnings per share (eps) of 16.7 cents per share (cps), down 17.7%. Statutory eps of 14.6 cps, down 48.1% due to one-off gains in H1 FY20
- Interim dividend of 8.5 cps (fully franked) compared to 11.5 cps in H1 FY21, reflecting the prudent capital management strategy and demonstrating the strong liquidity position
- Strong cash conversion, 99% (H1 FY20: 73%) of underlying EBITDA* converted into cash due to improvement in cash collection and reduction in DSO despite pandemic
- Strong balance sheet with 1.9x times leverage and ~$620 million of liquidity available

ALS Limited (ASX: ALQ) today announced underlying net profit after tax (NPAT) from continuing operations of $80.6 million for H1 FY21, a decrease of 17.9% compared to the prior corresponding period (pcp) due to the impact of the COVID-19 pandemic.

The second quarter saw a significant improvement in revenue compared to the first quarter as activity increased as economies re-opened following shutdowns related to the COVID-19 pandemic. Life Sciences was the least impacted division with a revenue decline of 3.5%, as it provides testing services essential to key supply chains and largely avoided laboratory closures during economic shutdowns. Commodities revenue declined by 13.0% with the second quarter down 10.5% compared to a decline of 15.7% in the first quarter.

*pre-AASB 16

ALS LIMITED

ALS Chairman, Bruce Phillips commented "This performance demonstrates the resiliency of the Group in the midst of the ongoing COVID-19 pandemic. Our management team and staff have adapted quickly to the challenging operating environment while maintaining high standards of service delivery and demonstrating the value of the work we do for our clients".

Managing Director and CEO, Raj Naran commented "We believe that the first quarter will be our most challenging of FY21 which is reflected in this result as our second quarter has delivered a significant improvement across the Group. We reacted quickly at the beginning of the COVID-19 pandemic to leverage our 'hub and spoke' model to align costs with client demand.

"Life Sciences was resilient during the first half delivering margin accretion which is especially impressive in the current circumstances. The Commodities division, particularly Geochemistry, demonstrated a significant improvement in performance late in the second quarter which continued into the third quarter of FY21."

Managing the COVID-19 pandemic

At the beginning of the COVID-19 pandemic the Group took swift action to prepare for the upcoming volatility. This included aligning the cost base to client demand and a 30% reduction in CAPEX spend while maintaining focus on key growth opportunities. Corporate costs were reduced in-line with revenue and there continues to be a focus on cash collection and supplier management which produced a 99% conversion of underlying EBITDA* into cash for the half. This resulted in a leverage ratio of 1.9x at 30 September 2020 which is down from 2.1x at 30 March 2020.

These efforts, combined with the maintenance of high client service standards, resulted in EBITDA margin expansion across all three divisions for the half.

Additional measures were also taken to preserve liquidity, including an increase in bank facilities of $175 million and the execution of a $281m tranche of US Private Placement (USPP) debt. This increased liquidity to ~$620m and extended the weighted average debt maturity to 5.0 years when the USPP tranche is funded in November 2020. The completion of this tranche will further align the currency profile to the cash flow and net asset profile of the Group.

Overview of H1 FY21 result

Contributions from the company's divisions for H1 FY21 are summarised below:

Half year financial results (from continuing operations)	Revenue			Underlying EBIT			Underlying margin		
$m (AUD)	H1 FY21	H1 FY20	+/-	H1 FY21	H1 FY20	+/-	H1 FY21	H1 FY20	+/-
Life Sciences	452.1	468.6	-3.5%	74.0	76.2	-2.9%	16.4%	16.3%	+10bps
Commodities	278.4	319.9	-13.0%	68.8	82.4	-16.5%	24.7%	25.8%	-107bps
Industrial	108.3	130.7	-17.1%	12.3	16.3	-24.5%	11.4%	12.5%	-111bps
Total segments	**838.8**	**919.1**	**-8.7%**	**155.1**	**175.0**	**-11.4%**	**18.5%**	**19.0%**	**-54bps**

*pre-AASB 16

Net financing costs		(21.2)	(20.2)				
Foreign exchange gains / (losses)		(2.4)	3.3				
Other corporate expenses		(17.5)	(19.7)				
Income tax expense		(32.5)	(39.3)				
Net profit attributable to minority		(0.9)	(0.8)				
Underlying NPAT[1]		**80.6**	**98.2**	**-17.9%**	**9.6%**	**10.7%**	**-108bps**

[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 10 bps

Life Sciences delivered revenue of $452.1 million, a decline of 3.5% driven by an organic decline of 7.4%, with scope growth of 5.5% and unfavourable currency impact of -1.6%.

Underlying EBIT declined by 2.9% to $74.0 million, however the margin expanded further to 16.4%, an improvement of 10 bps compared to H1 FY20. Demand remained solid despite the COVID-19 pandemic with the cost base adjusted where required. Australia, Asia and Europe were strong performers while economic shutdowns in North and Latin America impacted volumes, although there was a significant improvement in the second quarter.

Acquisitions including Mexican-based pharmaceutical testing business ARJ and Iberian-based food testing business Aquimisa, continued to perform well, driving acquisition growth.

Commodities division sees significant improvement in Q2

The Commodities division reported a revenue decline of 13.0% due to the impact of the COVID-19 pandemic. The second quarter showed a significant improvement with a 10.5% decline in revenue compared with a 15.7% decline in the first quarter following an increase in mining activity as economies reopened and supportive commodity prices. The underlying EBIT margin of 24.7% was a decline of 107 bps for the half.

Geochemistry experienced a challenging first quarter due to the COVID-19 pandemic with sample flows declining by 23% compared to pcp. The second quarter saw a significant improvement in sample flow with a 4% decline compared to pcp, primarily driven by increasing activity from major miners.

Industrial division revenue decline of 17.1%

The Industrial division delivered a 17.1% decline in revenue and 24.5% decline in underlying EBIT. The underlying EBIT margin of 11.4% was down 111 bps due to the impact of COVID-19 on the business throughout the first half.

Asset Care revenue declined by 20.4% as clients delayed the start of new projects and maintenance spend. Tribology saw a revenue decline of 8.1% primarily due to subdued activity in North and Latin America, although there was a strong improvement in the second quarter as clients responded to recent technology investments which demonstrated their return on investment.

ALS LIMITED

Capital management and balance sheet

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

The balance sheet has strengthened further during H1 FY21 with a gearing ratio of 39% and leverage ratio of 1.9 times at 30 September 2020. The Group will continue to assess value enhancing acquisition opportunities, particularly in the food and pharmaceutical markets, which may present themselves through this period of uncertainty.

The Group completed a new placement of ~$281 million of USPP debt during H1 FY21 which will be funded in late November 2020 and extends the weighted average debt maturity to 5.0 years. The majority of these funds will be used to meet the maturation of a ~$211 million tranche due at the end of this calendar year.

The share buy-back program has been extended 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.

Interim dividend

Directors have declared an interim dividend of 8.5 cents per share, fully franked (H1 FY20: 11.5 cents, partly franked to 30%), representing a payout ratio of 51% of half year underlying NPAT. This dividend reflects the prudent capital management strategy and also demonstrates the Group's strong liquidity position.

The dividend will be paid on 16 December 2020 to shareholders on the register at 27 November 2020.

Investment in growth

While CAPEX has been reduced in H1 FY21 as part of the Group's strategy to manage through the COVID-19 pandemic, the Group has maintained investment in targeted growth opportunities. These include development of new COVID-19 related testing opportunities to address the short and medium term demand for human and surface testing as well as prepare for potential mandating of virus testing by regulators in the longer term.

In addition, there has been investment in the expansion of Geochemistry laboratory capacity due to strong ongoing demand from major miners and an expected increase in sample flow from junior and intermediate miners following recent strong equity fund raising activity.

Current trading update

The first quarter of FY21 is expected to be the most challenging for the Group in this financial year due to economic shutdowns related to the COVID-19 pandemic. The sustained increase in global economic activity during the second quarter resulted in a significant improvement in performance across the Group. This trend has continued into early Q3.

The Life Sciences division has demonstrated resiliency throughout the pandemic due to the essential services provided to clients. There have been early signs of improvement in sample volumes in North and Latin America, which were the most impacted markets in H1 FY21, as economic activity increases. This, combined with new COVID-19 related testing opportunities which began to generate revenue in H1 FY21, should see a steady improvement in H2 FY21 as long as there are no further economic shutdowns in key markets.

The Commodities division saw a significant improvement late in the second quarter and early third quarter as mining activity increased, primarily driven by major miners. Junior and intermediate miners are expected to increase their sample flow contribution to Geochemistry during H2 FY21 following strong equity fundraisings in the past several months, although this may be more prevalent in the fourth quarter of FY21 once the northern hemisphere field season recommences. Given the significant increase in sample flow late in the second quarter (September sample flow +10% vs pcp), there are a number of received samples which should be converted into revenue during H2 FY21.

The Group remains focused to on its accretive acquisition strategy which targets key strategic markets, primarily in the Life Sciences division. The pipeline has been re-engaged and there is a strong balance sheet in place to take advantage of acquisitions which meet the strict criteria.

The diversified portfolio of businesses and geographies combined with the flexibility of the ‘hub and spoke’ model will continue to give the Group resiliency and deliver sustainable growth opportunities in the long-term.

Approved for release by ALS Limited Board.

-ENDS-

For further information please contact:

Raj Naran
Managing Director and CEO
ALS Limited
+61 7 3367 7900

Simon Starr
Head of Investor Relations
ALS Limited
+61 428 275 170
simon.starr@alsglobal.com

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 2019

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 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$250million	No change

		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$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	No change
	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 2019 to 4 December 2020 (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 2020 to 4 December 2021 (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

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: 18 November 2020

Company secretary

Print name: Michael Pearson.

== == == == ==