

# Alaris Royalty Corp. Provides a Corporate Update, June 2020

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CALGARY, June 22, 2020 - [Alaris Royalty Corp.](#) ("Alaris" or the "Corporation") (TSX: AD) is pleased to provide stakeholders with a corporate update outlining several positive developments with certain of its Partners (as defined below), with specific attention to PF Growth Partners, LLC ("PFGP") and Body Contour Centers, LLC ("BCC"). Alaris is also announcing today that it is pursuing a corporate reorganization to convert from a corporation to a publicly-traded income trust. All numbers listed are in Canadian dollars unless otherwise noted.

## Corporate Update

While the Corporation deemed it prudent to withhold from providing financial guidance for the remainder of 2020 as outlined in the Q1 2020 earnings release, the impact on the Corporation's Partners of the novel coronavirus disease 2019 ("COVID-19") has been less severe than expected to date. Certain Partners continue to work through the re-opening phases instituted in each geographical region with an overall positive recovery from the pandemic so far. As of the date of this release, Alaris has the following updates regarding its Partners and the Corporation's business:

- No additional Partners deferred distributions in the quarter other than those that were anticipated and previously disclosed on May 5, 2020. Total revenue expected for the three months ended June 30, 2020 is approximately \$19 million, subject to changes in the exchange rate.
- Body Contour Centers, LLC has now reopened all 30 locations and has been seeing positive results in terms of cash generation and new sales. As a result, we are pleased to report that BCC expects to make its July distribution payment, which is much earlier than management originally forecast. The majority of BCC's key performance indicators for the month of June 2020 are ahead of June 2019. BCC was very successful in rebooking procedures that were booked prior to COVID-19 into the current period, which has led to strong cash flow generation. On top of this, new sales have also been strong and have contributed to the better than expected results. The contracted annual BCC distribution is \$9.2 million (US\$6.8 million) with a monthly payment of \$750 thousand. Management of Alaris and BCC will discuss how and when distributions for April, May and June will be caught up after seeing results over the coming months. BCC currently has no senior debt on its balance sheet.
- As previously disclosed, PF Growth Partners, LLC temporarily closed its 67 locations due to COVID-19. We are pleased to report, that as of the date of this release, approximately 75% of PFGP's clubs are open, including all 19 locations in Tennessee, all 7 locations in Florida, 20 of 30 locations in Maryland and 3 of 7 locations in the State of Washington. PFGP's remaining locations (10 in Maryland, 2 in the District of Columbia and 4 in the state of Washington) are expected to open between June 22<sup>nd</sup> and July 12<sup>th</sup> and are dependent on reopening plans for individual counties in those States. For the clubs that have been opened for a full billing cycle, cancellations are much lower than forecast while new membership sales are stronger than anticipated, resulting in net new membership growth in clubs that have been open for at least a month. The low cancellation rates coupled with new membership sales speaks to the strength of the Planet Fitness ("PF") brand including the low price point membership offering and superior member experience. With the low operating costs of a PF gym, it is our view that the PF system is weathering the COVID-19 storm much better than several operators in the fitness industry. Thus, we feel PFGP is well positioned to gain market share coming out of the COVID-19 pandemic. The contracted annual PFGP distribution is \$13.2 million (US\$9.8 million) and we continue to expect the restart of distributions in the second half of 2020. Management of Alaris and PFGP will discuss how deferred distributions will be caught up once regular distributions begin.
- Heritage Restoration Holdings, LLC ("Heritage") has returned to work and its backlog is increasing, a positive response following the mandated shut-down in Boston and the surrounding area that had paused a majority of Heritage's work.

- Federal Resources Supply Company ("FED") were awarded numerous key contracts to supply personal protective equipment ("PPE") such as masks, medical gowns and gloves, to nursing homes throughout the United States. One US\$134 million federal contract is to provide more than 40 million pieces of protective equipment to 15,000 nursing homes in just 60 days. The financial impact to FED as a result of assisting with these key contracts to deliver PPE will be significant and is expected to result in a maximum positive reset to the 2021 distributions, which are currently \$14 million (US\$10.7 million) on an annual basis.
- Kimco Holdings, LLC ("Kimco"), has also continued to see increased work from additional cleaning and sanitization work with their existing customers and through ancillary cleaning services for new customers as a result of the heightened demand for sanitization. Additionally, Kimco expects to soon close an agreement with a new senior lender which will provide flexibility allowing for interest payments to Alaris to be caught up and restarted on a monthly basis.
- The COVID-19 pandemic has impacted other Partners to varying levels, but the majority continue to operate without significant disruption to their respective businesses or distributions to Alaris. Generally, these Partners' performance for year to date 2020 is materially consistent with the same period last year. This demonstrates the "required service" nature of our portfolio and the defensive features of our structure, including large cash flow buffers and low leverage.
- Up to the date of this release the Corporation has repurchased for cancellation 1,156,541 of its common shares at an average price of \$8.69 per common share through its Normal Course Issuer Bid. The share repurchases have resulted in a total annualized pre-tax savings of approximately \$1.26 million or \$0.04 per share.
- Following the June 16, 2020 closing of the Corporation's investment into a new Partner, Carey Electric Contracting, LLC ("Carey"), Alaris' senior credit facility has approximately \$168 million available for investment purposes, with a total senior debt to EBITDA on a proforma basis of 1.7x.

## Corporate Reorganization

Alaris would also like to announce that it is pursuing a corporate reorganization to convert (the "Conversion") from a corporation to a publicly-traded income trust (the "Trust") and has engaged legal and tax advisors to assist in structuring the Conversion. The Conversion is the foundation of a plan to enhance securityholder value and for continued prudent growth and will help simplify the Corporation's existing cross-border investment structure. Cash flow generated by the business of Alaris will be distributed to Alaris securityholders (as the holders of the units of the Trust) in accordance with a trust distribution policy which is expected to result in after tax cash distribution amounts that are similar to the amounts distributed to common shareholders under the current dividend policy of the Corporation.

The Conversion remains subject to customary conditions, including board, regulatory and shareholder ("Shareholder") approval. The Corporation anticipates calling a special meeting of Shareholders (the "Meeting") to be held in late August 2020 to consider and, if thought fit, approve the Conversion. An information circular and proxy statement ("Circular") detailing the specifics of the Conversion and the Meeting will be mailed to Shareholders in mid to late July 2020. The trust's name will be Alaris Equity Partners Income Trust.

## About Alaris:

The Corporation provides alternative financing for a diversified group of private businesses ("Partners") in exchange for royalties or distributions from such Partners, with the principal objective of generating stable and predictable cash flows for dividend payments to Shareholders. Distributions from the Partners are adjusted each year based on the percentage change of a "top line" financial performance measure such as gross margin and same-store sales and rank in priority to the owners' common equity position.

## FORWARD LOOKING STATEMENTS

This news release contains forward-looking statements, including forward-looking statements within the meaning of "safe harbor" provisions under applicable securities laws ("forward-looking statements"). Statements other than statements of historical fact contained in this news release may be forward-looking statements, including, without limitation, management's expectations, intentions and beliefs concerning: the

timing and payment of restarting distributions and interest payments from Partners that are not currently paying the Corporation (partially or in full); expected resets to distributions from certain partners, Kimco's new senior debt and the impact thereof; reopening of additional PFGP club; PFGP's ability to increase market share; the impact of new contracts on FED's operations; uses of Alaris' senior credit facility, the impact of the ongoing COVID-19 pandemic and its affect on the operations of our Partners or any of them; the Conversion (including, without limitation, the timing and impact to Shareholders). Many of these statements can be identified by words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. Any forward-looking statements herein which constitute a financial outlook or future-oriented financial information (including the impact on revenues, dividends and interruptions to Partners' businesses,) were approved by management as of the date hereof and have been included to provide an understanding of 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 over the next 24 months and how that will affect Alaris' business and that of its Partners (including, without limitation, the ongoing impact of the COVID-19 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 begin to recover from the ongoing economic downturn created by the response to COVID-19 within the next twelve months; interest rates will not rise in a material way over the next 12 to 24 months, that those Alaris Partners detrimentally affected by COVID-19 will recover from the pandemic's impact and return to their current operating environments; following a recovery from the COVID-19 impact, the businesses of the majority of our 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 that the Canadian and U.S. dollar trading pair will remain in a range of approximately plus or minus 15% of the current rate 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 as well as prevailing economic conditions at the time of such determinations.

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: how many Partners will continue to be impacted by the ongoing COVID-19 pandemic and the extent of such impact; the ability of our Partners and, correspondingly, Alaris to meet performance expectations for 2020 as a result of COVID-19; any change in Alaris' senior lenders outlook for the Corporation; management's ability to assess and mitigate the impacts of COVID-19; the dependence of Alaris on the Partners; reliance on key personnel; general economic conditions, including the ongoing impact of COVID-19 on the Canadian, U.S. and global economies; failure to complete or realize the anticipated benefit of Alaris' financing arrangements with the Partners; a failure of the Corporation or any Partners to obtain required regulatory approvals on a timely basis or at all; changes in legislation and regulations and the interpretations thereof; a failure to achieve expected benefits of the conversion; 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' distributions; a change in the unaudited information provided to the Corporation; a failure of a Partner (or Partners) to realize on their anticipated growth strategies; a failure to achieve resolutions for outstanding issues with Partners on terms materially in line with management's expectations or at all; and a failure to realize the benefits of any concessions or relief measures provided by Alaris to any Partner or to successfully execute an exit strategy for a Partner where desired. 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, 2019, which is filed under the Corporation's profile at [www.sedar.com](http://www.sedar.com) and on its website at [www.alarisroyalty.com](http://www.alarisroyalty.com).

Accordingly, readers are cautioned not to place undue reliance on any forward-looking information contained in this news release as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. 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 assumptions reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations will prove to be correct.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary

statement. The forward-looking statements included in this news release are made as of the date of this news release and Alaris does not undertake or assume any obligation to update or revise such statements to reflect new events or circumstances except as expressly required by applicable securities legislation.

Neither the TSX nor its Regulation Services Provider (as that term is defined in the policies of the TSX) accepts responsibility for the adequacy or accuracy of this release.

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