

14 November 2022

ALS Limited (ASX: ALQ) delivers 29.3% increase in H1 FY23 underlying NPAT

H1 FY23 financial highlights (compared to H1 FY22):

- **Revenue of \$1,267.9 million**, an increase of 23.9% (23.3% at constant currency) due to contribution from acquisitions and strong organic performance from Life Sciences (+6.8% vs prior corresponding period (pcp)) and Commodities (+26.6% vs pcp)
- **Statutory net profit after tax (NPAT) of \$147.4 million**, up \$73.3million following strong underlying performance in the period and reduced one-off costs
- **Underlying NPAT of \$164.3 million**, up 29.3%, above the top-end of the guidance (provided in August 2022) of \$157 million to \$162 million
- **FY23 underlying NPAT guidance of between \$300 to \$320 million**, a 17% improvement to FY22 (at midpoint of guidance)
- **Life Sciences underlying EBIT margin of 17.0%**, down 99 bps due to challenging economic conditions, geopolitical conflicts, and expected initial margin dilution from recent acquisitions. Underlying margin on constant currency (ex. acquisitions) is up 3 bps reflecting the resilience of the business
- **Commodities underlying EBIT margin of 31.0%**, up 111 bps primarily driven by continued commodity demand with sample volumes up +17% vs pcp and further price improvement in Geochemistry
- **Completed 8 acquisitions year-to-date contributing \$90 million of revenue** on a full year basis, with a total cost of approximately \$180 million
- **Underlying earnings per share (eps) of 34.0 cents per share (cps)**, up 28.8%. Statutory eps of 30.5cps, up 98.5%
- **FY23 unfranked interim dividend of 20.3 cps**, an increase of 4.5 cps (28.5%) compared to FY22 representing a payout ratio of 59.8% of H1 FY23 underlying NPAT
- **Strong cash conversion (80% of underlying EBITDA)** despite the increased working capital requirement to support the strong organic revenue growth
- **Strong balance sheet with: 1.9x leverage ratio and 80% of total drawn debt fixed at an average rate of 2.96%**. Available liquidity of ~\$433 million, 17.0x interest coverage and a weighted average debt maturity of 6.2 years. The weighted average debt maturity increase reflects the refinancing of US Private Placement debt funded in July 2022.

ALS chairman Bruce Phillips commented, "Overall, this was another very good performance by our global business.

"Underlying NPAT was up 29% yoy and exceeded the top end of our previous market guidance. The Company demonstrated its resilience through the pandemic and now is performing in this period of higher inflation and global instability. This has underpinned the board's confidence to declare a 28.5% increase yoy in dividends for our shareholders.

"During the period, we released our new five-year strategic plan, inclusive of new financial objectives, which if delivered will see the business continue to grow and cement itself as a market leader in the testing industry."

Managing Director and CEO, Raj Naran commented "The Group has again delivered strong organic growth, margin accretion and made a number of strategic acquisitions during the period.

"The performance was driven by the strong contribution from both Life Sciences and the continuation of commodity demand, volume growth and price improvement in the Commodities division. Volumes have continued to grow despite the challenging economic backdrop and earnings were supported from pricing strategies that offset inflationary challenges.

"The Group has made good progress towards the FY27 financial objectives set within our newly established five-year strategy. We remain committed to meeting these objectives and continue to execute within the challenging economic conditions. Our balance sheet is well positioned to support our ambitious growth targets."

Overview of H1 FY23 result

Contributions from the company's divisions for H1 F23 are summarised below:

Half-year underlying financial results	Revenue			Underlying EBIT			Underlying margin		
	1H23	1H22	%	1H23	1H22	%	1H23	1H22	bps
Life Sciences	656.0	530.1	23.8%	111.2	95.1	16.9%	17.0%	17.9%	(99) bps
Commodities	503.4	383.3	31.3%	156.1	114.6	36.2%	31.0%	29.9%	+111 bps
Industrial	108.5	109.9	(1.3)%	9.0	10.3	(12.6)%	8.3%	9.4%	(108) bps
Total segments	1,267.9	1,023.3	23.9%	276.3	220.0	25.6%	21.8%	21.5%	+29 bps
Net financing costs				(20.6)	(19.4)				
FX gains / (losses)				2.4	(0.3)				
Other corporate expenses				(26.4)	(22.7)				
Income tax expense				(66.7)	(49.7)				
Net profits attributed to minority interests				(0.7)	(0.9)				
Underlying NPAT¹				164.3	127.1	29.3%	13.0%	12.4%	+54 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 continued growth in a challenging economic environment

Life Sciences delivered revenue of \$656.0 million, growth of 23.8% driven by an organic growth of 6.8%, scope growth of 16.5%, and a favourable currency impact of 0.5%. All businesses delivered strong organic growth, with a strong contribution from the Pharmaceutical business and also key regions such as Americas and Europe within the Environmental business.

Underlying EBIT increased by 16.9% to \$111.2 million, with the overall margin declining to 17.0% due to economic conditions, geopolitical conflicts, and the expected initial margin dilution from recent strategic acquisitions. Excluding the impacts from acquisitions, the business expanded margin by 3 bps on a constant currency basis. This performance reflects the resilience and continuation of the margin improvement journey of the Life Sciences business, the successful execution of a price management strategy, and its ability to manage supply chain and labour market challenges.

Life Sciences made several strategic acquisitions during the period with a focus on expanding geographic reach across Europe, America, and APAC in both the Food and Pharmaceutical businesses. The HRL integration is well underway, and ALS will look to leverage global cross-selling opportunities from the acquired dairy and honey testing capabilities to our global food customers. Life Sciences maintains a promising pipeline of acquisition opportunities in food and pharmaceutical testing and will continue to assess opportunities to expand the existing service offering and geographic network.

Commodities division grows underlying EBIT by 36% with margin expansion of 111 bps

The Commodities division reported revenue growth of 31.3%, of which 26.6% was organic and with a 4.2% contribution from the recently acquired MinAnalytical. The continued high demand for commodities drove an underlying EBIT margin of 31.0% which was an increase of 111 bps for the period.

Geochemistry sample volume was up by 17% for the period as both major miners (~60% of sample volume) and junior miners (~40% of sample volume) increased their contribution. Geochemistry organic growth (+31.4% compared to pcp) benefitted from increased sample volumes and improved pricing. Capacity was increased ~20% by the end of FY22 and continues to be adjusted in the current period to respond to market demand. The increase in capacity and market leading service offering across the global 'hub and spoke' model is well positioned to capture continued market growth.

The Geochemistry group continues to grow its mine site production testing, which saw revenues increase by ~28% compared to the pcp. The development project pipeline remains strong with several new projects expected to come on-line in H2 FY23. Mine site production testing is a key growth area for the business.

Metallurgy delivered impressive organic revenue growth of 31.8% due to the strong mining sector activity in the critical metals for energy and battery metals, with support from new project activities. Underlying EBIT margin improved to 31.9%, an increase of 540bps due to strong cost management and increased efficiencies.

Inspection business posted organic revenue growth of 6.2%, however experienced underlying EBIT margin erosion due to COVID-19 control measures in China. On an ex. China basis, the business delivered a flat EBIT margin pcp. The Coal business had an organic revenue decline of 4.8% due to a reduction in superintending volumes which resulted in an EBIT margin decline. The Coal business represents only approximately 1% of total Group EBIT.

Industrial division undertaking margin improvement plan

The Industrial division delivered a 1.3% decrease in revenue and 12.6% decline in underlying EBIT. This led to an underlying EBIT margin of 8.3%, a decline of 108 bps as Tribology suffered margin decline.

Asset Care organic revenue declined by 6.7% and the underlying EBIT margin improved by 27bps due to the execution of the business margin improvement plan. Tribology saw organic revenue growth of 5.6% with key countries such as USA, Brazil, and Chile performing well. Rising labour and consumable costs, resulted in a 476 bps decline in the underlying EBIT margin.

Capital management and balance sheet

The Group continued its disciplined and pro-active approach to capital management, balancing investment in organic growth, value-added acquisition opportunities, and returning capital to shareholders.

The balance sheet remains strong with a leverage ratio of 1.9x and 80% of total debt drawn fixed at an average rate of 2.96%. The Group has available liquidity of ~\$433 million, 17.0x interest coverage and with weighted average debt maturity of 6.2 years. The weighted average debt maturity increase reflects the refinancing of US Private Placement debt funded in July 2022. The bank debt facility expiring in October 2022 was refinanced and extended through to 2024.

The existing \$100 million share buy-back program remains active and as such, the Board has determined not to reinstate the dividend reinvestment plan (DRP).

Interim dividend

Directors have declared an unfranked interim dividend of 20.3 cps (FY22: 15.8 cents, partly franked to 30%) representing a payout ratio of 59.8% of H1 FY23 underlying NPAT. The unfranked nature of the dividend was driven by lower tax payments in Australia in H1 FY23 as a result of participation in the Australian Federal Government's Instant Asset Write Off Scheme.

This dividend reflects the strong current trading conditions and liquidity position. It will be paid on 16 December 2022 to shareholders on the register at 25 November 2022.

Investment in growth

Capex spend was consistent with the prior period as the Company continues to capitalize on growth opportunities in both Life Sciences and Commodities. The Company completed 8 acquisitions, contributing approximately \$90 million of revenue on a full year basis at a total cost of approximately \$180 million. These opportunities were predominately focused on expanding geographic presence, providing a platform for growth into attractive adjacent markets in the Life Sciences divisions and data analytics within the Commodities division.

The Group remains disciplined on its acquisition strategy focusing on value-enhancing acquisitions, particularly in the food and pharmaceutical markets, targeting opportunities that fit with existing capabilities or attractive adjacent markets. The balance sheet retains significant capacity for further acquisitions with a solid pipeline of opportunities available.

Release of new five-year strategy

The Group released a new five-year strategy (through to FY27) during the period which consists of a series of strategic growth priorities. These include achieving revenue of \$3.3 billion (vs FY22 \$2.2 billion revenue), \$0.6 billion of underlying EBIT (vs FY22 \$400m underlying EBIT), a 5-year organic revenue CAGR of ~6%, and other important shareholder metrics. The Group has delivered strong progress towards these objectives in the period through its focus on driving operational efficiency, innovation and technology, targeted value-added acquisitions and strong capital management.

Outlook

The outlook for the Group remains positive despite challenging economic conditions. The Group expects to deliver an FY23 underlying NPAT of between \$300 to \$320 million, representing an uplift of 17% (at the midpoint) to FY22. The business model remains resilient and has demonstrated ability to manage any disruption with exposure to key end markets that contain structural growth.

The Life Sciences division is expected to show improvement in H2 FY23 as client contracts renew and prices increase, and labour shortage challenges stabilise. Price increases and procurement practices have allowed the division to manage inflationary pressure to date but the environment remains volatile.

The Commodities division, particularly Geochemistry and Metallurgy, are continuing to benefit from strong demand for commodities and energy metals. Sample volume growth slowed towards the end of the period, however growth is structurally supported over the medium to long-term by an increasing demand for a broad range of metals.

There are several megatrends which are driving the long-term growth of the Testing, Inspection and Certification industry. These include:

- Increasing regulation and outsourcing
- Increasing requirement for sustainability testing services
- Technological development and connectivity
- Digitalisation of technology
- Transition towards renewable energy sources

These megatrends underpin ALS' future growth plans and the Group remains well-positioned to capture these long-term, sustainable structural growth opportunities in the markets in which it operates.

Approved for release by ALS Limited Board.



Conference Call details

The results will be presented by Raj Naran, Managing Director and CEO, and Luis Damasceno, Chief Financial Officer, via webcast and call.

Date: 14 November 2022

Time: 10:30 am (AEDT)

To join the briefing, participants must pre-register via the below link. You will then receive the webcast link and dial in number via a calendar invite.

<https://s1.c-conf.com/diamondpass/10026498-hf6dys.html>

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For further information please contact:

Cameron Sinclair
Head of Investor Relations
ALS Limited
+61 412 430 393
c.sinclair@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.