Alaris Royalty Corp. Releases Q1 2019 Financial Results

06.05.2019 | GlobeNewswire

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

This chart reflects the volatility in Alaris' share price vs the revenue and normalized EBITDA the company has generated over the last 9 quarters of financial results.

CALGARY, May 06, 2019 - Alaris Royalty Corp. (“Alaris” or the "Corporation") is pleased to announce its results for the three months ended March 31, 2019. The results are prepared under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Q1 2019 Highlights:

- The Corporation completed two additional contributions into existing partners during the period:
  - On January 12, 2019, the Corporation invested an additional US$8.0 million into Accscient in exchange for initial annual distributions of US$1.1 million. The contribution was used to partially fund an acquisition in its industry. The contribution represents the Corporation’s fifth investment (including the initial) into Accscient for a total of US$38.0 million;
  - On February 22, 2019, the Corporation contributed an additional US$5.0 million into Sandbox, in exchange for incremental distributions of US$0.8 million. The fourth additional contribution into Sandbox has a minimum repurchase premium of US$1.0 million and may include a percentage of common equity upon redemption based on predetermined exit mechanics. The contribution was used to support working capital;
- Generated revenue of $27.7 million, an increase of 16.9% on a per share basis versus the comparable 2018 period and a 9.3% increase over Q4 2018. The increase is due to distributions from new investments into GWM, BCC, Fleet and Heritage, organic growth through the 2019 reset and the appreciation of the US dollar versus the comparable period. This was partially offset by the reduction in distributions stemming from profitable redemptions from Labstat, End of the Roll, and Agility;
- Normalized EBITDA of $0.68 per share, increased 23.6% compared to the three months ending March 31, 2018 due to an increase in distributions and a small reduction in corporate overhead. Net cash from operating activities was $0.57 per share, a decrease of 1.7% as the comparable period included the collection of US$2.8 million of distributions previously accrued upon the redemption of the Agility units;
- The Corporation paid $15.0 million of dividends during the three months ended March 31, 2019, resulting in an Actual Payout Ratio of 72.9% for the period;

Corporate Update – Providence Industries

- In late March 2019, the Corporation received notice from Providence's senior lender (the “Lender”) that distributions to the Corporation were blocked. Subsequently, the Corporation, Providence and the Lender came to an agreement to restart distributions immediately on a modified basis. The Lender agreed to forbear for a two year period as a result of Providence’s owners contributing a material amount of capital into the business, the proceeds of which will be used as a partial repayment of the senior debt and to fund working capital.

- As part of the forbearance and beginning in April 2019 (April distribution has already been received), contracted distributions to Alaris of US$195,000 per month (US$2.34 million annually) are permitted for the two years, equating to over 50% of the contracted distributions over that same time period. Alaris expects to collect a total of US$2.9 million from Providence in 2019, which includes collecting full distributions in January, February and March and nine months at US$195,000 per month. The agreement with the Lender requires Providence to meet a liquidity threshold. Management of Providence is confident such threshold will be easily maintained based on their forecast.
- Due to the change in expected future distributions over the next 24 months, the fair value of the Providence units were reduced by US$5.0 million for the three months ending March 31, 2019;
- Providence as a percentage of total contracted distributions to the Corporation accounts for approximately 5% of total revenue (CAD$5.9 million or $0.16 per share) that the Corporation expects for the year ended December 31, 2019. The carrying value of Alaris’ investment in Providence accounted for approximately 5% of Alaris’ total investment book value (CAD$39 million or $1.07 per share) at year ended December 31, 2018 and was reduced by US$5.0 million (1.1% of book value) during the three months ended March 31, 2019.

“Once again our financial results show the growth and stability that has been delivered for the better part of fifteen years, ten of which as a public company. Since Q1 17, Alaris’ revenue and normalized EBITDA per share have grown by 32% and 36% respectively with very little volatility each quarter in between, while Alaris’ shares have not traded in this same manner. While some continue to focus on negative news from within our large diversified portfolio, we trust that continuing to put up these results will lead to a marketplace for our shareholders that will more closely mirror our fundamentals,” said Steve King, President and CEO, Alaris.

(see accompanying graphic “Financial Performance vs. Share Price”)
http://www.globenewswire.com/NewsRoom/AttachmentNg/27442b9f-34cc-4e64-8d82-d1d9b604fb90

Per Share Results	Three months ended		
Period ending March 31	2019	2018	% Change
Revenue	$ 0.76	$ 0.65	+16.9%
Normalized EBITDA	$ 0.68	$ 0.55	+23.6%
Net cash from operating activities	$ 0.57	$ 0.58	-1.7%
Dividends	$ 0.412	$ 0.405	+1.7%
Basic earnings	$ 0.31	$ (0.09)	+457.9%
Fully diluted earnings	$ 0.31	$ (0.09)	+458.0%
Weighted average basic shares (000’s)	36,496	36,481	

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

Revenue per share of $0.76 per share increased by 16.9% over the three month period due to distributions from new investments GWM, BCC, Fleet and Heritage, organic growth through the 2019 reset and the appreciation of the US dollar versus the comparable period. This was partially offset by the reduction in distributions stemming from profitable redemptions from Labstat, End of the Roll, and Agility.

The Corporation recorded earnings of $11.3 million, EBITDA of $16.4 million and Normalized EBITDA of $24.9 million for the three months ended March 31, 2019 compared to 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. The 23.5% increase in Normalized EBITDA is a result of the addition of new partners GWM, BCC, Fleet and Heritage, 2019 positive resets, and follow on contributions into Accscient, ccComm and Sandbox, partially offset by redemptions in Labstat, Agility and End of the Roll.

Reconciliation of Net Income to EBITDA	Three months ended March 31	
$ thousands	2019	2018

Earnings	$ 11,265	$ (3,146)
Adjustments to Net Income:		
Amortization and depreciation	171	65
Finance costs	4,136	2,745
Income tax expense	836	3,159
EBITDA	$ 16,407	$ 2,822
Normalizing Adjustments		
Gain on disposal of investment	-	(1,742)
Decrease / (increase) in investments at fair value	5,097	(3,531)
Transaction diligence costs	179	-
Bad debt expense	-	25,975
Unrealized (gain) / loss on foreign exchange	2,998	(3,259)
Realized (gain) / loss on foreign exchange	170	(139)
Normalized EBITDA	$ 24,850	$ 20,126

Outlook

“Operationally, our overall portfolio continues to perform as expected. Short term variances in individual partner results have been and are expected to be counterbalanced by strong performances from others, leading to consistent organic growth as we’ve shown historically. From a deployment perspective, we have seen a very strong period of larger opportunities that we are currently pursuing. While the competitive landscape will remain very robust for the foreseeable future, the features that we offer entrepreneurs of highly successful private companies still has not been matched by competitors,” said Steve King.

Run rate distributions for 2019 are expected to be $107.7 million, which include 2019 contracted amounts inclusive of known resets, $1.8 million from SCR, US$2.34 million of distributions from Providence and no distributions from Kimco. Distributions for Q2 2019 are expected to be $27.0 million. Annual general and administrative expenses are currently estimated at $10.0 million for 2019 and include all public company costs. The Corporation’s Run Rate Payout Ratio is approximately 92% when including run rate distributions and annual general and administrative expenses. The table below sets out our estimated Run Rate Payout Ratio alongside the after-tax impact of potential changes to certain Partners distributions.

Run Rate Cash Flow *($ thousands except per share)*		Am
Revenue	$1.32 USD/CAD exchange rate	$ 1
General & Admin.		(10
Interest & Taxes		(32
Free cash flow		$ 6
Annual Dividend		60,
Excess Cash Flow		$ 5
Other Considerations (after taxes and interest):		
SCR, Kimco & Providence	Every addtl $2 million in distributions received is $0.05/share	+1,
New Investments	Every $50 million deployed @ 14%	+3,

The senior debt facility was drawn to $229.9 million at March 31, 2019, with the capacity to draw up to another $70.1 million based on covenants and credit terms, in addition to the $50 million accordion facility for a total of $120.1 million. The annual interest rate on that debt was approximately 6.4% at March 31, 2019.

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

Alaris management will host a conference call at 9am MT (11am ET), Tuesday, May 7, 2019 to discuss the financial results for Q1 2019 and outlook for the Corporation.

Participants can access the conference call by dialing toll free 1-866-475-5449 (or 1-213-660-0709) and enter in passcode 8986455. Alternatively, to listen to this event online, please enter https://edge.media-server.com/m6/p/3o65g8ij in to 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 instant replay until 11:59pm Eastern Time, May 14, 2019. You can access the replay by dialing toll free 1-855-859-2056 (or 1-404-537-3406) and entering the passcode 8986455. The webcast will be archived for 90 days and is available for replay by using the same link as above or by finding the link we'll have stored under the "Investor” section - “Presentations and Events”, on our website at www.alarisroyalty.com.

Annual General and Special Meeting

Alaris will be holding its Annual General and Special Meeting of common shareholders at 2:30pm MT (430pm ET) on Tuesday, May 7, 2019 at the Hotel Le Germain, 899 Centre Street SW, Calgary, AB. Materials for the meeting have been mailed to shareholder of record as of April 2, 2019 and copies are available and the Corporations profile on SEDAR at www.sedar.com as well as on its website under the “Investors” section.

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, Actual Payout Ratio 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: 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: 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 earnings 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.

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 three months ended March 31, 2018, the gains on the redemption of the Agility, and the KMH and Group SM bad debt expense are considered by management to be non-recurring charges. Transaction diligence costs are recurring but are considered an investing activity. Foreign exchange realized and unrealized gains and losses are recurring but not considered part of operating results and excluded from normalized EBITDA on an ongoing basis. Changes in investments at fair value are non-cash and although recurring are also removed from normalized EBITDA. Adjusting for these non-recurring items allows management to assess cash flow from ongoing operations.

Earnings Coverage Ratio refers to the Normalized EBITDA of a Partner divided by such Partner’s sum of debt servicing (interest and principal), unfunded capital expenditures and distributions to Alaris. Management believes the earnings coverage ratio is a useful metric in assessing our partners continued ability to make their contracted distributions.

Per Share values, other than earnings per share, refer to the related financial statement caption as defined under IFRS or related term as defined herein, divided by the weighted average basic shares outstanding for the period.

Fixed Charge Coverage Ratio refers to EBITDA less unfunded maintenance capital expenditures divided by the sum of taxes, interest, debt repayments and dividends paid by Alaris.

IRR refers to internal rate of return, which is a metric used to determine the discount rate that derives a net present value of cash flows to zero. Management uses IRR to analyze partner returns.

The terms EBITDA, Payout Ratios and Normalized EBITDA should only be used in conjunction with the Corporation’s annual audited 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 Corporation’s Partners; the revenues/contractual distributions to be received by Alaris in 2019 (annually and quarterly); distributions to be received from Providence; Providence meeting its minimum liquidity test; the Run Rate Payout Ratio; the Corporation’s general and administrative expenses in 2019; the impact of expected operational improvements and future investments for the Corporation in 2019; interest and tax expenses in 2019; dividends paid; the Corporation’s ability to deploy capital, including redeploying proceeds from any redemptions; the competitive landscape for new deals; opportunities the Corporation is pursuing; run rate cash from operating activities; the cash requirements of the Corporation in 2019; 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 2019 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 2019, 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, 2018, 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 statements of financial position (unaudited)

	31-Mar	31-Dec
$ thousands	2019	2018
Assets		
Cash and cash equivalents	$ 17,818	$ 22,774
Prepayments	1,562	2,181
Trade and other receivables	1,602	923
Income taxes receivable	-	1,484
Investment tax credit receivable	2,798	2,798
Promissory notes receivable	22,090	23,252
Current Assets	$ 45,871	$ 53,413
Promissory notes and other receivables	26,388	26,959
Deposits	20,206	20,206
Property and Equipment	960	344
Investments	787,081	790,175
Deferred income taxes	-	281

Non-current assets	$ 834,635	$ 837,965
Total Assets	$ 880,506	$ 891,378
Liabilities		
Accounts payable and accrued liabilities	$ 1,900	$ 3,670
Dividends payable	5,013	5,013
Foreign exchange contracts	489	1,333
Office Lease	664	-
Income tax payable	3,894	1,257
Current Liabilities	$ 11,958	$ 11,273
Deferred income taxes	13,882	16,137
Loans and borrowings	229,948	228,103
Non-current liabilities	$ 243,830	$ 244,240
Total Liabilities	$ 255,788	$ 255,513
Equity		
Share capital	$ 621,082	$ 621,082
Equity reserve	15,032	14,678
Translation reserve	25,014	32,725
Retained earnings / (deficit)	(36,410)	(32,621)
Total Equity	$ 624,718	$ 635,865
Total Liabilities and Equity	$ 880,506	$ 891,378

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

	Three months ended March 31	
$ thousands except per share amounts	2019	2018
Revenues		
Distributions	$ 26,593	$ 23,252
Interest	1,065	388
Total Revenue	$ 27,658	$ 23,641
Other income / (loss)		
Gain on partner redemptions	$ -	$ 1,742
Increase / (decrease) in investments at fair value	(5,097)	3,531
Realized gain / (loss) on foreign exchange contracts	(170)	139
Total other income / (loss)	$ (5,267)	$ 5,412
Salaries and benefits	$ 777	$ 682
Corporate and office	605	953
Legal and accounting fees	1,074	1,113
Transaction diligence costs	179	-
Non-cash stock-based compensation	354	768
Bad debt expense & reserve	-	25,975
Depreciation, amortization and accretion	171	65
Total operating expenses	3,158	29,554
Earnings / (loss) before the undernoted	$ 19,234	$ (501)
Finance costs	4,136	2,745
Unrealized (gain) / loss on foreign exchange contracts	(844)	1,219
Unrealized foreign exchange (gain) / loss	3,842	(4,478)
Earnings before taxes	$ 12,101	$ 13

Current income tax expense	2,532	5,095
Deferred income tax (recovery)	(1,696)	(1,936)
Total income tax expense	836	3,159
Earnings / (loss)	$ 11,265	$ (3,146)
Other comprehensive income		
Foreign currency translation differences	(7,711)	7,267
Total comprehensive income	$ 3,554	$ 4,121
Earnings / (loss) per share		
Basic	$ 0.31	$ (0.09)
Fully diluted	$ 0.31	$ (0.09)
Weighted average shares outstanding		
Basic	36,496	36,481
Fully Diluted	36,772	36,773

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

	Three months ended March 31	
$ thousands	2019	2018
Cash flows from operating activities		
Earnings / (loss) for the period	$ 11,265	$ (3,146)
Adjustments for:		
Finance costs	4,136	2,745
Deferred income tax (recovery)	(1,696)	(1,936)
Depreciation, amortization and accretion	171	65
Bad debt expense & reserve	-	25,975
Gain on partner redemptions	-	(1,742)
Increase / (decrease) in investments at fair value	5,097	(3,531)
Unrealized (gain) / loss on foreign exchange contracts	(844)	1,219
Unrealized foreign exchange (gain) / loss	3,842	(4,478)
Transaction diligence costs	179	-
Non-cash stock-based compensation	354	768
	$ 22,502	$ 15,937
Change in:		
- trade and other receivables	(679)	2,467
- income tax receivable / payable	4,121	4,802
- prepayments	620	302
- accounts payable, accrued liabilities, office lease payments	(1,770)	548
Cash generated from operating activities	24,793	24,056
Cash interest paid	(4,136)	(2,745)
Net cash from operating activities	$ 20,657	$ 21,311
Cash flows from investing activities		
Acquisition of investments	$ (17,154)	$ (18,841)
Transaction diligence costs	(179)	-
Proceeds from partner redemptions	-	26,360
Promissory notes issued	-	(8,352)
Promissory notes repaid	870	2,320
Net cash from / (used in) investing activities	$ (16,462)	$ 1,487
Cash flows from financing activities		

Repayment of debt	$ -	$ (34,039)
Proceeds from debt	6,634	7,739
Dividends paid	(15,054)	(14,775)
Office lease payments	(133)	-
Net cash used in financing activities	$ (8,553)	$ (41,075)
Net decrease in cash and cash equivalents	$ (4,358)	$ (18,277)
Impact of foreign exchange on cash balances	(599)	341
Cash and cash equivalents, Beginning of period	22,774	35,475
Cash and cash equivalents, End of period	$ 17,818	$ 17,540
Cash taxes paid / (received)	$ (1,638)	$ 284