Alaris Royalty Corp. Releases Q2 2018 Financial Results

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CALGARY, Alberta, July 23, 2018 -- Alaris Royalty Corp. (“Alaris” or the "Corporation") is pleased to announce its results for the three and six months ended June 30, 2018. The results are prepared under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Q2 2018 Highlights:

- Record quarterly revenue from Partners of $28.4 million, $0.78 per share, an increase of 25.8% on a per share basis over the prior year period ($22.7 million, $0.62 per share) due to distributions from new partners, distributions from Labstat of $4.3 million that were previously not accrued, follow on investments and positive resets which were partially offset by partner redemptions in 2017;
- Normalized EBITDA of $20.3 million, $0.56 per share, an increase of 7.7% on a per share basis over the prior year period ($19.0 million, $0.52 per share) as the increase in distributions (as noted above) were partially offset by higher corporate expenses;
- Paid $14 million in dividends in the three month period and $29.5 million for the six months ended June 30, 2018, Actual Payout Ratios of 65.0% and 67.1% respectively. These were lower than expected due to the collection of Agility accrued distributions and additional Labstat distributions in Q1 and Q2 respectively. Adjusting for the one time collection of Agility accrued receivables (Q1) and Labstat forgone distributions (Q2) the payout ratio for the three and six months ended June 30, 2018 was 80.1% and 80.5% respectively;
- Contributions of $55 million in the six months ended June 30, 2018:
  - New partner contribution announced in June 2018 of US$15.0 million to Fleet Advantage, LLC (“Fleet”), in exchange for an annual distribution of US$2.1 million;
  - Follow on contributions to C&C Communications (“ccComm.”) of US$10.0 million and Accscient LLC (“Accscient”) of US$3.0 million in exchange for combined annual distributions of US$1.9 million;
- The Corporation crystallized a US$5.8 million gain on the partial redemption of PF Growth Partners, LLC (“Planet Fitness”) in which the Corporation received US$25.0 million of proceeds;
- The Corporation successfully redeemed all of its units in Labstat International ULC (“Labstat”) as a result of the sale of Labstat to a third party. Gross proceeds to Alaris from the Labstat redemption consisted of: (i) $61.3 million for the preferred units, which included a premium of $14.3 million over Alaris’ original cost of $47.0 million; (ii) previously forgone distributions of $4.3 million which resulted from the cash flow sweeps from 2013 to 2017 resulting in less distributions than would have been received under the original distribution structure. The $4.3 million was not previously recorded therefore was a direct increase in book value; and (iii) repayment of a $3.7 million loan outstanding, including all accrued interest. Alaris’ investment in Labstat resulted in a total return to Alaris of approximately $57.0 million or 121%, and an internal rate of return (“IRR”) of approximately 19% over the six year investment;
- The Corporation sold the intangible assets in End of the Roll Carpet & Vinyl (“End of the Roll”) in June 2018. Gross proceeds received were $12.6 million which represents a $5.4 million premium on $7.2 million of invested capital, or 175%. The Corporation collected $16.8 million distributions from End of the Roll, resulting in total return of $22.2 million (309%), and an IRR of 22% over the thirteen year investment;
- Audited results confirmed positive distribution resets in each of the nine partners that had resets in 2018. This is the first time we have had all positive resets in a year, resulting in a weighted average reset of +6%; and

- Reporting a healthy portfolio of 14 current partners with an average of approximately 18.5 years in business. 7 of those 14 partners have no debt on their balance sheets and three more with less than 1.0x EBITDA of debt.

“We are pleased to be announcing our largest revenue quarter in our ten years as a public company. The Corporation realized great returns on two investments, the Labstat redemption and End of the Roll sale added $10.7 million to our book value and generated IRR’s of 19% and 22%, respectively. We are proud of the current health of our portfolio and expect redeployment of recent redemption proceeds, positioning the company for a successful second half of 2018”, said Steve King, President and CEO.

Per Share Results	Three Months Ended			Six Months ended			
Period ending June 30	2018 2017	% Change		2018	2017	% Change	
Revenue per share	$0.78 $0.62	+25.8	%	$1.43	$1.20	+19.2	%
Normalized EBITDA per share	$0.56 $0.52	+7.7	%	$1.11	$1.02	+8.8	%
Net cash from operating activities per share	$0.62 $0.41	+51.2	%	$1.21	$0.82	+47.6	%
Dividends per share	$0.405 $0.405	+0.0	%	$0.81	$0.81	+0.1	%
Basic earnings per share	$0.74 $0.39	+89.7	%	$0.65	$0.71	-8.5	%
Fully diluted earnings per share	$0.73 $0.38	+92.1	%	$0.65	$0.71	-8.5	%
Normalized basic earnings per share	$0.47 $0.39	+20.5	%	$0.97	$0.75	+29.3	%
Weighted average basic shares outstanding (000’s)	36,483 36,463			36,483	36,467		

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

Normalized EBITDA of $0.56 per share increased by 7.7% compared to the three months ending June 30, 2017 due to higher distributions, partially offset by higher corporate expenses and legal and accounting fees. Net cash from operating activities was $0.62 per share, an increase of 51.2% compared to the three months ended June 30, 2017. The increase is a result of higher distributions from the collection of $4.3 million of distributions from Labstat received on redemption, partially offset by higher corporate costs. Dividends paid were $0.405 per share during three months ended June 30, 2018, an Actual Payout Ratio of 65.0% for the period. Excluding the one-time collection of the previously forgone distributions from Labstat, the payout ratio would have been 80.1%.

Normalized EBITDA of $1.11 per share increased by 8.8% on a per share basis compared to the six months ending June 30, 2017 due to higher distributions, partially offset by higher corporate expenses and legal and accounting fees. Net cash from operating activities was $1.21 per share, an increase of 47.6% compared to the six months ended June 30, 2017. The increase is a result of higher distributions (including Labstat as described above), the collection of US$2.9 million of unpaid distributions upon redemption of the Agility units and the timing of tax payments. Dividends paid were $0.81 per share during three and six months ended June 30, 2018, an Actual Payout Ratio of 67.1% for the period. Excluding the one-time collection of the Agility accrued receivables and Labstat previously forgone distributions, the actual payout ratio would have been 80.5%.

The redemptions of Labstat and End of the Roll were the twelfth and thirteenth exit events (ten with positive returns) in the Corporation’s history and adds to an impressive and growing track record where on $465 million invested, the Corporation has received $504 in exit proceeds in addition to approximately $299 million in distributions. Of note, current run rate revenue of $89.9 million on book value of investments of $637.0 million is a 14.1% gross annualized return on current Partners.

Reconciliation of Net Income to EBITDA	Three months ended June 30		Six Months ended June 30	
in thousands	2018	2017	2018	2017
Earnings	$ 26,863	$ 14,109	$ 23,717	$ 25,958
Adjustments to Net Income:				
Amortization and depreciation	65	67	130	134
Finance costs	1,790	1,070	4,535	3,084
Income tax expense	5,686	2,858	8,845	5,489

EBITDA	34,404	18,104	37,226	34,665
Normalizing Adjustments				
Gain / Loss on disposal of investment	(6,402)	-	(8,144)	-
Increase in investments at fair value	(502)	(3,975)	(4,033)	(3,975)
Impairment and other charges	-	1,474	-	1,474
Bad Debt Expense	-	-	25,974	-
Distributions received on redemption (Labstat)	(4,282)	-	(4,282)	-
Unrealized (gain) / loss on foreign exchange	(2,858)	3,338	(6,117)	4,572
Realized (gain) / loss on foreign exchange	(13)	130	(152)	480
Normalized EBITDA	$ 20,347	$ 19,072	$ 40,472	$ 37,215

Normalized Earnings	Three months ended June 30		Six Months ended June 30	
in thousands except on per share basis	2018	2017	2018	2017
Earnings before the undernoted	$ 31,481	$ 21,375	$ 30,979	$ 39,103
Finance costs	(1,790)	(1,070)	(4,535)	(3,084)
Impairment and other charges	-	1,474	-	1,474
Gain on partner redemptions	(6,402)	-	(8,144)	-
Increase in investments at fair value	(502)	(3,975)	(4,033)	(3,975)
Distributions received on redemption (Labstat)	(4,282)	-	(4,282)	-
Bad debt expense & reserve	-	-	25,974	-
Normalized Earnings pre-tax	$ 18,505	$ 17,804	$ 35,960	$ 33,518
Total income taxes	(5,686)	(2,858)	(8,845)	(5,489)
Tax normalizations for above items	4,226	(694)	8,126	(739)
Normalized Earnings	$ 17,045	$ 14,252	$ 35,241	$ 27,290
Normalized Earnings per share				
Basic	$ 0.47	$ 0.39	$ 0.97	$ 0.75
Fully diluted	$ 0.46	$ 0.39	$ 0.96	$ 0.74

Outlook

Based on Alaris’ current agreements with its partners, the Corporation’s run rate revenues are estimated at $89.9 million. Total revenue from partners is expected to be $22.5 million in Q3 2018. Annual general and administrative expenses are currently estimated at $9.5 million for 2018 and include all public company costs.

The Corporation’s Run Rate Payout Ratio is approximately 98%. The table below sets out our estimated Run Rate Payout Ratio alongside the after-tax impact of the potential improvements the Corporation is expecting in 2018.

Annualized Cash Flow (*in 000's*)	Comments	Amount ($)	$ / Share
Revenue	$1.32 USD/CAD exchange rate	$ 89,900	$ 2.46
General & Admin.		(9,500)	(0.26)
Interest & Taxes		(20,400)	(0.56)
Net cash flow		$ 60,000	1.65
Annual Dividend		59,000	1.62
Surplus		$ 1,000	$ 0.03
Other Considerations (after taxes and interest):			
SCR & Kimco	Every addtl $2 million in distributions received is $0.05/share	+1,600	+0.05
New Investments	Every $50 million deployed @ 15%	+3,563	+0.10

The senior debt facility was drawn to $82.0 million at June 30, 2018 (reduced to $75.0 million as of July 23, 2018), with the capacity to draw up to another $225.0 million based on new covenants and credit terms, in addition to the $50 million accordion facility for a total of $275.0 million. The annual interest rate on that debt was approximately 5.5% at June 30, 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.

An updated corporate presentation will be posted to the Corporation’s website within 24 hours 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 Run Rate 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 Run Rate Payout ratio may differ from the methods used by other issuers. Therefore, the Corporation’s EBITDA, Normalized EBITDA and Run Rate Payout Ratio may not be comparable to similar measures presented by other issuers.

Run Rate Payout Ratio: Run Rate Payout Ratio refers to Alaris’ total 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 Run Rate Payout Ratio; the Corporation’s general and administrative expenses in 2018; the impact of expected operational improvements for the Corporation in 2018; interest and tax expenses in 2018; dividends paid in 2018; the Corporation’s ability to deploy capital, including redeploying proceeds from any redemptions; run rate cash from operating activities; the cash requirements of the Corporation in 2018; dividends paid; and impact of capital deployment. 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, 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 or redeem proceeds from any redemptions in a timely fashion on anticipated term, 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)

	30-Jun	31-Dec
$ thousands	2018	2017
Assets		
Cash and cash equivalents	$ 27,621	$ 35,475
Prepayments	2,051	2,407
Foreign exchange contracts	-	1,430
Trade and other receivables	1,054	8,642
Investment tax credit receivable	2,226	2,957
Assets acquired held for sale	37,000	-
Promissory notes receivable	-	15,403
Current Assets	69,953	66,315
Promissory notes and other receivables	16,826	32,017
Deposits	19,252	19,252
Equipment	416	503
Intangible assets	-	6,116
Investments at fair value	637,050	669,216
Deferred income taxes	3,806	5,449.00
Non-current assets	677,350	732,552
Total Assets	$ 747,303	$ 798,867
Liabilities		
Accounts payable and accrued liabilities	$ 2,187	$ 1,707
Dividends payable	4,921	4,921
Foreign exchange contracts	456	-
Liabilties acquired held for sale	27,000	-
Income tax payable	5,494	588
Current Liabilities	40,059	7,217
Deferred income taxes	10,628	13,641
Loans and borrowings	82,096	173,464
Non-current liabilities	92,724	187,105
Total Liabilities	$ 132,783	$ 194,322

Equity		
Share capital	$ 621,082	$ 620,842
Equity reserve	13,353	12,058
Fair value reserve	-	(17,036)
Translation reserve	20,039	5,767
Retained earnings / (deficit)	(39,955)	(17,087)
Total Equity	$ 614,519	$ 604,545
Total Liabilities and Equity	$ 747,303	$ 798,867

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

	Three months ended June 30		Six Months ended June 30	
$ thousands except per share amounts	2018	2017	2018	2017
Revenues				
Royalties and distributions	$ 27,756	$ 21,752	$ 51,008	$ 42,143
Interest and other	687	1,032	1,075	1,522
Total Revenue	28,442	22,784	52,083	43,664
Other income				
Gain on partner redemptions	6,402	-	8,144	-
Increase in investments at fair value	502	3,975	4,033	3,975
Realized gain / (loss) on foreign exchange contracts	13	(130)	152	(480)
Total other income	6,917	3,845	12,329	3,495
Salaries and benefits	1,348	1,440	2,030	2,076
Corporate and office	1,032	1,048	1,984	1,769
Legal and accounting fees	668	340	1,781	878
Non-cash stock-based compensation	767	885	1,535	1,727
Bad debt expense & reserve	-	-	25,974	-
Impairment and other charges	-	1,474	-	1,474
Depreciation and amortization	65	67	130	134
Total Operating Expenses	3,880	5,253	33,433	8,057
Earnings before the undernoted	31,481	21,375	30,979	39,103
Finance costs	1,790	1,070	4,535	3,084
Unrealized (gain) / loss on foreign exchange contracts	695	(1,011)	1,914	(1,905)
Unrealized foreign exchange (gain) / loss	(3,553)	4,349	(8,031)	6,477
Earnings before taxes	32,549	16,967	32,562	31,447
Current income tax expense	5,012	2,187	10,107	4,016
Deferred income tax expense / (recovery)	674	671	(1,262)	1,473
Total income tax expense	5,686	2,858	8,845	5,489
Earnings	$ 26,863	$ 14,109	$ 23,717	$ 25,958
Other comprehensive income				
Foreign currency translation differences	7,005	(5,488)	14,272	(7,923)
Other comprehensive income / (loss)	7,005	(5,488)	14,272	(7,923)
Total comprehensive income	$ 33,868	$ 8,621	$ 37,989	$ 18,035
Earnings per share				
Basic	$ 0.74	$ 0.39	$ 0.65	$ 0.71
Fully diluted	$ 0.73	$ 0.38	$ 0.65	$ 0.71
Weighted average shares outstanding				
Basic	36,486	36,483	36,483	36,467
Fully Diluted	36,767	36,785	36,765	36,769

Alaris Royalty Corp.

Condensed consolidated statement of cash flows (unaudited)

$ thousands	Six Months ended June 30 2018	2017
Cash flows from operating activities		
Earnings from the period	$ 23,717	$ 25,958
Adjustments for:		
Finance costs	4,535	3,084
Deferred income tax expense / (recovery)	(1,262)	1,473
Depreciation and amortization	130	134
Bad debt expense & reserve	25,974	-
Impairment and other charges	-	1,474
Gain on partner redemptions	(8,144)	-
Increase in investments at fair value	(4,033)	(3,975)
Unrealized (gain) / loss on foreign exchange contracts	1,914	(1,905)
Unrealized foreign exchange (gain) / loss	(8,031)	6,477
Non-cash stock-based compensation	1,535	1,727
	$ 36,334	$ 34,446
Change in:		
- trade and other receivables	7,044	27
- income tax receivable / payable	4,906	(1,699)
- prepayments	(183)	620
- accounts payable and accrued liabilities	480	(327)
Cash generated from operating activities	48,582	33,067
Finance costs	(4,535)	(3,084)
Net cash from operating activities	$ 44,047	$ 29,983
Cash flows from investing activities		
Acquisition of preferred units	$ (56,325)	$ (31,832)
Proceeds from partner redemptions	133,621	12,499
Promissory notes issued	(8,352)	(11,960)
Promissory notes repaid	6,055	-
Acquisition of equipment	-	(32)
Net cash from / (used in) investing activities	$ 74,998	$ (31,326)
Cash flows from financing activities		
Repayment of debt	$ (141,863)	$ -
Proceeds from debt	44,137	17,190
Dividends paid	(29,550)	(29,505)
Deposits with CRA	-	(68)
Net cash used in financing activities	$ (127,275)	$ (12,384)
Net decrease in cash and cash equivalents	$ (8,230)	$ (13,726)
Impact of foreign exchange on cash balances	376	(582)
Cash and cash equivalents, Beginning of period	35,475	29,491
Cash and cash equivalents, End of period	$ 27,621	$ 15,182
Cash taxes paid	$ 5,700	$ 5,118