Alaris Royalty Corp. Releases Q1 2018 Financial Results

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CALGARY, Alberta, May 07, 2018 (GLOBE NEWSWIRE) -- Alaris Royalty Corp. (“Alaris” or the "Corporation") is pleased to announce its results for the three months ended March 31, 2018. The results are prepared under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Q1 2018 Highlights:

- Recorded revenue from Partners of $23.6 million, $0.65 per share, an increase of 14% on a per share basis over the prior year period ($20.8 million, $0.57 per share) due to distributions from new partners, follow on investments and positive resets which were partially offset by partner redemptions in 2017;
- Recorded Normalized EBITDA of $20.1 million, $0.55 per share, an increase of 10% on a per share basis over the prior year period ($18.1 million, $0.50 per share) as the increase in distributions (as noted above) were partially offset by higher corporate expenses;
- Paid $14 million in dividends, an actual payout ratio of 65.8%, lower than expected due to the collection of Agility accrued distributions and the timing of tax payments. A 43.9% increase in net cash from operating activities on a per share basis quarter over quarter;
- New partner contribution announced in January 2018 of US$15.0 million (approximately CAD$18.8 million) to Heritage Restoration, Holdings, LLC (“Heritage”), in exchange for an annual distribution of US$2.25 million (approximately CAD$2.81 million);
- The Corporation successfully redeemed all of its units in Agility Health, LLC (“Agility”) as a result of the sale of Agility to a third party. Gross proceeds to Alaris from the Agility redemption consisted of: (i) US$26.7 million for the preferred units, which included a premium of US$2.1 million over Alaris’ original cost of US$20.1 million; (ii) all unpaid distributions; and (iii) repayment of a US$1.5 million loan outstanding, including all accrued interest. Alaris’ investment in Agility resulted in a total return to Alaris of approximately US$17.45 million (CAD$23.53 million), or 87% (116% in CAD) as well as an internal rate of return (“IRR”) of approximately 18% (25% CAD). These returns were realized on Alaris’ 5 year investment in Agility by successfully collecting all of the US$15.3 million of distributions owed by Agility over the life of the investment as well as a 10% premium above Alaris’ cost;
- Alaris closed the following amendments to, and extension of, its senior credit facility (the “Facility”) as previously disclosed: (i) an increase in capacity from $200 million to $300 million, with the additional $50 million accordion facility remaining in place; (ii) the term of the Facility was extended for another year to December 2021; and (iii) increasing the permanent leverage covenant from 1.75x EBITDA to 2.5x EBITDA, and the bridge covenant (for 90 days following certain approved transactions) from 2.25x EBITDA to 3.0x EBITDA. As of May 7, 2018 the Corporation has approximately $200 million of available funds including the $50 million accordion feature;
- Subsequent to March 31, 2018 Alaris began to receive partial distributions from Kimco of US$100 thousand per month (US$1.2 million annually) and increased distributions from SCR from CAD$1.2 million to CAD$1.8 million annually; and
- Booked a significant reserve against notes from KMH and Group SM in the current quarter as certainty and timing of collection of each of the notes deteriorated significantly over the last sixty days. None of the notes were paying current interest nor being counted on in any cash flow projections however the Corporation will continue to use all rights, remedies and security to collect what is owed.

“We felt it was important to eliminate any remaining focus on two investments that have not contributed to our revenue for two years and are not expected to in the future. The focus should be on the 15 very healthy partners in our portfolio and the robust market for deployment that we have in front of us. No investor ever wants negative outcomes but receiving positive returns on 23 of 26 partnerships over 14 years is a track record that we are very proud of and will work diligently to maintain and improve”, said Steve King, President and CEO.

Per Share Results	Three Months ended		
Period ending March 31	2018	2017	% Change
Revenue per share	$0.65	$0.57	+14.0%
Normalized EBITDA per share	$0.55	$0.50	+10.0%
Net cash from operating activities per share	$0.58	$0.41	+41.5%
Dividends per share	$0.41	$0.40	+0.0%
Basic earnings per share	($0.09)	$0.33	-127.3%
Fully diluted earnings per share	($0.09)	$0.32	-128.1%
Normalized basic earnings per share	$0.50	$0.36	+38.9%
Weighted average basic shares outstanding (000’s)	36,481	36,451	

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

The Corporation recorded a loss of $3.1 million, EBITDA of $2.8 million and Normalized EBITDA of $20.1 million for the three months ended March 31, 2018 compared to earnings of $11.8 million, EBITDA of $16.6 million and Normalized EBITDA of $18.1 million for the three months ended March 31, 2017. The 10.9% increase in Normalized EBITDA is a result of the addition of new partners (Heritage, SBI, Accscient), follow on contributions into existing partners (Federal Resources, Sandbox and ccComm) as well as top of the collar resets for the majority of the portfolio, partially offset by the redemptions (Sequel and Agility) and slightly higher corporate costs. The loss in the period was due to the KMH and Group SM note write offs.

The redemption of Agility was the tenth exit event (eight with positive returns, two with negative) in the Corporation’s history and adds to an impressive track record where on CAD$370 million invested, the Corporation has received CAD$430 in exit proceeds in addition to CAD$229 million in annual distributions. Of note, current run rate revenue of $97.6 million on book value of investments of $687 million is a 14.2% gross annualized return on current Partners.

Reconciliation of Net Income to EBITDA	Three Months ended March 31	
in thousands	2018	2017
Earnings	(3,146)	$ 11,849
Adjustments to Net Income:		
Amortization and depreciation	65	67
Finance costs	2,745	2,014
Income tax expense	3,159	2,631
EBITDA	2,823	16,561
Normalizing Adjustments		
Gain / Loss on disposal of investment	(1,742)	-
Increase in investments at fair value	(3,531)	-
Bad Debt Expense	25,974	-
Unrealized (gain) / loss on foreign exchange	(3,259)	1,234
Realized (gain) / loss on foreign exchange	(139)	349
Normalized EBITDA	$ 20,125	$ 18,144

Normalized Earnings	Three months ended March 31	
in thousands except on per share basis	2018	2017
Earnings before the undernoted	$ (501)	$ 17,727
Finance costs	(2,745)	(2,014)
Bad debt expense & reserve	25,974	-

(Gain)/Loss on redemption	(1,742)	-
Normalized Earnings pre-tax	$ 17,455	$ 15,713
Total income taxes	(3,159)	(2,631)
Tax normalizations for above items	3,900	(45)
Normalized Earnings	$ 18,196	$ 13,038
Normalized Earnings per share		
Basic	$0.50	$0.36
Fully diluted	$0.49	$0.35

“As expected, our revenue rebounded nicely off Q4 as the redeployment of the Sequel proceeds into new and current partners and the January 1, 2018 positive distribution resets came into effect. The dividend remains sustainable and the balance sheet is in a strong position to support further capital deployment in 2018”, said Darren Driscoll, Chief Financial Officer.

Outlook
Based on Alaris’ current agreements with its partners, the Corporations annualized revenues are estimated at $97.9 million, (distributions for Kimco of US$1.2 million and SCR of $1.8 million are included at their current fixed run rate, however both partners could exceed those amounts through their respective quarterly cash flow sweeps). Total revenue from partners is expected to be $23.5 million in Q2 2018. Annual general and administrative expenses are currently estimated at $8.5 million and include all public company costs.

The Corporation’s Annualized Payout Ratio is approximately 90%. The table below sets out our estimated annualized current run rate of net cash from operating activities alongside the after-tax impact of the various improvements the Corporation is expecting in 2018.

Annualized Cash Flow (*in 000's*)	Comments	Amount ($)	$ / Share
Revenue	$1.30 USD/CAD exchange rate	$ 97,900	$ 2.68
General & Admin.		(8,500)	(0.23)
Interest & Taxes		(23,900)	(0.66)
Net cash flow		$ 65,500	1.80
Annual Dividend		59,000	1.62
Surplus		$ 6,500	$ 0.18
Other Considerations (after taxes and interest):			
SCR & Kimco	Every addtl $2 million in distributions received is $0.05/share	+1,600	+0.05
Planet Fitness	Contemplated partial redemption of US$25.0 million	-1,665	-0.05
New Investments	Every $20 million deployed @ 15%	+1,515	+0.04

The senior debt facility was drawn to $150.8 million at March 31, 2018, with the capacity to draw up to another $149.2 million based on new covenants and credit terms, in addition to the $50 million accordion facility for a total of $199.2 million. The annual interest rate on that debt was approximately 5.5% at March 31, 2018.

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).

Actual Payout Ratio: Actual Payout Ratio refers to Alaris’ total cash dividends paid during the period (annually or quarterly) divided by the actual net cash from operating activities Alaris generated for the period.

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 years ended December 31, 2017 and 2016, the gains 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 Phoenix secured note, bad debt expense of the Kimco long-term receivable and promissory 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 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 year ended December 31, 2017 and 2016, 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 Phoenix promissory notes, bad debt expense of the Kimco long-term receivable and promissory note, bad debt expense related to unpaid distributions from Group SM, the impairment and accretion of the Phoenix 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.

IRR refers to the annualized effective compounded rate of return on an investment. Alaris calculates IRR by using all cash outlays (contributions) and inflows (monthly distributions and gross proceeds from redemptions) over the specific time period in which Alaris was invested in a company, on a pre-tax 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 2018; the revenues/contractual distributions to be received by Alaris in 2018 (annually and quarterly); the Annualized Payout Ratio, the Corporation’s general and administrative expenses in 2018, the expected increase in partner distributions as a result of performance metric resets effective January 1, 2018; the Corporation’s ability to deploy capital; run rate cash from operating activities; the cash requirements of the Corporation in 2018 and the impact thereof. To the extent any forward-looking statements herein constitute a financial outlook, including estimates regarding revenues, net cash from operating activities and expenses, 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 2018 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, 2017, 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:

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

	31-Mar	31-Dec
$ thousands	2018	2017
Assets		
Cash and cash equivalents	$ 17,540	$ 35,475
Prepayments	2,105	2,407
Foreign exchange contracts	211	1,430
Trade and other receivables	5,631	8,642
Promissory notes receivable	13,735	15,403
Current Assets	39,222	63,357
Promissory notes and other receivables	16,431	32,017
Deposits	19,252	19,252
Equipment	461	503
Intangible assets	6,093	6,116
Investments at fair value	680,289	669,216
Investment tax credit receivable	4,956	2,957
Deferred income taxes	2,797	5,449.00
Non-current assets	730,279	735,509
Total Assets	$ 769,501	$ 798,867
Liabilities		
Accounts payable and accrued liabilities	$ 2,255	$ 1,707
Dividends payable	4,921	4,921
Income tax payable	5,390	588
Current Liabilities	12,567	7,217
Deferred income taxes	11,428	13,641
Loans and borrowings	150,847	173,464
Non-current liabilities	162,275	187,105
Total Liabilities	$ 174,842	$ 194,322
Equity		
Share capital	$ 620,842	$ 620,842
Equity reserve	12,826	12,058
Fair value reserve	-	(17,036)
Translation reserve	13,034	5,767
Retained earnings / (deficit)	(52,044)	(17,087)
Total Equity	$ 594,659	$ 604,545
Total Liabilities and Equity	$ 769,501	$ 798,867

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

	Three Months ended March 31	
$ thousands except per share amounts	2018	2017
Revenues		
Royalties and distributions	$ 23,252	$ 20,391
Interest and other	388	490
Total Revenue	23,641	20,881
Other income / (loss)		
Gain on partner redemptions	1,742	-

Increase in investments at fair value	3,531	-
Realized gain / (loss) on foreign exchange contracts	139	(349)
Total other income / (loss)	5,412	(349)
Salaries and benefits	682	636
Corporate and office	953	721
Legal and accounting fees	1,113	538
Non-cash stock-based compensation	768	841
Bad debt expense & reserve	25,974	-
Depreciation and amortization	65	67
Total Operating Expenses	29,554	2,804
Earnings / (Loss) before the undernoted	(501)	17,727
Finance costs	2,745	2,014
Unrealized (gain) / loss on foreign exchange contracts	1,219	(894)
Unrealized foreign exchange (gain) / loss	(4,478)	2,128
Earnings before taxes	13	14,480
Current income tax expense	5,095	1,829
Deferred income tax expense / (recovery)	(1,936)	801
Total income tax expense	3,159	2,631
Earnings / (Loss)	$ (3,146)	$ 11,849
Other comprehensive income		
Foreign currency translation differences	7,267	(2,435)
Other comprehensive income / (loss)	7,267	(2,435)
Total comprehensive income	$ 4,121	$ 9,414
Earnings / (Loss) per share		
Basic	($0.09)	$0.33
Fully diluted	($0.09)	$0.32
Weighted average shares outstanding		
Basic	36,481	36,451
Fully Diluted	36,773	36,784

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

	Three Months ended March 31	
$ thousands	2018	2017
Cash flows from operating activities		
Earnings / (Loss) from the period	$ (3,146)	$ 11,849
Adjustments for:		
Finance costs	2,745	2,014
Deferred income tax expense / (recovery)	(1,936)	801
Depreciation and amortization	65	67
Bad debt expense & reserve	25,974	-
Gain on partner redemptions	(1,742)	-
Increase in investments at fair value	(3,531)	-
Unrealized (gain) / loss on foreign exchange contracts	1,219	(894)
Unrealized foreign exchange (gain) / loss	(4,478)	2,128
Non-cash stock-based compensation	768	841
	$ 15,938	$ 16,806
Change in:		
- trade and other receivables	2,467	10

- income tax receivable / payable	4,802	334
- prepayments	302	620
- accounts payable and accrued liabilities	548	(750)
Cash generated from operating activities	24,057	17,019
Finance costs	(2,745)	(2,014)
Net cash from operating activities	$ 21,312	$ 15,005
Cash flows from investing activities		
Acquisition of equipment	$ -	$ (24)
Acquisition of preferred units	(18,841)	(5,375)
Proceeds from partner redemptions	26,360	500
Promissory notes issued	(8,352)	(5,000)
Promissory notes repaid	2,320	-
Net cash from / (used in) investing activities	$ 1,487	$ (9,898)
Cash flows from financing activities		
Repayment of debt	$ (34,039)	$ -
Proceeds from debt	7,739	-
Dividends paid	(14,775)	(14,745)
Deposits with CRA	-	(68)
Net cash used in financing activities	$ (41,075)	$ (14,814)
Net decrease in cash and cash equivalents	$ (18,277)	$ (9,707)
Impact of foreign exchange on cash balances	341	(248)
Cash and cash equivalents, Beginning of period	35,475	29,491
Cash and cash equivalents, End of period	$ 17,540	$ 19,536
Cash taxes paid	$ 284	$ 1,557