Alaris Royalty Corp. Releases Q2 2019 Financial Results

24.07.2019 | CNW

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

TSX-AD

CALGARY, July 24, 2019 - Alaris Royalty Corp. ("Alaris" or the "Corporation") is pleased to announce its results for the three and six months ended June 30, 2019. The results are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Q2 2019 Highlights:

- Generated revenue of $27.4 million in the quarter, a decrease of 3.8% on a per share basis due to the comparable period including $4.3 million of one-time distributions received on the redemption of Labstat. Normalizing for the three-month period ended June 30, 2019 revenue increased 13.6%. The increase is due to distributions from new investments into GWM, BCC, Fleet and Amur and organic growth through positive resets on the annual distributions in January 2019. This was partially offset by the reduction in distributions stemming from profitable redemptions from Labstat and End of the Roll. Revenue for the six month period was $55.1 million, an increase of 5.6% over the prior year period and 15.3% when normalizing for the one-time distributions in 2018;

- Normalized EBITDA for the quarter was $24.0 million and $48.9 million for the six-months ended June 30, 2019, an increase of 17.9% and 20.7% on a per share basis for the three and six-month periods respectively. The increases are a result of net deployment into new and current partners as well as organic growth through positive resets on the annual distributions in January 2019;

- The Corporation paid $15.1 million of dividends during the three months ended June 30, 2019, resulting in an Actual Payout Ratio of 94.3% for the three month period as the timing of tax payments resulted in a $3.8 million decrease in current tax liabilities. For the six months ending June 30, 2019, the Corporation paid $30.1 million of dividends, an Actual Payout Ratio of 81.5%, this incorporates the timing of fluctuating tax payments;

- Increases to Investments at fair value totalled $9.3 million for the quarter, this includes: SCR Mining and Tunneling, LP ("SCR") write-up of $3.9 million on an increase in expected future distributions, beginning with an increase in Q3 2019 (increased to $2.4 million annually), Sales Benchmark Index LLC ("SBI") write up of $1.5 million based on recent performance and PF Growth Partners, LLC ("PFGP") increase of $3.9 million to the redemption amount of existing units which were exchanged as part of an additional investment subsequent to June 30, 2019;

- Recovered $2.0 million of previously written off bad debt relating to Phoenix Holdings Limited, formerly KMH ("Phoenix");

- The Corporation completed an initial investment into Amur Financial Group Inc. ("Amur") for $70.0 million, consisting of $50.0 million of combined debt and preferred equity and a $20.0 million investment in exchange for a minority ownership of the common equity of Amur. Alaris will receive $6.5 million on its $50.0 million contribution and is expecting to receive dividends on its $20.0 million common equity investment;

- Subsequent to June 30, 2019 the Corporation invested an additional US$60.2 million into PFGP. The additional contribution consists of a new US$43.7 million preferred equity contribution as well as an investment of US$16.5 million in exchange for a minority ownership of the common equity in PFGP. This transaction also included an exchange of the Corporation's existing preferred units in PFGP valued at US$27.8 million, resulting in a total investment following the transaction of US$88.0 million in PFGP. The new preferred units in PFGP will have a value of US$71.5 million resulting in an initial annualized distribution on these preferred units of US$8.9 million. The PFGP distribution is expected to reset up 5% on January 1, 2020 based on same club sales results, another top of the collar reset for PFGP;

- During the quarter, the Corporation issued $100.0 million in convertible debentures. The debentures have an interest rate of 5.5% and a 30% conversion premium ($24.25). Proceeds of the debenture were used to reduce existing indebtedness under Alaris' senior credit facility, which was later used to make contributions in Amur and PFGP;

- Total net capital deployment year to date of $150.0 million includes gross deployment of approximately $170.0 million (Amur, PFGP, Accscient, LLC ("Accscient"), and ccCommunications LLC ("ccComm")) and redemptions of redeemable units of approximately $20.0 million (SBI and Fleet Advantage, LLC ("Fleet")).

"We are pleased to have produced yet another quarter with strong operational results. Not only is our partner portfolio continuing to trend in a very positive direction but we are on pace to shatter our previous record for capital deployment that was set last year" said Steve King, President and CEO. "Our primary offering of perpetual, participating, preferred shares will remain our focus but the inclusion of a small piece of common equity allowed us to deploy another $150 million that we wouldn't have had the opportunity to otherwise", said King.

Per Share Results	Three months ended			Six months ended		
Period ending June 30	2019	2018	% Change	2019	2018	% Change
Revenue	$ 0.75	$ 0.78	-3.8%	$ 1.51	$ 1.43	+5.6%
Normalized EBITDA	$ 0.66	$ 0.56	+17.9%	$ 1.34	$ 1.11	+20.7%
Net cash from operating activities	$ 0.44	$ 0.62	-29.0%	$ 1.01	$ 1.21	-16.5%
Dividends	$ 0.412	$ 0.405	+1.7%	$ 0.824	$ 0.810	+1.7%
Basic earnings	$ 0.60	$ 0.74	-18.9%	$ 0.91	$ 0.65	+40.0%
Fully diluted earnings	$ 0.60	$ 0.73	-17.8%	$ 0.90	$ 0.65	+38.5%
Weighted average basic shares (000's)	36,556	36,486		36,527	36,483	

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

Revenue per share decreased 3.8% during the three months ended June 30, 2019 due to the receipt of $4.3 million of distributions upon the redemption of Labstat. Excluding the one-time distributions revenue increased 13.6% on a per share basis due to distributions from new partners and 2019 net positive resets. Revenue per share increased by 5.6% for the six months ended June 30, 2019, even including the additional distributions received from Labstat in 2018.

For the three months ended June 30, 2019 Normalized EBITDA of $0.66 per share ($24.0 million), an increase of 17.9% per share compared to $0.56 per share ($20.3 million). For the six months ended June 30, 2019 Normalized EBITDA of $1.34 per share ($48.9 million) versus $1.11 per share ($40.5 million) represents a 20.7% increase over the comparable period. The primary contributors to the increase in both the three and six month period were the increase in distributions driven by net deployment and lower overhead due to the timing of variable compensation.

Reconciliation of Net Income to EBITDA	Three months ended June 30		Six months ended June 30	
$ thousands	2019	2018	2019	2018
Earnings	$ 21,967	$ 26,863	$ 33,228	$ 23,717
Adjustments to Net Income:				
Amortization and depreciation	159	65	330	130
Finance costs	3,931	1,790	8,067	4,535
Income tax expense	4,270	5,686	5,106	8,845
EBITDA	$ 30,327	$ 34,404	$ 46,731	$ 37,226
Normalizing Adjustments				
Gain on disposal of investment	-	(6,402)	-	(8,144)
Increase in investments at fair value	(9,292)	(502)	(4,195)	(4,033)
Transaction diligence costs	828	-	1,007	-
Bad debt expense / (recovery)	(2,018)	-	(2,018)	25,974
Distributions received on redemption (Labstat)	-	(4,282)	-	(4,282)
Unrealized (gain) / loss on foreign exchange	3,319	(2,858)	6,317	(6,118)
Realized (gain) / loss on foreign exchange	878	(13)	1,048	(152)
Normalized EBITDA	$ 24,042	$ 20,347	$ 48,890	$ 40,472

Outlook

Run Rate distributions are expected to be $120.4 million, which include current contracted amounts inclusive of known resets, $2.4 million from SCR (recently increased from $1.8 million effective July 1, 2019), US$2.3 million of distributions from Providence, no distributions from Kimco and the additional investment into PFGP. Revenue for Q3 2019 is expected to be $30.1 million. Revenue for full year fiscal 2019 is expected to be $115.3 million, based on actual results year to date plus six months of run rate distributions. 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 84% when including run rate distributions, overhead expenses and existing capital structure. 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)		Amount($)	$ / Share
Revenue	$1.32 USD/CAD exchange rate	$ 120,400	$ 3.29
General & Admin		(10,000)	(0.27)
Interest & Taxes		(38,700)	(1.06)
Free cash flow		$ 71,700	$ 1.96
Annual Dividend		60,400	1.65
Excess Cash Flow		$ 11,300	$ 0.31
Other Considerations (after taxes and interest):			
SCR, Kimco & Providence	Every addtl $2 million in distributions received is $0.05/share	+1,600	+0.05
New Investments	Every $50 million deployed @ 14%	+3,188	+0.09

The senior debt facility was drawn to $187.7 million at June 30, 2019, with the capacity to draw up to another $112.3 million based on covenants and credit terms, in addition to the $50.0 million accordion facility for a total of $162.3 million. Subsequent to June 30, 2019 the Corporation borrowed an additional $81.3 million to fund the additional investment into Planet Fitness, increasing total debt outstanding to approximately $269.0 million, resulting in $31.0 million of additional capacity in addition to the $50.0 million accordion facility. The Corporation's senior lenders have agreed to extend the Corporation's ability to have greater than 2.5x senior debt to contracted EBITDA until March 31, 2020, in the event that occurs. The annual interest rate on that debt was approximately 6.2% at June 30, 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.

Earnings Release Date and Conference Call Details

Alaris management will host a conference call at 9am MST (11am EST), Thursday, July 25, 2019 to discuss the financial results for Q2 2019 and outlook for the Corporation.

Participants in North America can access the conference call by dialing toll free 1-888-390-0546. Alternatively, to listen to this event online, please click the webcast link and follow the prompts given: Q2 Webcast. 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 for a week. You can access the replay by dialing toll free 1-888-390-0541 and entering the passcode 100046#. The webcast will be archived for 3 months 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 – "Presentation and Events", 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, 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, Actual Payout Ratio and Run Rate Payout ratio may differ from the methods used by other issuers. Therefore, the Corporation's EBITDA, Normalized EBITDA, Actual Payout Ratio 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 and six months ended June 30, 2018, the gains on the redemption of the Agility, and the Phoenix 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); common equity dividends from Amur; 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 to be paid; the Corporation's ability to deploy capital, including redeploying proceeds from any redemptions; the competitive landscape for new deals; 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' 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.

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

	30-Jun	31-Dec
$ thousands	2019	2018
Assets		
Cash and cash equivalents	$ 13,862	$ 22,774
Prepayments	1,417	2,181
Trade and other receivables	1,885	923
Income taxes receivable	450	1,484
Investment tax credit receivable	-	2,798
Promissory notes receivable	21,831	23,252
Current Assets	$ 39,445	$ 53,413
Promissory notes and other receivables	29,809	26,959
Deposits	20,206	20,206
Property and equipment	777	344
Investments	839,327	790,175
Investment tax credit receivable	2,538	-
Deferred income taxes	-	281
Non-current assets	$ 892,657	$ 837,965
Total Assets	$ 932,102	$ 891,378
Liabilities		
Accounts payable and accrued liabilities	$ 2,422	$ 3,670
Dividends payable	5,035	5,013
Foreign exchange contracts	-	1,333
Office Lease	505	-
Income tax payable	550	1,257
Current Liabilities	$ 8,512	$ 11,273
Deferred income taxes	14,875	16,137
Loans and borrowings	187,704	228,103
Convertible debentures	90,132	-
Non-current liabilities	$ 292,711	$ 244,240
Total Liabilities	$ 301,223	$ 255,513

Equity		
Share capital	$ 623,208	$ 621,082
Equity component of convertible debenture	$ 5,500	$ 0
Equity reserve	13,806	14,679
Translation reserve	17,883	32,725
Retained earnings / (deficit)	(29,518)	(32,621)
Total Equity	$ 630,879	$ 635,865
Total Liabilities and Equity	$ 932,102	$ 891,378

Alaris Royalty Corp.

Condensed consolidated statements of comprehensive income (unaudited)

	Three months ended	June 30	Six months ended	J
$ thousands except per share amounts	2019	2018	2019	2018
Revenues				
Distributions	$ 26,260	$ 27,756	$ 52,853	$ 51,008
Interest	1,141	687	2,206	1,075
Total Revenue	$ 27,401	$ 28,442	$ 55,059	$ 52,083
Other income				
Gain on partner redemptions	$ -	$ 6,402	$ -	$ 8,144
Increase in investments at fair value	9,292	502	4,195	4,033
Realized gain / (loss) on foreign exchange contracts	(878)	13	(1,048)	152
Total other income	8,414	6,917	$ 3,147	$ 12,329
Salaries and benefits	$ 875	$ 1,348	$ 1,652	$ 2,030
Corporate and office	1,047	1,031	1,652	1,984
Legal and accounting fees	538	669	1,612	1,781
Transaction diligence costs	828	-	1,007	-
Non-cash stock-based compensation	899	767	1,253	1,535
Bad debt expense / (recovery) & reserve	(2,018)	-	(2,018)	25,974
Depreciation, amortization and accretion	159	65	330	130
Total operating expenses	2,328	3,879	5,488	33,433
Earnings before the undernoted	$ 33,487	$ 31,480	$ 52,718	$ 30,979
Finance costs	3,931	1,790	8,067	4,535
Unrealized (gain) / loss on foreign exchange contracts	(489)	695	(1,333)	1,914
Unrealized foreign exchange (gain) / loss				

3,808

(3,553)

7,650

(8,031)

Earnings before taxes	$ 26,237	$ 32,549	$ 38,334	$ 32,562
Current income tax expense	2,785	5,012	5,317	10,107
Deferred income tax expense / (recovery)	1,485	674	(211)	(1,262)
Total income tax expense	4,270	5,686	5,106	8,845
Earnings	$ 21,967	$ 26,863	$ 33,228	$ 23,717
Other comprehensive income				
Foreign currency translation differences	(7,131)	7,005	(14,842)	14,272
Total comprehensive income	$ 14,836	$ 33,868	$ 18,386	$ 37,989
Earnings per share				
Basic	$ 0.60	$ 0.74	$ 0.91	$ 0.65
Fully diluted	$ 0.60	$ 0.73	$ 0.90	$ 0.65
Weighted average shares outstanding				
Basic	36,556	36,486	36,527	36,483
Fully Diluted	36,905	36,767	36,876	36,765

Alaris Royalty Corp.

Condensed consolidated statements of cash flows (unaudited)

	Six months ended June 30	
$ thousands	2019	2018
Cash flows from operating activities		
Earnings for the period	$ 33,228	$ 23,717
Adjustments for:		
Finance costs	8,067	4,535
Deferred income tax expense / (recovery)	(211)	(1,262)
Depreciation, amortization and accretion	330	130
Bad debt expense / (recovery) & reserve	-	25,974
Gain on partner redemptions	-	(8,144)
Increase in investments at fair value	(4,195)	(4,033)
Unrealized (gain) / loss on foreign exchange contracts	(1,333)	1,914
Unrealized foreign exchange (gain) / loss	7,650	(8,031)
Transaction diligence costs	1,007	-
Non-cash stock-based compensation	1,253	1,535
	$ 45,796	

$ 36,334

Change in:		
- trade and other receivables	(962)	7,044
- income tax receivable / payable	327	4,906
- prepayments	764	(183)
- accounts payable, accrued liabilities	(1,248)	480
Cash generated from operating activities	44,677	48,582
Cash interest paid	(7,719)	(4,535)
Net cash from operating activities	$ 36,958	$ 44,047
Cash flows from investing activities		
Acquisition of investments	$ (87,154)	$ (56,325)
Transaction diligence costs	(1,007)	-
Proceeds from partner redemptions	13,505	133,621
Promissory notes issued	(3,929)	(8,352)
Promissory notes repaid	870	6,055
Acquisition of equipment	13	-
Net cash from / (used in) investing activities	$ (77,702)	$ 74,998
Cash flows from financing activities		
Repayment of loans and borrowings	$ (62,796)	$ (141,863)
Proceeds from loans and borrowings	30,634	44,137
Proceeds from convertible debenture, net of fees	95,572	-
Dividends paid	(30,103)	(29,550)
Office lease payments	(292)	-
Net cash from / (used in) financing activities	$ 33,015	$ (127,275)
Net decrease in cash and cash equivalents	$ (7,729)	$ (8,230)
Impact of foreign exchange on cash balances	(1,183)	376
Cash and cash equivalents, Beginning of period	22,774	35,475
Cash and cash equivalents, End of period	$ 13,862	$ 27,621
Cash taxes paid	$ 4,740	$ 5,700

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

SOURCE Alaris Royalty Corp.