Alaris Royalty Corp. Releases Q3 2017 Financial Results

07.11.2017 | GlobeNewswire

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

CALGARY, Alberta, Nov. 06, 2017 (GLOBE NEWSWIRE) -- Alaris Royalty Corp. (“Alaris” or the "Corporation") (TSX:AD) is pleased to announce its results for the three and nine months ended September 30, 2017. The results are prepared under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Highlights:

- Made the single largest investment in the Corporation’s history in the quarter with a USD$85 million contribution to Sales Benchmark Index, LLC (“SBI”) for new annual distributions of USD$11.05 million;
- Completed follow on contributions in the quarter to two current partners: Sandbox (USD$6.0 million) and ccComm (USD$2.2 million) for new annual distributions of USD$1.4 million;
- Year to date gross deployment of approximately CAD$146.5 million;
- Recorded a significant gain on redemption of the units in Sequel Youth and Family Services, LLC (“Sequel”) as a result of the sale of Sequel to a third party. The Corporation contributed USD$73.5 million and received USD$95.6 million on exit in addition to the USD$47.2 million in distributions received resulting in a gain of USD$21.7 million and an IRR of 29% (CAD);
- As a result of a significantly smaller than expected award from an international tribunal for Group SM, the Corporation wrote off all of the CAD$9.8 million of unpaid distributions, the entire $41.0 million in value for preferred units and moved unsecured promissory notes of $17 million from current to long term;
- Increased net cash from operating activities by 39.5% on a per share basis due to reduced corporate costs, legal and accounting fees, change in taxes payable and realized gains on forward contracts that were well in excess of the spot rate;
- Recorded revenue from Partners of $23.8 million, $0.65 per share, up from the second quarter of 2017 ($22.8 million, $0.62 per share) and up from the prior year period ($22.3 million, $0.64 per share) due to positive distribution resets from a number of current Partners and net new capital deployment; and
- Recorded Normalized EBITDA of $20.8 million, $0.578 per share, up from the second quarter of 2017 ($19.1 million, $0.52 per share), and up from the prior year period ($20.7 million, $0.57 per share).

Per Share Results	Three Months Ended			Nine Months Ended		
Period ending September 30th	2017	2016	% Change	2017	2016	% Change
Revenue per share	$0.65	$0.64	+1.6%	$1.85	$2.00	-7.5%
Normalized EBITDA per share	$0.57	$0.57	+0.9%	$1.59	$1.71	-7.0%
Net cash from operating activities per share	$0.60	$0.43	+39.5%	$1.43	$1.15	+24.3%
Dividends per share	$0.405	$0.405	+0.0%	$1.215	$1.215	+0.0%
Basic earnings per share	($0.60)	$0.47	-227.7%	$0.01	$1.24	-99.2%
Fully diluted earnings per share	($0.60)	$0.46	-230.4%	$0.01	$1.22	-99.2%
Normalized basic earnings per share	$0.44	$0.38	+15.8%	$1.21	$1.11	+9.0%
Weighted average basic shares outstanding (000’s)	36,444	36,365		36,433	36,326	

[1]Using the weighted average shares outstanding for the period.

The Corporation recorded a loss of $22.0 million, Normalized Earnings of $16.1 million, EBITDA of negative $9.8 million and Normalized EBITDA of $20.8 million for the three months ended September 30, 2017 compared to earnings of $17.0 million, Normalized Earnings of $13.7 million, EBITDA of $24.6 million and Normalized EBITDA of $20.7 million for the three months ended September 30, 2016. The three months ended September 30, 2017 saw increases in both revenue and normalized EBITDA on a per share basis. The 0.5% increase in Normalized EBITDA is a result of the addition of new partners and follow on contributions (SBI, Accscient, ccComm (original transaction and the follow on in the current period), Matisia and Sandbox follow on transaction), higher distributions from existing partners (Labstat, FED, DNT, Planet Fitness, Sandbox, SCR) and lower corporate costs. These were partially offset by the redemptions from Solowave (September 2016) and MAHC (December 2016) and no distributions from Kimco, and the Corporation only recorded distributions as received for Group SM ($0.3 million in the three months ending September 30, 2017 compared to $1.6 million for the comparable 2016 period). The driver of the decrease in earnings is attributable to a $41.0 million impairment to the Group SM units, $7 million of unrealized non-cash foreign exchange losses (primarily on intercompany loans) and $14.5 million of current taxes as a result of the gain on redemption of the Sequel units, which was partially offset by gain from Sequel of $26.7 million.

The redemption for Sequel was the ninth exit event (seven with positive returns, two with negative) in the Corporation’s history and adds to an impressive track record where on CAD$350 million invested, the Corporation has received CAD$420 in exit proceeds in addition to CAD$214 million in annual distributions. Of note, in only one of those nine exits was Alaris refinanced – most redemptions occurring as a result of the sale of the underlying business. The details of each exit event are available in the Corporate Presentation available on Alaris’ website.

Reconciliation of Net Income to EBITDA	Three months ended September 30		Nine months ended September 30	
in thousands	2017	2016	2017	2016
Earnings	$ (22,031)	$ 17,026	$ 470	$ 44,909
Adjustments to Net Income:				
Amortization and depreciation	67	69	201	208
Finance costs	1,923	1,523	5,007	4,399
Income tax expense	10,273	6,028	15,238	14,340
EBITDA	(9,768)	24,646	20,916	63,855
Normalizing Adjustments				
Gain on disposal of investment	(26,575)	(1,589)	(26,575)	(20,177)
Unrealized (gain) / loss on foreign exchange contracts	8,158	(2,074)	12,730	8,353
Realized (gain) on foreign exchange contracts	(998)	(308)	(518)	1,754
Impairment and other charges	41,017	-	42,491	7,000
Penalties and Fees	(502)	-	(396)	-
Bad Debt Expense	9,813	-	9,813	853
Accretion of Prom. Notes & Other Receivables	(384)	-	(502)	656
Normalized EBITDA	$ 20,761	$ 20,676	$ 57,959	$ 62,295

Normalized Earnings	Three months ended September 30		Nine months ended September 30	
in thousands except on per share basis	2017	2016	2017	2016
Earnings before the undernoted (per income statement)	$ (1,677)	$ 22,503	$ 33,445	$ 72,000
Finance costs	(1,923)	(1,523)	(5,007)	(4,399)
Impairment and other charges	41,017	-	42,491	7,000
Bad debt expense	9,813	-	9,813	853
Sequel Redemption	(26,575)	(1,589)	(26,575)	(20,177)
Normalized Earnings pre-tax	$ 20,655	$ 19,391	$ 54,168	$ 55,278
Total income taxes (per income statement)	(10,273)	(6,028)	(15,238)	(14,340)
Tax normalizations for above items	5,765	351	5,221	(443)
Normalized Earnings	$ 16,146	$ 13,715	$ 44,150	$ 40,496
Normalized Earnings per share				

Basic	$0.44	$0.38	$1.21	$1.11
Fully diluted	$0.44	$0.37	$1.20	$1.10

“A busy quarter that included our largest investment ever in SBI, a couple of follow on investments and the conclusion of an enormously successful investment in Sequel was tempered by the disappointing news out of Group SM. However, the impact of Group SM was balance sheet focused as our payout ratio and dividend sustainability were not impacted as we have not been counting on any material distributions from Group SM for some time. Our pipeline of opportunities with new and current partners remains robust and we look forward to delivering continued growth in revenue and Normalized EBITDA on a gross and per share basis,” said Darren Driscoll, Chief Financial Officer.

Outlook

Based on Alaris’ current agreements with its partners, it expects revenues of approximately $90.0 million for 2017 (no revenue accrued for Kimco or Group SM, $100 thousand per month for SCR). Under those same assumptions, for the fourth quarter of 2017 those same agreements provide for revenues of approximately $22.6 million for the Corporation. Annual general and administrative expenses are currently estimated at $8.3 million annually and include all public company costs.

The Corporation’s Annualized Payout Ratio is under 95% with partial distributions from SCR which re-commenced in July 2017.

The senior debt facility was drawn to $115.1 million at September 30, 2017, with the capacity to draw up to another $81 million based on current covenants. The annual interest rate on that debt was approximately 4.95% at September 30, 2017 and remains at that level today.

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.

About the Corporation:
Alaris provides alternative financing to private companies (“Partners”) in exchange for royalties or distributions with the principal objective of generating stable and predictable cash flows for dividend payments to its shareholders. Distributions from the Partners are adjusted annually based on the percentage change of a “top-line” financial performance measure such as gross margin or same store sales and rank in priority to the owner’s common equity position.

Non-IFRS Measures
The terms EBITDA, Normalized EBITDA and Annualized Payout Ratio 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, Normalized EBITDA and Annualized Payout ratio may differ from the methods used by other issuers. Therefore, the Corporation’s EBITDA, Normalized EBITDA and Annualized Payout Ratio may not be comparable to similar measures presented by other issuers.

Annualized Payout Ratio: Annualized payout ratio refers to Alaris’ total annualized dividend per share expected to be paid over the next twelve months divided by the estimated net cash from operating activities per share Alaris expects to generate over the same twelve-month period (after giving effect to the impact of all information disclosed as of the date of this report).

EBITDA refers to net earnings (loss) determined in accordance with IFRS, before depreciation and amortization, net of gain or loss on disposal of capital assets, 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. The Corporation has provided a reconciliation of net income to EBITDA in this news release.

Normalized EBITDA refers to EBITDA excluding items that are non-recurring in nature and is calculated by adjusting for non-recurring expenses and gains to EBITDA. Management deems non-recurring items to be unusual and/or infrequent items that the Corporation incurs outside of its common day-to-day operations. For the period ended September 30, 2017, the gain on the redemption of the LifeMark, Solowave, MAHC and Sequel units, the impairment of the KMH and Group SM units, the write off of the interest on the KMH promissory notes, bad debt expense related to unpaid distributions from Group SM, the impairment and accretion of the KMH secured note, one-time penalties and fees related to the CRA GST audit (and the subsequent recovered amount) are considered by management to be non-recurring charges. Foreign exchange realized and unrealized gains and losses are recurring but not considered part of operating results and excluded from EBITDA on an ongoing basis. Adjusting for these non-recurring items allows management to assess EBITDA from ongoing operations.

Normalized Earnings refers to earnings excluding items that are non-recurring in nature and is calculated by adjusting for non-recurring expenses, gains, non-cash unrealized gains and losses on foreign exchange items and the net tax impact of the above adjustments to earnings. Management deems non-recurring items to be unusual and/or infrequent items that the Corporation incurs outside of its common day-to-day operations. The corresponding tax impact of the all non-recurring items is adjusted in Normalized Earnings. For the period ended September 30, 2017, the gain on the redemption of the LifeMark, Solowave, MAHC and Sequel units, the impairment of the KMH and Group SM units, the write off of the interest on the KMH promissory notes, bad debt expense related to unpaid distributions from Group SM, the impairment and accretion of the KMH secured note are considered by management to be non-recurring charges. Foreign exchange realized and unrealized gains and losses are recurring but not considered part of operating results and excluded from earnings on an ongoing basis.

The terms EBITDA and Normalized 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.

Forward-Looking Statements
This news release contains forward-looking statements 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 Private Company 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 financial and operating performance of the Partners in 2017, the revenues/contractual distributions to be received by Alaris in 2017 (annually and quarterly), the Annualized Payout Ratio, its general and administrative expenses in 2017, and the cash requirements of the Corporation in 2017. 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 in 2017 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 in 2018, 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, that the Corporation will experience net positive resets to its annual royalties and distributions from its Partners in 2018, more private companies will require access to alternative sources of capital, 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 and U.S. dollar trading pair will remain in a range of approximately plus or minus 10% over the next 6 months. 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; 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 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; a change in the unaudited information provided to the Corporation; and a failure to realize the benefits of any concessions or relief measures provided by Alaris to any Partner. Additional risks that may cause actual results to vary from those indicated are discussed under the heading “Risk Factors” and “Forward Looking Statements” in the Corporation’s Management Discussion and Analysis for the year ended December 31, 2016, which is filed under the Corporation’s profile at www.sedar.com and on its website at www.alarisroyalty.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.

For more information please contact:

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

Alaris Royalty Corp.

Condensed consolidated statement of financial position (unaudited)

	30-Sep 2017	31-Dec 2016
Assets		
Cash and cash equivalents	$ 12,126	$ 29,491
Prepayments	1,538	2,097
Foreign exchange contracts	1,876	-
Trade and other receivables	13,554	16,762
Investment tax credit receivable	2,650	3,654
Promissory notes receivable	28,256	21,922
Current Assets	60,000	73,926
Promissory notes and other receivables	33,056	7,891
Deposits	19,252	16,256
Equipment	547	647
Intangible assets	6,138	6,206
Investments at fair value	632,461	681,093
Investment tax credit receivable	-	1,201
Non-current assets	691,454	713,295
Total Assets	$ 751,454	$ 787,221
Liabilities		
Accounts payable and accrued liabilities	$ 2,483	$ 3,057
Dividends payable	4,920	4,905
Foreign exchange contracts	-	712
Income tax payable	18,878	2,007
Current Liabilities	26,281	10,682

Deferred income taxes	9,845	22,458
Loans and borrowings	115,080	99,383
Non-current liabilities	124,925	121,841
Total Liabilities	$ 151,206	$ 132,523
Equity		
Share capital	$ 620,133	$ 617,893
Equity reserve	11,954	11,628
Fair value reserve	(23,266)	(27,931)
Translation reserve	5,157	23,029
Retained earnings / (deficit)	(13,730)	30,079
Total Equity	$ 600,248	$ 654,698
Total Liabilities and Equity	$ 751,454	$ 787,221

Alaris Royalty Corp.
Condensed consolidated statement of comprehensive income / loss (unaudited)
For the three and nine month periods ended September 30

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenues				
Royalties and distributions	$ 22,959	$ 22,867	$ 65,101	$ 71,648
Interest and other	816	427	2,333	1,126
Total Revenue	23,775	23,294	67,434	72,774
Other income / expense				
Gain on partner redemptions	26,575	1,589	26,575	20,177
Realized gain / (loss) on foreign exchange contracts	998	308	518	(1,754)
Total other income / expense	27,573	1,897	27,093	18,423
Salaries and benefits	665	623	2,741	2,761
Corporate and office	89	428	1,858	2,639
Legal and accounting fees	534	541	1,412	1,837
Non-cash stock-based compensation	839	1,026	2,566	3,898
Bad debt expense	9,813	-	9,813	853
Impairment and other charges	41,017	-	42,491	7,000
Depreciation and amortization	67	69	201	208
Total Operating Expenses	53,025	2,688	61,082	19,196
Earnings / (Loss) before the undernoted	(1,677)	22,503	33,445	72,000
Finance costs	1,923	1,523	5,007	4,399
Unrealized (gain) on foreign exchange contracts	(685)	(597)	(2,590)	(4,991)
Unrealized foreign exchange (gain) / loss	8,843	(1,477)	15,320	13,344
Earnings / (Loss) before taxes	(11,758)	23,054	15,709	59,248
Current income tax expense	20,442	4,647	24,458	5,593
Deferred income tax expense / (recovery)	(10,168)	1,381	(9,220)	8,747
Total income tax expense	10,273	6,028	15,238	14,340
Earnings / (Loss)	(22,031)	17,026	470	44,909
Other comprehensive income / (loss)				
Transfer on redemption of investments at fair value	$ (8,993)	$ (8,713)	$ (8,993)	$ (27,399)
Transfer from fair value reserve to impairment and other charges	4,250	-	4,250	-
Net change in fair value of investments at fair value	5,769	(3,169)	9,744	(3,833)
Tax effect of items in other comprehensive income	189	530	(335)	5,421

Foreign currency translation differences	(9,949)	423	(17,872)	(11,038)
Other comprehensive (loss) for the period, net of income tax	(8,734)	(10,929)	(13,207)	(36,849)
Total comprehensive income / (loss) for the period	$ (30,766)	$ 6,097	$ (12,736)	$ 8,059
Earnings / (Loss) per share				
Basic	($0.60)	$0.47	$0.01	$1.24
Fully diluted	($0.60)	$0.46	$0.01	$1.22
Weighted average shares outstanding				
Basic	36,444	36,365	36,433	36,326
Fully Diluted	36,710	36,738	36,699	36,762

Alaris Royalty Corp.
Condensed consolidated statement of cash flows (unaudited)
For the nine month period ended September 30

	Nine months ended September 30	
$ thousands	2017	2016
Cash flows from operating activities		
Earnings from the period	$ 470	$ 44,909
Adjustments for:		
Finance costs	5,007	4,399
Deferred income tax expense / (recovery)	(9,220)	8,747
Depreciation and amortization	201	208
Bad debt expense	9,813	853
Impairment and other charges	42,491	7,000
Gain on partner redemptions	(26,575)	(20,177)
Unrealized (gain) on foreign exchange contracts	(2,590)	(4,991)
Unrealized foreign exchange loss	15,320	13,344
Non-cash stock-based compensation	2,566	3,898
	$ 37,483	$ 58,189
Change in:		
- trade and other receivables	3,208	(11,056)
- income tax receivable / payable	16,292	(646)
- prepayments	559	419
- accounts payable and accrued liabilities	(575)	(602)
Cash generated from operating activities	56,968	46,304
Finance costs	(5,007)	(4,399)
Net cash from operating activities	$ 51,962	$ 41,906
Cash flows from investing activities		
Acquisition of equipment	$ (32)	$ (43)
Acquisition of preferred units	(149,395)	(83,644)
Proceeds from partner redemptions	108,837	82,996
Promissory notes issued	(11,246)	(6,750)
Promissory notes repaid	463	313
Net cash used in investing activities	$ (51,373)	$ (7,129)
Cash flows from financing activities		
Repayment of debt	$ (116,277)	$ (35,455)
Proceeds from debt	137,564	99,657
Dividends paid	(44,265)	(44,122)
Deposits with CRA	(2,385)	(4,164)
Net cash from / (used in) financing activities	$ (25,363)	$ 15,916

Net increase / (decrease) in cash and cash equivalents	$ (24,775)	$ 50,693
Impact of foreign exchange on cash balances	7,410	(3,862)
Cash and cash equivalents, Beginning of period	29,491	20,991
Cash and cash equivalents, End of period	$ 12,126	$ 67,822
Cash taxes paid	$ 11,499	$ 9,381