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asx release

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ALS Limited (ASX:ALQ) produces resilient H1 FY25 result despite mixed market conditions

H1 FY25 highlights[1]

- **Underlying revenue[2]** of $1,464.2 million, an increase of 14.0% led by strong organic and scope growth within Life Sciences, contrasting softer growth conditions within Commodities.
- **Underlying EBIT[3]** of $250.4 million, an increase of 2.1%. The operating margin declined to 17.1%, reflecting expected dilution from recent Life Sciences acquisitions and lower volumes in Minerals.
- **Underlying net profit after tax (NPAT)** of $152.3 million, declining 3.9%, impacted by the fluctuating exploration environment impacting Commodities, unfavourable FX impacts, and higher interest costs linked to recent acquisitions.
- **Statutory NPAT** of $126.8 million, declining 5.0%, reflecting integration and restructuring costs from recent acquisitions and the Nuvisan transformation.
- **Minerals maintained resilient margin performance above 31%**, with capacity in place to service any increase in volumes associated with future increased demand linked to global exploration activity.
- **Integration of recent acquisitions** on track, with Nuvisan slightly ahead in its transformation plan and showing good sales pipeline momentum.
- **Strong balance sheet** supporting growth agenda in line with value creation framework. Available liquidity of $375 million and EBITDA cash conversion of 91%[4]. Elevated leverage ratio following recent acquisitions with ongoing focus on improving working capital metrics and free cash flow generation to reduce net debt.
- **Interim dividend of 18.9 cps** (partially franked to 30%), representing a payment of $91.6 million to shareholders.
- **Continued delivering leading safety performance**

H1 FY25 financial results[5]

A$ million	**H1 FY25**	H1 FY24	Change	H1 FY25 at CCY	CCY change
Underlying revenue	1,464.2	1,284.5	14.0%	1,505.9	17.2%
Underlying EBIT	250.4	245.2	2.1%	266.0	8.5%
Margin	*17.1%*	*19.1%*	*(199) bps*	*17.7%*	*(144 bps)*
Underlying NPAT	152.3	158.4	(3.9)%		
Statutory NPAT	126.8	133.5	(5.0)%		
Basic EPS (cents per share)[6]	31.4	32.7	(4.0%)		
Free cash flow generated	274.3	235.6	16.4%		
Underlying ROCE	19.4%	18.8%	66 bps		
DPS (cents per share)	18.9	19.6	(3.6)%		
Net debt	1,382.7	1,153.0	19.9%		

1 All financial results compared to H1 FY24 unless otherwise noted. Numbers may not add up due to rounding.
2 Underlying revenue refers to ALS statutory revenue proforma adjusted in FY24 to proportionally consolidate the previous 49% share of Nuvisan revenues previously equity accounted.
3 Underlying profit measures are a non-IFRS disclosure and exclude unusual events and non-recurring items including acquisition-related and greenfield start-up costs, impairment and fair value gains/(losses), amortisation of separately recognised intangibles, SaaS system development costs, and other business restructuring and site closure costs.
4 EBITDA cash conversion calculated as cash flow before capex divided by Underlying EBITDA (adjusted for ROU lease assets)
5 The Groups' Financial Statements include a contingent liability disclosure in relation to two proceedings brought by related Korean power entities against ALS subsidiary ACIRL in the Federal Court claiming losses said to be attributable to alleged discrepancies in the certified attributes of 11 coal shipments. Both proceedings continue to be vigorously defended
6 Basic EPS calculated as: Underlying NPAT / weighted average number of shares

ALS Chairman, Nigel Garrard, commented, "The solid result whereby underlying earnings have been maintained reflects the resilience of the diversified portfolio in challenging operating conditions. Underlying NPAT decline of 3.9% was a result of unfavorable FX, higher interest costs primarily from debt funding recent acquisitions, and softer conditions in global mineral exploration markets. Pleasingly, these recent acquisitions are on track, and combined with strong liquidity and cash generation, provides the Board confidence to declare a dividend at the top end of our target payout range."

CEO and Managing Director, Malcolm Deane, commented, "The Group has delivered resilient financial performance this half, driven by strong margins in Minerals despite a volatile environment, alongside robust organic growth in the Environmental and Food businesses. This reflects ALS portfolio's strategic positioning and the business's adaptability in a complex landscape, even as Minerals faced fluctuating and patchy sample volumes.

The Minerals business produced a strong margin performance above 31%, underpinned by the strength of the global hub & spoke operating model (supported by unique LIMS systems), leading market position, the increased adoption of industry-leading high-performance methods, and continuing pivot toward downstream production-exposed activities. The Minerals division is well-positioned to benefit from the expected tailwinds of higher commodity prices and the global energy transition, to drive increased demand for critical metals exploration.

During H1 FY25, the Life Sciences division was led by "best in market" double-digit organic growth achieved within the Environmental business, which benefits from supportive industry megatrends including increasing levels of regulation and enforcement. The acquisitions of both York and Wessling continue to grow scale and presence for the Life Sciences businesses in key market geographies, and further accelerate capacity and market share in the growth opportunity presented by PFAS testing. Most pleasingly, the underlying margin performance in Life Sciences (excluding recent acquisitions) grew strongly by 69 bps to 17.1%, reflecting strong pricing discipline, systemisation and operating efficiencies achieved, and delivering a compelling customer value proposition to clients. The recent Life Sciences acquisitions, whilst being margin dilutive in the short-term, are expected to show continuing improvements as integration and transformation initiatives are implemented and deliver the expected 15% return on capital in the medium term. Finally, the Nuvisan transformation plan is on track, with savings of ~€13 million already implemented and expected to progressively benefit during the second half. The program is on track to deliver the expected ~€25 million cost reduction over a 2-year period.

ALS remains committed to executing the refreshed strategy, guided by the value creation framework as the roadmap for maximising shareholder returns and optimising capital allocation across the diverse ALS portfolio."

Divisional review

Commodities

A$ million	**H1 FY25**	H1 FY24	Change	H1 FY25 at CCY	CCY change
Revenue	**535.7**	**545.1**	(1.7)%	558.1	+2.4%
Underlying EBITDA	**185.1**	**193.7**	(4.5)%	194.5	+0.5%
Margin	34.5%	35.5%	(99) bps	34.9%	(67) bps
Underlying EBIT	**150.9**	**161.1**	(6.3)%	159.4	(1.1)%
Margin	28.2%	29.6%	(139) bps	28.6%	(99) bps

Revenue declined 1.7% vs pcp delivering modest organic revenue growth of 2.6% offset by an unfavorable currency impact of 4.1%. Despite the YoY sample volume decline of 0.5%, improved revenue mix through increased value-added services take-up and the growth of mine-site production activities combined to deliver net organic growth. Growth was limited due to the fluctuating sample flows linked to current subdued levels of global exploration and new project activity. During the period, juniors' access to capital has remained constrained notwithstanding the record gold price and the long-term electrification megatrend.

Underlying EBIT decreased by 6.3% to $151 million, with the overall margin contracting to 28.2%. The adverse impact of the depreciation of the Canadian, US, Turkish and Latin American currencies vs the Australian dollar on reported EBIT was $8.6m. Underlying margins continue to be resilient reflecting reduced cyclicality, flexibility of the cost base and improved revenue mix.

Minerals organic revenue increased by a marginal 0.3%, an encouraging result amidst prolonged exploration activity flatness and associated sample volume decline of 0.5%. Geochemistry organic revenue grew by 2.7% through increased value-added services take-up and growth of mine site production testing, offsetting lower sample volumes. Metallurgy revenue and margin declined due to lower volumes, noting a record result in the pcp.

Industrial Materials delivered strong organic revenue growth of 12.2%, supported by market share and pricing growth within Oil & Lubricants and Coal. The Inspections business was in line with pcp.

Life Sciences

A$ million	H1 FY25	H1 FY24	Change	H1 FY25 at CCY	CCY change
Revenue	**928.5**	**739.4**	+25.6%	947.9	+28.2%
Underlying EBITDA	**200.7**	**165.1**	+21.5%	204.2	+23.7%
Margin	21.6%	22.3%	(72) bps	21.5%	(79) bps
Underlying EBIT	**133.7**	**110.5**	+21.0%	136.4	+23.4%
Margin	14.4%	14.9%	(54) bps	14.4%	(55) bps

Revenue growth of 25.6% with organic revenue growth of 7.8%, scope growth of 20.4%, offset by an unfavourable currency impact of 2.6%. Growth was led by strong performances from both the Environmental and Food businesses, partially offset by mixed performance within the Pharmaceutical business.

Underlying EBIT increased by 21.0% to $134 million with the overall margin contracting to 14.4%, impacted by lower margins associated with recent acquisitions; Nuvisan, York and Wessling. Excluding these acquisitions, underlying EBIT margin increased by 69 bps to 17.1%.

Environmental business delivered strong organic revenue growth of 11.8%, with double-digit organic growth across all regions (except USA, which grew mid-single-digit) leveraging global scale and continuing market share growth. The integrations of both York and Wessling are on track, with York expected to contribute meaningful growth to the Environmental business from FY25 onwards. To optimise margin contribution from Wessling, operational improvements, sales growth and efficiencies are expected to materialise over a 2-3 year time horizon.

Food business delivered strong organic revenue growth of 7.0% supported by volume and price growth in Europe, with margin expansion.

Pharmaceutical business organic revenue declined by 3.4% with mixed performance across operations. Excluding Nuvisan, organic revenue growth was 0.6%.

Nuvisan transformation is progressing well and cost reductions are slightly ahead of plan, with the business on track to deliver the targeted €25 million exit run rate by the end of FY26. Nuvisan made a positive low-single digit EBIT contribution in H1 FY25 and is expected to maintain ongoing profitability. The business is seeing positive sales momentum with several major contracts awarded, likely to translate to new third-party revenues.

Capital management, growth and balance sheet

The Group continued its disciplined approach to capital allocation.

Total capital expenditure (excl. acquisitions) was $74 million (5.1% of revenue) of which 3.2% was growth related and 1.9% was maintenance spend. The Group's net M&A expenditure increased to $173.8 million, relating to funding for Life Sciences bolt-on acquisitions in both the USA and Western Europe reflecting a growth focus, in line with the Groups' value creation framework. Post these acquisitions, the Group's leverage ratio has increased to 2.3x which is at the upper end of the targeted range (1.7x – 2.3x) with EBITDA interest cover ratio at 9.9x, both well within lender covenants.

As at 30 September 2024, Group liquidity was $375 million with balance sheet flexibility to pursue strategic growth opportunities. EBITDA cash conversion improved to 91%, +872 bps vs. pcp, and the Group is on track to deliver further EBITDA cash conversion improvements on a full year basis.

During the period, the Group finalised new multi-year revolving bilateral and fixed rate bullet facilities totalling $483.6 million equivalent. These new term debt facilities increase overall liquidity, remove any near-term finance risk and extend the Group's weighted average debt maturity to 4.8 years.

The net interest expense in H1 FY25 was $41.0 million, an increase of $17.9 million from pcp, reflecting increased net debt levels and lease interest expenses associated with new acquisitions incremental funding costs. The Group's drawn debt profile consists of 67% fixed at 3.7%, and 33% floating rate debt as at 30 September, with a total weighted average cost of drawn debt at 4.44%

The Group is committed to reducing leverage to the mid-point of the target range in the next 12-18 months.

Interim dividend

Reflecting the solid half year result, Directors have declared an interim dividend of 18.9 cps, partially franked to 30% (H1 FY24 interim dividend: 19.6 cps, partially franked to 20%) representing a payout ratio of 60% of H1 FY25 underlying continuing NPAT, at the top end of the target range (50 – 60% of underlying continuing NPAT). On an after-franking basis this dividend payout is in line with pcp. It will be paid on 19 December 2024 to shareholders on the register at 28 November 2024.

The Dividend Reinvestment Plan will continue to operate for the H1 FY25 interim dividend, at a nil discount, to eligible shareholders opting in prior to the DRP Election Date on 29 November 2024.

Perspectives for FY25

The medium-to-long-term outlook for both Life Sciences and Commodities remains positive. The Group's portfolio remains leveraged to attractive end markets, supported by industry tailwinds. The Group is well-positioned to execute on near-term financial objectives.

Perspectives for FY25:

- Targeting mid-single digit organic revenue growth for the Group.
- Excluding acquisitions, solid improvement in operating margins for Life Sciences
- Continued margin resilience in Minerals.
- Risk-weighted growth prioritisation to Environmental and Minerals businesses, in-line with the value creation framework.
- Focus remains on integration of recent acquisitions and Nuvisan transformation program.
- Leverage to remain at the top end of targeted range with intention to reduce to mid-point in the next 12–18 months.

Authorised for release by the Board of Directors.

For further information please contact:

Michael Williams
Group Treasurer, Investor Relations & Business Integration Director
michael.williams@alsglobal.com
M: + 61 409 001 308

Investor Relations
investor@alsglobal.com
ALS Limited

About ALS Limited (ASX: ALQ)

ALS is a global leader in testing, providing comprehensive testing solutions to clients in a wide range of industries around the world. Using state-of-the-art technologies and innovative methodologies, our dedicated international teams deliver the highest-quality testing services and personalised solutions supported by local expertise. We help our clients leverage the power of data-driven insights for a safer and healthier world.

Event details

The results will be presented by Malcolm Deane, CEO and Managing Director, and Stuart Hutton, Chief Financial Officer, via webcast and call.

Date: 19 November 2024

Time: 10am (AEDT)

To listen to the briefing, pre-register at the link below. You will then receive the webcast link via email.

Register for webcast: https://edge.media-server.com/mmc/p/u5ko46g2

To ask a question on the briefing, participants will need to pre-register for the conference call at the link below. You will then receive an email with the dial in number and a unique code, which is to be input when dialing into the call.

Register for conference call: https://register.vevent.com/register/BI4964893d9ae84a20a6f0cdd50039e5fa

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