

## Another year with good performance

<b>Company/ASX Code</b>	ALS Limited (ALQ)
<b>AGM date</b>	Wednesday, 26 July 2023
<b>Time and location</b>	10am, The Westin 111 Mary Street Brisbane
<b>Registry</b>	Boardroom
<b>Type of meeting</b>	Hybrid meeting via Lumi
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Derek Miller
<b>Pre-AGM Meeting?</b>	A meeting with the Chair, Bruce Phillips, was requested but could not be arranged.

Monitor Shareholding: the individual involved in the preparation of this voting intention has no shareholding in this company.

### Summary of issues for meeting

In general, ALS is a well-managed company with sound financial performance and conforms with ASA policies. However, we have a few concerns, including:

1. The need for a representative Board skills matrix;
2. Concern at the high and increasing level of intangible assets;
3. Good profitability from Commodities group in FY23. Can it be maintained?;
4. Lower margins in pharmaceuticals group. Is it a consequence of complexity of specifications & work involved?; and
5. Long-term strategy of building up work from the global pharmaceuticals sector.

### Proposed Voting Summary

No.	Resolution description	
1	Re-election of Director Leslie Desjardins	For
2	Re-election of Director John Mulcahy	For
3	Election of Director Peter Possemiers	For
4	Election of Director Nigel Garrard	For
5	Adoption of Remuneration Report	For
6	Amendment of the Constitution	For
7	Grant of 2022 Performance Rights to Malcolm Dean	For
8	Grant of 2023 Performance rights to Malcolm Dean	For
9	Approval of Financial Assistance	For

## Summary of ASA Position

### Consideration of accounts and reports - No vote required

ALS Limited (Australian Laboratory Services) is a global testing, inspection, and certification (TIC) company aspiring to be a market leader in the industry. It operates in 70 countries at 350 locations and has 19,000 staff. ALS has two divisions:

1. Life Sciences including Environmental, Business /Pharmaceutical Business; and
2. Commodities (Geochemistry/Metallurgy/inspection /Tribology).

Both divisions performed well with high EBIT margins.

Life Sciences had revenue of \$1.334bn, an increase of 17.1% pcp and EBIT of \$206.9m up 6.2% pcp and EBIT margin of 15.5%.

Commodities had revenue of \$1.087 billion up 22.6% pcp and EBIT of \$330 million up 29.3% pcp and EBIT margin of 30.4%.

Overall Business Revenue was \$2.421 billion, a 19.5% increase pcp. Return on capital employed of 20.5%. Total Shareholder return was 28.8% Underlying EBIT Margin is 20.4%.

A five-year strategic plan has just been completed and the excellent results of the last three years show the success of that plan. ALS is now starting on a new five-year plan with the following strategic objectives:

1. Growing revenue to \$3.3 billion from \$2.4 billion;
2. Growing underlying EBIT to \$0.6 billion, from \$0.49 billion;
3. Maintaining margins of plus 19%; and
4. Improve return on capital to above 20%.

These challenging targets are seen as possible due to long-term growth in the industry, including work from increased general industry regulation, and global energy transition. We will explore this further with the Chairman.

### **Governance and culture**

ALS is a well governed company that acts in the best interested of shareholders and seems to maintain a low profile in the sharemarket.

### **Financial performance**

Total dividends declared for FY2023 increased 21% from 0.328% to \$0.397, reflecting another good performance. Total shareholder return was 28.8%. The statutory net profit after tax was \$291.2 million, an increase of \$100.7 million with revenue increasing 11%. The underlying NPAT of \$320.6 million and strong cash flow reflect the sound financial position of the company.

### **Intangible Assets**

The balance sheet of the company includes a significant number of intangibles as a non-current asset, \$1,413 million up from \$1,195 million pcp. In both years, this represents 42% of total assets. Shareholder equity has increased 21.9% to \$1,378 million.

The \$1,413m total as at 31 March 2023 is made up of:

Goodwill	Purchased trademarks & brand names	Customer relationships	Technology & Non-Compete Agreements	Software	Total
\$1300.7m	\$0.7m	\$96.0m	\$0.7m	\$15.8m	\$1413.9m

The goodwill is largely allocated \$529.2m Commodities plus \$771.5m Life Sciences.

### **Key events**

ALS made 13 small bolt on acquisitions during the year, mainly in the Life Science division. It sold the Asset Care business at a small loss.

The acquisition of Nuvisan last year represents a significant and strategic expansion into the pharmaceutical market. It moves ALS service offering from quality control up the supply chain into drug development and research testing. This year, Nuvisan was adversely affected by the economic uncertainty in Europe.

### **Key Board changes.**

Independent NED Mr Charles Sartain retired after 8 years on the Board.

Mr Nigel Garrard joined the Board on 7 June 2023 as an independent director following a period as an ALS Board Advisor.

Mr Raj Naran, CEO and MD, resigned in late FY2023 from his CEO role and board position. A global search for his replacement was initiated.

In May, Mr Malcolm Deane, an internal candidate, was appointed CEO and MD.

Mr Deane was previously Chief Strategy Officer and GM Life Sciences in Latin America. His qualifications are Bachelor of Laws/ Juris Doctor.

### **ASA focus issues**

The lack of a Board Skills Matrix, as raised last year, remains a concern. With today's increased regulatory responsibilities and viable growth expectations, boards require a wide mix of professional skills and relevant experience.

The main profitable unit is the Commodities Unit, and going forward, there appears to be an absence of professional engineering skills at board level following the retirement of Mr Sartain.

### **Summary**

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	291.2	190.5	185.0	188.8	181.0
UPAT (\$m)	320.6	264.2	172.6	127.8	153.8
Share price (\$)	12.63	13.40	9.68	5.56	7.59
Dividend (cents)	39.7	32.8	23.1	17.6	22.5
Simple TSR (%)	28.8	41.8	61	- 24	5
EPS (cents)	60.2	39.5	35.8	26.5	31.6

CEO total remuneration, actual (\$m)	1.032	3.976	2.987	2.649	2.565
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CEO's total actual remuneration is 10.6x annualised Australian Full time Adult Average Weekly Total Earnings (based on data from the Australian Bureau of Statistics.)

### Adoption of Remuneration Report

Key Management Personnel are remunerated with a combination of fixed pay, Short-Term Incentives (STI), and Long-Term incentives (LTI).

STIs are earned over a one-year time frame and paid in cash, with any STI outperformance deferred into equity for two years. LTIs are granted at face value, measured over a three-year period, and paid annually. The LTI component has four equally weighted components (EPS, EBITDA margin, TSR, and ROCE). These are all realistic. However, it should be noted they are based on underlying data rather than statutory data. LTIs vest over three years.

This is generally a conventional REM report conforming to most ASA criteria except for:

1. LTIs 3-year performance period rather than ASA's preferred 4-year period; and
2. Use of underlying data rather statutory data.

Considering the large international aspect of the company, the KMPs have a large percentage of their remuneration at risk, and the good performance over FY23, they seem to be fairly compensated. We will vote in favour of the REM Report.

### Item 5 - Grant of 2023 Performance Rights to Malcolm Deane

Approval by shareholders is required following his promotion to CEO/MD. We support the resolution.

### ITEM 6 - GRANT of 2023 Performance Rights to Malcolm Deane.

This is an entitlement in the long-term incentive plan. We support the resolution.

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