asx/media release

ALS Limited

29 May 2023

ALS Limited (ASX: ALQ) delivered a strong FY23 financial result[1] with a 23.4% increase in underlying NPAT[2]

- **Delivered industry leading growth, with underlying continuing revenue of $2,421 million**, an increase of 19.5% (18.3% at constant currency (ccy)) due to strong performances within the Environmental, Geochemistry and Metallurgy businesses, and supported by acquisitions made within Life Sciences division

- **Statutory net profit after tax (NPAT) of $291 million,** an increase of 52.9%, following strong underlying performance in the period and reduced one off costs

- **Maintained industry leading operating margins, with underlying EBIT from continuing operations of $491 million**, an increase of 21.8%, reflecting a Group margin of 20.3% and expansion of 38bps, following successful inflation management across most businesses

- **Exceeded guidance (provided in March 2023) with underlying continuing NPAT of $321 million[3]**, up 23.4%

- **Maintained world class health and safety outcomes**, achieving industry leading LTIFR of 0.31[4]

- **Achieved carbon neutrality[5], reduced carbon intensity[5] by 10%[6], and obtained Board approval for our roadmap to achieve Net Zero emissions by 2050[7]**

- **Continued portfolio rationalisation** with disposal of Asset Care business

- **Executed 13 acquisitions[8], contributing $115 million of revenue** on a full year run-rate basis

- **Solid cash conversion (97% of underlying EBITDA)** despite increased working capital requirements to support strong organic revenue growth

- **Strong balance sheet supporting growth agenda,** with 1.8x leverage ratio and available liquidity of $572 million[9]

- **Underlying continuing earnings per share (eps) of 66.3 cents per share (cps)**, up 23.3%. Statutory EPS of 60.2 cps, up 52.7%

- **Final dividend of 19.4 cps (partially franked to 10%).** FY23 total dividend of 39.7 cps, an increase of 6.9 cps (21%) compared to FY22, representing a payout ratio of 60% of FY23 underlying NPAT

[1] Based on underlying financial results for the continuing businesses, i.e. excluding Asset Care
[2] All financial results compared to FY22 unless otherwise noted
[3] FY23 NPAT (including discontinued businesses) was $324.4 million, above guidance range of $312 to $322 million
[4] LTIFR per million hours worked
[5] Scope 1 and 2 emissions against a FY2020 baseline
[6] Excluding our investment in renewable electricity
[7] Net Zero target is to reduce absolute scope 1 and 2 emissions by 95% and scope 3 emissions by 90% by 2050 against a baseline of FY2020
[8] 3 transactions executed after 31 March 2023
[9] Including new US$100 million (~A$149 million) available bank facility secured in May 2023

ALS Chairman Bruce Phillips commented, "This was another strong performance by our global business. Underlying continuing NPAT was up 23.4% yoy, exceeding the top end of our revised market guidance. The Company is continuing to demonstrate its resilience in operating through challenging periods of global instability, high inflation, and economic uncertainty. Pleasingly, the Company's performance supports the declaration of a 21% increase yoy in dividends for our shareholders."

CEO and Managing Director, Malcolm Deane commented "The Group has delivered industry leading organic growth and margin expansion despite difficult trading conditions. The Group has maintained a strong financial position, high cashflow generation, leverage well within our lending covenants, and has liquidity available to fund our growth ambitions."

"The underlying performance was supported by the contribution of our two largest businesses which delivered strong growth and increased margins. Our market leading global environmental business within Life Sciences successfully managed inflationary headwinds, and our Geochemistry business was able to effectively utilise installed capacity, manage cost and pricing whilst delivering an increased value proposition for mining clients."

"The Company made excellent progress in FY23 towards its FY27 objectives set within our established five-year vision. We expect to continue our innovation journey, standardising systems, and solutions to leverage data and provide increased value for our clients. We will further develop and leverage the strong culture of innovation and collaboration to shape our portfolio with sustainability as its focus."

Overview of FY23 results:

Contributions from the Company's divisions for FY23 are summarised below:

FY23 Underlying Results (From Continuing Operations)	**Revenue**			**Underlying EBIT**			**Underlying margin**		
	FY23	**FY22**	**%**	**FY23**	**FY22**	**%**	**FY23**	**FY22**	**Bps**
Life Sciences	1,334.1	1,139.1	17.1%	206.9	194.8	6.2%	15.5%	17.1%	(159) bps
Commodities	1,087.1	886.5	22.6%	330.0	255.4	29.3%	30.4%	28.8%	+155 bps
Total segments	**2,421.2**	**2,025.6**	**19.5%**	**536.9**	**450.2**	**19.3%**	**22.2%**	**22.2%**	**(5) bps**
Other corporate expenses				(48.6)	(50.0)				
FX gains / (losses)				2.4	2.6				
Total Group EBIT				**490.7**	**402.8**	**21.8%**	**20.3%**	**19.9%**	**+38 bps**
Net interest expense				(43.8)	(37.4)				
Tax expense				(125.0)	(103.8)				
Non-controlling interests				(1.3)	(1.7)				
Underlying NPAT[1]				**320.6**	**259.9**	**23.4%**	**13.2%**	**12.8%**	**+41 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

The Life Sciences division delivered revenue of $1,334 million, a 17.1% increase with organic growth of 5.2%, scope growth of 10.7%, and a favourable currency impact of 1.3%. All businesses contributed to the overall growth, with a strong contribution from the Environmental business, and from key regions such as the Americas and Asia Pacific.

The Underlying EBIT increased by 6.2% to $207 million, with the overall margin contracting to 15.5% due to difficult economic conditions, particularly within Europe, geopolitical instability, restrictive monetary policy, inflationary challenges in some businesses, and the expected margin dilution from the Nuvisan acquisition. Excluding the impact of Nuvisan, margin contraction was 60 bps on a constant currency basis. This performance reflects the resilience and strength of our underlying businesses, particularly the scale and operational leverage of our market leading and global Environmental business. The Environmental business was able to expand margins during the period.

The Life Sciences portfolio remains supported by sustainable global market segments, underpinned by industry megatrends such as increased regulations and outsourcing trends. The Environmental business is well positioned as a market leader to capitalise on emerging global contaminants, such as PFAS, following increased regulation across the globe. Our Food and Pharmaceutical businesses have low market shares in highly fragmented markets, with the size and scale of the global pharmaceutical market presenting significant growth opportunities.

Commodities

The Commodities division grew revenue to $1,087 million, an increase of 22.6%, supported by strong organic growth of 18.0%, scope growth of 3.4%, and a favourable currency impact of 1.3%. All businesses contributed to the growth. The underlying EBIT increased by 29.3% to $330 million, with an expansion of margins by 155 bps to 30.4%, a result of strong operational performances across both the Geochemistry and Metallurgy businesses.

The Geochemistry business generated organic revenue growth of 20.0%, with growth achieved in all regions supported by increasing demand for base metals, particularly those linked to future clean technologies. The business was able to effectively manage capacity throughout the period with good price discipline and increase the uptake of premium analytical services. The recent acquisition of Goldspot Technologies, which continues the Group's journey of innovation, is resulting in increased interest in consulting activities from our mining clients.

The Geochemistry business is the largest provider of analytical services to the global mining industry and has demonstrated its ability to grow both market share and capacity over the years. The business has maintained the largest market share in the industry due to its superior execution, testing capabilities, geographical footprint and available capacity. The future profitability of this business is expected to be supported by 1) a continued level of base metal demand required for clean energy transition, 2) increased level of demand for premium analytical services, 3) an agile cost base and capacity planning tools, and 4) its strategic shift into more downstream activities including new innovation & data analytics.

Metallurgy grew organic revenue by 28.3% driven by the strong mining sector activity in energy and battery related metals, with support by strong commodity prices from traditional revenue sources. The pipeline of projects remains high.

The Inspection business posted an organic revenue improvement of 11.5% due to strong global commodity trading activities. Despite global economic pressures and the continued impact of COVID-19 disruption in Asia, the business managed costs well. It remains focused on global growth of commodity inspection and testing services.

The Coal business closed the year with 3.6% organic growth, with a minor EBIT margin contraction. The division continues to provide specialist technical expertise to the coal industry and will focus on operational efficiencies and revenue growth.

The Tribology business had organic revenue of 7.5% with key regions such as Australasia, North America and Latin America performing well. The business was impacted by labour sourcing shortages, increased operating costs, but margins improved significantly in the last quarter.

Capital management and balance sheet

The Group continued its disciplined and pro-active approach to capital management, balancing re-investment into growth both organically and through value-added acquisitions, returning capital to shareholders with dividends at the top of the payout range.

The balance sheet remains strong with a leverage ratio of 1.8x and with 80% of total drawn debt fixed at an average rate of 2.92%. The Group has available liquidity of $423 million (as at 31 March 2023) which will continue to support the growth agenda. Drawn debt has a weighted average debt maturity of 5.8 years.

In May 2023, the Group secured an additional ~A$149 million (US$100 million) bank facility which eliminates any potential refinance risk of the existing $128 million debt facility maturing in October 2023 and increases liquidity to $572 million.

Final dividend

Directors have declared a final dividend of 19.4 cps, partially franked to 10% (FY22 final dividend: 17.0 cents, partially franked to 30%) representing a payout ratio of 60% of FY23 underlying continuing NPAT, at the top end of the reference range (50 – 60% of underlying continuing NPAT). This dividend reflects the strong FY23 results and the current liquidity position. It will be paid on 6 July 2023 to shareholders on the register at 13 June 2023.

The existing $100 million share buy-back program remains active and as such, the Board has determined not to offer a Dividend Reinvestment Plan.

Investment in growth

Overall capex spend increased by 27% in the year compared to the pcp as the Group invested in strategic organic growth opportunities across both the Life Sciences and Commodities divisions.

During the year, the Group complemented its strong growth through the successful execution of 13 acquisitions (including 3 acquisitions after 31 March 2023), which are expected to generate approximately $115 million in revenue on a full-year run rate, with $51 million contributing to FY23. The transactions were aligned to our long-term goal to capitalise on industry megatrends linked to sustainability and Life Sciences. Most transactions were focused within the Food and Pharmaceutical sectors, providing platform growth in key growth regions for the Group.

The Group remains focused on value-enhancing acquisitions and targeting opportunities that fit within existing capability frameworks or attractive adjacent markets. Acquisitions are expected to make a meaningful contribution towards the Group's long-term financial objectives, with a robust pipeline of opportunities.

Outlook

The medium to long-term outlook across both Life Sciences and Commodities remains supportive. The Group is well positioned to execute on its FY27 objectives which will capture sustainable structural growth opportunities.

Within Life Sciences, the Environmental business continues to perform well across all geographies and is successfully managing inflationary headwinds. The underlying Pharmaceutical business maintains its growth momentum, whilst Nuvisan remains impacted by economic uncertainty. Food and Pharmaceutical businesses continue to focus on developing their platform to capture organic and scope growth opportunities.

Whilst operating within challenging market conditions, the Geochemistry business continues to effectively manage utilisation of capacity, cost and pricing, delivering increased value for mining clients. Higher added value services driven by innovation continue to support market share growth and profitability. Metallurgy continues to benefit from a strong pipeline of opportunities. Inspection volumes are strong and is focused on capturing market share as supply chains conditions improve. Tribology continues to focus on market share growth in key geographies, Americas and APAC, and improving margins.

Approved for release by the Board of Directors.

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.

Conference Call details

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

Date: 29 May 2023

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/10030049-j2k2io.html

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