Alaris Royalty Corp. Announces Q3-2014 Financial Results and Provides a Corporate Update

14.11.2014 | Marketwired

CALGARY, ALBERTA -- (Marketwired - Nov. 13, 2014) - Alaris Royalty Corp. ("Alaris" or the "Corporation") (TSX:AD) is pleased to announce its results for the three and nine months ended September 30, 2014 as well as to provide a corporate update.

Q3 Earnings

The results of the quarter are summarized in four key performance metrics compared to the prior year period on a per share basis (the Corporation used Normalized EBITDA rather than EBITDA to back out the non-cash foreign exchange gains and losses and a gain on the reduction of the Corporation`s financial interest in LifeMark in June 2013):

	Three months			Nine months		
Per Share Items	ending Sept. 30			ending Sept. 30		
	2014	2013	% Change	2014	2013	% Change
Revenue from Partners	$0.56	$0.52	+7.7%	$1.68	$1.43	+17.5%
Normalized EBITDA	$0.48	$0.45	+6.7%	$1.38	$1.16	+19.0%
Dividends	$0.375	$0.36	+4.2%	$1.10	$1.00	+10.0%
Net cash from operating activities	$0.39	$0.35	+11.4%	$1.19	$1.12	+6.3%
Weighted average basic shares outstanding (000's)	32,043	28,107		29,899	26,022	

Alaris continued to experience increases in revenue, Normalized EBITDA, net cash from operating activities and dividends on a per share basis in the quarter. These increases are a direct result of the continued execution of our business plan to fund well run, successful new private company partners ("Partners") with a long track record of sustainable cash flow. For the three months ended September 30, 2014, the Corporation's revenue from its Partners was better than expected due to the improvement in Labstat International, LP ("Labstat"). Revenue from Partners increased 22.5% to $18.09 million compared to $14.76 million in the prior year period. On a per share basis, the increase compared to the prior year period was approximately 8% and was due to the addition of three new Partners in the past 15 months: Sequel Youth Family Services, LLC ("Sequel) in July 2013; SM Group International, LP ("SMi") in November 2013; and Kimco Holdings, LLC ("Kimco") in June 2014. The Corporation also completed additional contributions into Agility Health LLC ("Agility") and Killick Aerospace Limited Partnership ("Killick") in the fourth quarter of 2013 and into SMi and Sequel in the current quarter. Each of these transactions added new revenues in the current period compared to the prior year. Expenses were as expected in the quarter and higher compared to the prior year period due to increased legal and accounting expenses due to increased tax compliance matters and the CRA reassessment as well as higher salary and benefit expenses with three new management hires in the past twelve months.

At each quarter end, the Corporation reviews the fair value of the preferred units in each of the Partners. At September 30, 2014, there were three changes to the fair values of the Partners for an aggregate increase to the fair values of under $0.1 million. More information is provided in the Private Company Partner Update portion of the Corporation's MD&A.

Reconciliation of Earnings to EBITDA

	Three months ending		Nine months ending	
(thousands)	Sept. 30		Sept. 30	
	2014	2013	2014	2013
Earnings	$14,629	$8,388	$35,455	$32,690
Adjustments to Earnings:				
Amortization	28	27	82	79
Finance costs	248	297	2,289	1,244
Income tax expense	4,730	3,043	7,420	9,219
EBITDA	$19,635	$11,755	$45,246	$43,232
Normalizing Adjustments				
Unrealized foreign exchange loss/(gain)	(4,134)	863	(3,953)	101
Gain on reduction of LifeMark interest	-	-	-	(13,052)
Normalized EBITDA	$15,501	$12,618	$41,293	$30,281

For the three and nine months ended September 30, 2014, the Corporation recorded earnings of $14.6 million and $35.5 million, EBITDA of $19.6 million and $45.2 million and Normalized EBITDA of $15.5 million and $41.3 million compared to earnings of $8.4 million and $32.7 million, EBITDA of $11.8 million and $43.2 million and Normalized EBITDA of $12.6 million and $30.2 million in the prior year periods. Earnings and EBITDA increased in the nine month period ended September 30, 2014 even after considering the $13.1 million gain on the reduction of the Corporation`s financial interest in LifeMark that was realized in 2013. The significant increase in Normalized EBITDA in the three and nine month periods was due to the new revenue streams noted above as they were added with minimal additional costs. On a per share basis, the increase in Normalized EBITDA was 19.0% for the nine months ended September 30, 2014. The Corporation increased dividends on a per share basis for the nine month period by 10.0%.

"We're pleased to again be reporting another strong quarter with revenue results slightly above our previously disclosed guidance. The quarter was highlighted by two follow-on contributions to Sequel and SMi, the continued improvement of results out of Labstat that has led to increased expectations for the variable portion of the 2014 distribution, all the while continuing to work on new Partner opportunities that the Corporation expects to bring forward before the end of the year. Every new dollar we contribute to new and current Partners is accretive, which we expect to continue to fuel our growth on a gross and per share basis in the quarters to follow," said Darren Driscoll, Chief Financial Officer, Alaris Royalty Corp.

Corporate Update

$10 million Follow-on Contribution to Solowave

The Corporation is pleased to announce that it has completed an additional $10 million contribution to Solowave to provide capital to support a number of growth initiatives in the business. Solowave has experienced a strong 2014 year to date and has a current earnings coverage ratio on the Alaris distributions of over 2.0x. Based on unaudited internal financial statements, Solowave's same customer sales are well above 6% vs the prior year. As a result, Alaris is expecting the maximum 6% increase to its distributions from Solowave effective January 1, 2015. Solowave has been a tremendous Partner since December 2010. Distributions on the $10 million will be $1.43 million for the first twelve months and since the Corporation funded the contribution with its revolving credit facility (the "Facility") at a 6% interest rate, the net increase to cash from operating activities is expected to increase by approximately $0.025 per share. "We are proud of our relationship with Solowave and their success to date so we jumped at the opportunity to provide additional capital to one of our strongest performing Partners", said Steve King, President and Chief Executive Officer, Alaris Royalty Corp.

Appointment of VP, Business Development

Alaris is pleased to announce that is has added Dan Bertram to its business development team in the role of Vice President, Business Development. "Dan has the right mix of experience, personality and determination to help build upon Alaris' existing business development efforts" said King. Working together with our existing Senior VP of Business Development, Dan will work to strengthen our efforts to target entrepreneurs directly as well as to continue to expand our relationships with the vast advisory network in North America. These efforts will continue to drive our pipeline of prospects and allow us to see an even greater number of deals in the future.

Continued Improvement in Labstat

Labstat continues to experience year over year growth in revenue and profitability as it drives new business through its doors. The Corporation is extremely pleased with management's efforts to find new business as well as improving operational efficiencies. In January of 2014, the Corporation gave guidance that it expected to collect a fixed portion of $3.4 million from Labstat in 2014 while also expecting to sweep additional cash flows of approximately $900 thousand during the year based on management's initial budget. At this point in the year, given the strong performance from Labstat, the Corporation feels comfortable giving guidance that it expects to collect a cash flow sweep of approximately $2.1 million for total distributions of $5.5 million in 2014 (a 28% increase vs our guidance in January 2014).

Quetico Repurchase

Quetico has indicated they intend to repurchase the Corporation's preferred units before the end of 2014. Quetico management has agreed to complete any repurchase after the closing of a new Private Company Partner transaction for Alaris, which Alaris also expects to occur before the end of 2014. As a result, we expect no disruptions to our current revenue stream. Due to a decrease in one of Quetico's largest business segments, they require less capital and it made sense for Quetico to buy back the preferred units held by Alaris. Quetico has been a tremendous Partner for three years but given their recent financial performance, the repurchase is viewed positively by management of the Corporation as, based on current financial results the distributions were otherwise expected to decline by the maximum 20% effective January 1, 2015. The repurchase will be at our original cost of $26.9 million USD (resulting in an increase in the fair value of Quetico units of $0.6 million at September 30, 2014). The repurchase multiple is 7.14x the current year's distributions (8.9x the projected distributions for 2015) and the Corporation expects to redeploy that capital in line with its historical average of 6.5x. Alaris has also collected $12.5 million in distributions from Quetico over the past three years. Additionally, the original contribution was made by Alaris in 2011 when the US dollar was at par with the Canadian dollar resulting in a foreign exchange gain of over 10% based on current rates.

Outlook

Alaris' agreements with its Partners provide for estimated revenues to Alaris of approximately $68.2 million for the fiscal year ended December 31, 2014 and approximately $18.2 million for the three months ended December 31, 2014. The Corporation has $62.5 million of its $85 million credit facility available for use in future transactions after the contribution to Solowave. General and administrative expenses, inclusive of all public company costs, are currently estimated to be $7.0 million for 2014, but $6.5 million annually due to non-recurring expenses. Cash requirements after earnings are expected to remain at minimal levels. Shares outstanding as of the date of this announcement are 32,072,358. "Although new transactions that management had hoped to close in the third quarter moved slower than anticipated, we remain confident that we will have an active Q4 and our prospects for future growth remain strong.", said King.

This outlook section is included to provide shareholders with information about the Company's expectations as at the date of this release for, among other things, 2014 estimated revenues and borrowing capacity as well as capital deployment for the remainder of the year and readers are cautioned that the information may not be appropriate for any other purpose.

The Consolidated Statement of Financial Position, Statement of Comprehensive Income, and Statement of Cash Flows are attached to this news release. Alaris' financial statements and MD&A are available on SEDAR at www.sedar.com and on our website at www.alarisroyalty.com.

Conference Call Details

The Corporation will be hosting a conference call at 9am MST (11am EST), Friday, November 14, 2014 to discuss the financial results and outlook for the Corporation. Participants can access the conference call by telephone by dialing toll free 1-800-355-4959 or 1-416-340-8530. Alternatively, to listen to this event online, please enter http://www.gowebcasting.com/6014 in your web browser and follow the prompts given. Please connect to the call or log into the webcast at least 10 minutes prior to the beginning of the event.

For those unable to participate in the conference call at the scheduled time, it will be archived for replay until 11am EST November 21, 2014. You can access the replay by dialing toll free 1-800-408-3053 or 1-905-694-9451 and entering the passcode 7031806. The webcast will be archived for 90 days and is available for replay by using the same link as above or by clicking on the link we'll have stored under the "Investor Briefcase" on our website at www.alarisroyalty.com.

An updated corporate presentation will be posted to Alaris' website within the next 24 hours at www.alarisroyalty.com.

About the Corporation:

Alaris provides alternative financing to the Partners in exchange for distributions with the principal objective of generating stable and predictable cash flows for dividend payments to its shareholders. Distributions from the Partners are structured as a percentage of a "top line" financial performance measure such as gross margin and same-store sales and rank in priority to the owners' common equity position.

Non-IFRS Measures

The terms EBITDA and Normalized EBITDA are financial measures used in this news release that are not standard measures under International Financial Reporting Standards ("IFRS"). The Corporation's method of calculating EBITDA and Normalized EBITDA may differ from the methods used by other issuers. Therefore, the Corporation's EBITDA and Normalized EBITDA may not be comparable to similar measures presented by other issuers.

EBITDA refers to net earnings (loss) determined in accordance with IFRS, before depreciation and amortization, interest expense and income tax expense. EBITDA is used by management and many investors to determine the ability of an issuer to generate cash from operations. Management believes EBITDA is a useful supplemental measure from which to determine the Corporation's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Normalized EBITDA refers to EBITDA excluding items that are non-recurring in nature. "Normalized EBITDA" is calculated by adjusting for non-recurring charges and gains to EBITDA. Management deems non-recurring charges or gains to be unusual and/or infrequent charges that the Corporation incurs or realizes outside of its common day-to-day operations. For the three and nine months ended September 30, 2014, the unrealized foreign exchange gains and losses and the 2013 gain on the reduction of the Corporation`s interest in LifeMark are considered by management to be non-recurring items. Adjusting for these non-recurring items allows management to assess EBITDA from ongoing operations.

The term EBITDA should only be used in conjunction with the Corporation's annual audited and quarterly reviewed financial statements, excerpts of which are available below, while complete versions are available on SEDAR at www.sedar.com. The Corporation has provided a reconciliation of net income to EBITDA and Normalized EBITDA in this news release.

Earnings coverage ratio is defined as EBITDA divided by debt servicing (interest and principal), maintenance capital expenditures and distributions to Alaris.

Forward-Looking Statements

This news release contains forward-looking statements as defined under applicable securities laws. Statements other than statements of historical fact contained in this news release are forward-looking statements, including, without limitation, management's expectations, intentions and beliefs concerning the growth, results of operations, performance of the Corporation and the Partners, the future financial position or results of the Corporation, business strategy, and plans and objectives of or involving the Corporation or the Partners. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. In particular, this news release contains forward-looking statements regarding the anticipated revenues to be received by Alaris and its general and administrative expenses in 2014 (in aggregate and quarterly), the cash requirements of Alaris in 2014, the balance available on the Corporation's credit facility; future Partner *contributions (including the timing and impact thereof); the timing and impact of the Quetico repurchase; the impact of the additional Solowave Contribution on cash from operating activities; expected adjustments to distributions from certain Partners; the accretive nature of additional contributions to new and current Partners; Alaris' deal pipeline and transaction activity in Q4; and Labstat's performance and the anticipated amount of the cash flow sweep in 2014. To the extent any forward-looking statements herein constitute a financial outlook, they were approved by management as of the date hereof and have been included to provide an understanding with respect to Alaris' financial performance and are subject to the same risks and assumptions disclosed herein. There can be no assurance that the plans, intentions or expectations upon which these forward looking statements are based will occur.*

By their nature, forward-looking statements require Alaris to make assumptions and are subject to inherent risks and uncertainties. Assumptions about the performance of the Canadian and U.S. economies over the next 24 months and how that will affect Alaris' business and that of its Partners are material factors considered by Alaris management when setting the outlook for Alaris. Key assumptions include, but are not limited to, assumptions that the Canadian and U.S. economies will grow moderately over the next 12 months, that interest rates will not rise in a material way over the next 12 to 24 months, that the Partners will continue to make distributions to Alaris as and when required, that the businesses of the Partners will continue to grow, what the Corporation expects to experience regarding resets to its annual royalties and distributions from its Partners upon the reset dates for each Partner, and that Alaris will have the ability to raise required equity and/or debt financing on acceptable terms. Management of Alaris has also assumed that capital markets will remain stable and that the Canadian dollar will remain in a range of approximately plus or minus 10% relative to the U.S. dollar over a 12 month period. In determining expectations for economic growth, management of Alaris primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies.

There can be no assurance that the assumptions, plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions and should not be read as guarantees or assurances of future performance. The actual results of the Corporation and the Partners could materially differ from those anticipated in the forward-looking statements contained herein as a result of certain risk factors, including, but not limited to, the following: the dependence of Alaris on the Partners; reliance on key personnel; general economic conditions; failure to complete or realize the anticipated benefit of Alaris' financing arrangements with the Partners; government regulations; a failure to obtain required regulatory approvals on a timely basis or at all; changes in legislation and regulations and the interpretations thereof; risks relating to the Partners and their businesses, including, without limitation, a material change in the operations of a Private Company Partner or the industries they operate in; inability to close additional Partner contributions in a timely fashion, or at all; a change in the ability of the Partners to continue to pay Alaris' preferred distributions; and material adjustments to the unaudited financial information provide to Alaris by the Partners. Additional risks that may cause actual results to vary from those indicated are discussed under the heading "Risk Factors" in the Corporation's Annual Information Form for the year ended December 31, 2013, which is filed under the Corporation's profile at www.sedar.com. Accordingly, readers are cautioned not to place undue reliance on any forward-looking information contained in this news release. Statements containing forward-looking information reflect management's current beliefs and assumptions based on information in its possession on the date of this news release. Although management believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

Alaris Royalty Corp.
Condensed consolidated statement of financial position (unaudited)

September 30 December 31
2014 2013
Assets
Cash and cash equivalents $10,846,101
$8,998,342
Prepayments and deposits 1,430,089 125,543
Trade and other receivables 3,304,796 955,831
Promissory notes receivable 6,550,000 8,500,000
Current Assets
22,130,986 18,579,716
Promissory notes receivable 6,915,000 6,915,000
Equipment 96,107 59,825
Intangible assets 6,411,062 6,479,265
Preferred LP and LLC Units 496,282,073 433,988,295
Investment tax credit receivable 10,922,393
10,922,393

Deferred income taxes -
3,785,015
Non-current assets 520,626,635 462,149,793
Total Assets $542,757,621 $480,729,509
Liabilities
Accounts payable and accrued liabilities
$473,782 $1,361,588
Dividends payable 4,009,045 3,443,243
Income taxes payable 235,431
1,031,701
Foreign exchange contracts
588,074 633,801
Loans and borrowings
3,375,000 -
Current Liabilities
8,681,332 6,470,333
Deferred income taxes
1,827,953 -
Loans and borrowings
10,125,000 44,500,000
Non-current liabilities 11,952,953 44,500,000
Total Liabilities
$20,634,285 $50,970,333
Equity
Share capital
$497,735,050 $413,237,576
Equity reserve
8,365,362 5,688,079
Fair value reserve
(4,574,923) (4,883,951)
Translation reserve
4,103,022 1,201,883
Retained Earnings 16,494,825 14,515,589
Total Equity
$522,123,336 $429,759,176
Total Liabilities and Equity
$542,757,621 $480,729,509

Alaris Royalty Corp.
Condensed consolidated statement of comprehensive income (unaudited)

Three months ended
September 30 Nine months ended
September 30
2014 2013 2014 2013
Revenues and other income
Royalties and distributions
$17,827,006 $14,464,752
$49,239,927 $36,570,619
Interest and other
261,982 297,665
888,060 762,885
Gain on reduction of partner interests
- -
- 13,052,160
Gain/(loss) on foreign exchange contracts
(543,497) 466,353
(591,635) (22,649)
Total Revenue and other income
17,545,491 15,228,770 49,536,352 50,363,015
Salaries and benefits
478,181 263,034
3,169,423 2,329,222
Corporate and office
543,124 282,003
1,494,874 1,068,945

Legal and accounting fees
448,734 252,842
1,218,512 829,726
Non-cash stock-based compensation 1,118,282 1,347,606 2,951,424 2,825,365
Depreciation and amortization
27,844 26,558
82,159 79,415
Subtotal
2,616,165 2,172,043 8,916,392 7,132,673
Earnings from operations
14,929,326 13,056,727 40,619,960 43,230,342
Finance cost
247,792 296,986
2,289,004 1,243,624
Foreign exchange (gain)/loss
(4,677,567) 1,329,300
(4,544,550) 78,090
Earnings before taxes
19,359,101 11,430,441 42,875,506 41,908,628
Current income tax expense
(1,100,183) 806,117 450,338 1,461,456
Deferred income tax expense
5,830,369 2,236,800 6,969,774 7,757,200
Earnings
$14,628,915 $8,387,524
$35,455,394 $32,689,972
Other comprehensive income
Net change in fair value of Preferred LP Units 170,619 -
96,679 -
Tax impact of change in fair value
83,549 -
212,349 -
Realized gain on reduction of partnership interest - -
- (13,052,160)
Tax impact of realized gain
- - 1,631,520
Foreign currency translation differences 3,044,420 847,354 2,901,139 19,527
Other comprehensive income for the period,
net of income tax
3,298,588 847,354 3,210,167 (11,401,113)
Total comprehensive income for the period
$17,927,503 $9,234,878
$38,665,561 $21,288,859
Earnings per share
Basic earnings per share
$0.46 $0.30 $1.19 $1.26
Fully diluted earnings per share
$0.45 $0.29 $1.16 $1.22
Weighted average shares outstanding
Basic
32,042,952 28,106,555 29,898,524 26,022,045
Fully Diluted
32,718,883 28,893,781 30,522,359 26,731,035

Alaris Royalty Corp.
Condensed consolidated statement of cash flows (unaudited)

For the nine months ended September 30
2014 2013
Cash flows from operating activities
Earnings from the period
$35,455,394 $32,689,972
Adjustments for:
Finance costs
2,289,004 1,243,624
Deferred income tax expense

6,969,774 7,757,200
Depreciation and amortization
82,159 79,414
Unrealized foreign exchange loss/(gain)
(4,544,550) 78,090
(Gain)/Loss on forward contracts
(45,728) 22,649
(Gain)/Loss on reduction of partner interests - (13,052,160)
Non-cash stock based compensation 2,951,424 2,825,365
43,157,477 31,644,154
Change in:
-trade and other receivables
(2,348,965) (644,515)
-prepayments
(1,304,546) 62,308
-trade and other payables
(1,684,076) (555,012)
Cash generated from operating activities 37,819,890 30,486,935
Interest paid
(2,289,004) (1,243,624)
Net cash from operating activities
$35,530,886 $29,243,311
Cash flows from investing activities
Acquisition of equipment
(50,239) (5,232)
Acquisition/disposition of Preferred LP Units
(54,609,577) (126,136,641)
Proceeds from reduction in Preferred LP Units - 30,000,000
Net cash used in investing activities
(54,659,816) $(96,141,873)
Cash flows from financing activities
New share capital, net of share issue costs 82,813,306 155,954,527
Proceeds from exercise of options
123,739 2,147,226
Borrowing of senior debt
53,200,000 118,000,000
Repayment of senior debt
(84,200,000) (168,000,000)
Promissory notes issued
(50,000) (13,635,000)
Promissory notes repaid
2,000,000 -
Dividends paid
(32,686,302) (25,318,587)
Payments in lieu of dividends on RSUs
(224,054) (208,832)
Net cash from financing activities
$20,976,689 $68,939,334
Net increase in cash and cash equivalents 1,847,759 2,040,772
Cash and cash equivalents, Beginning of period 8,998,342 3,638,255
Cash and cash equivalents, End of period
$10,846,101 $5,679,027

NOT FOR DISTRIBUTION IN THE UNITED STATES. FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF UNITED STATES SECURITIES LAW.

CONTACT INFORMATION

[Alaris Royalty Corp.]
Curtis Krawetz
Vice President, Investments and Investor Relations
403-221-7305