



Life Sciences business expanding

Company/ASX Code	ALS/ALQ
AGM date	31 July 2019
Time and location	10am Pullman Hotel Brisbane
Registry	BoardRoom Pty Ltd
Webcast	Yes
Poll or show of hands	Poll on all items
Monitors	Sally Mellick and Mike Stalley (assisted by Marion Loughnan)
Pre AGM Meeting?	Yes, with Company Secretary Michael Pearson

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

ALS is a global service company with three segments: Commodities, Life Sciences and Industrial.

The core business of the Company overall is laboratory testing in two major areas of commodities, environmental testing, and a growth area in Pharmacy testing.

Consequently, the Company has limited 'hard assets' on the Balance Sheet, and the major asset value is in the category of intangibles. Financial analysis has to consider this asset category of the Company in detail as its significance has an overwhelming influence on the value of the Company as further discussed below.

Financial performance

The 2019 statutory net profit after tax (NPAT) of \$153.8m is an increase of 90% from 2018. Cash flows, while down from 2018, remain sound with operational cash flows up 16% to \$259.3m. As stated above, ALS is predominately a service company, and this is reflected in the Balance Sheet.

The intangible asset class dominates the Balance Sheet, which is different from most companies. The issue is not so much the existence of the substantial carrying value of this asset class, but the ongoing future management of it. The average intangible asset carrying value as a percentage of equity (company net wealth) for the last five years is 88% in a range of 102% to 95% for the 2019 year. There is no amortisation of the asset, and therefore, it is concluded that the asset value is expected to maintain its relevance and worth for the foreseeable future. However, if the asset is not being written down in an orderly manner, and the book value exceeds the actual value, then an impairment expense is required to be included in the Profit and Loss Statement. There was an impairment cost of \$317.9m in 2016, and as seen in the financial summary table, the consequences are significant. The company asserts that the board and audit committee monitor the situation closely.

It is also noted that the Audit Report provided extensive discussion as a Key Matter about the Goodwill component of the intangibles which is 47% of total assets. The explanation of the Key Matter is extensive, page 81.

Governance and culture

The Board has released a comprehensive Sustainability Report 2019 for the Company. The model used details how ALS Limited manages its day to day business while providing guidance on using continuous improvement to achieve increasing sustainability and good corporate citizenship.

Key events

ALS Limited has reduced 3.7% of its original share base through its buy-back program this year.

Key Board or senior management changes

As foreshadowed from last year's increase in director fee pool, ALS has recruited a new director with international experience. With appropriate industry experience, Dr Kadia is considered for election as a director in Meeting Item 2.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	1,664.8	51.8	81.6	-240.7	-174.5
UPAT (\$m)	181.0	142.2	112.7	108.4	135.4
Share price (\$)	7.59	8.50	6.60	6.66	9.30
Dividend (cents)	22.5	17	13.5	13.5	21
TSR (%)	5	24	57	-12	-29
EPS (cents)	31.6	10.3	16.2*	23.7	31.9
CEO total remuneration, actual (\$m)	2.565	2.061	2.316	1.585	2.049

*Actual EPS restated for discontinued oil and gas business

For 2019, the CEO's total actual remuneration was **30.7 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2018 data from the Australian Bureau of Statistics).

Note - For November 2018, the Full-time adult average weekly total earnings (annualised) was \$86,642 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings", Trend(a)).

Item 2 (i)	Re-election of Tonia Dwyer as a Director
ASA Vote	For

Summary of ASA Position

Ms Dwyer has been a Director of ALS Limited since 2016. Legally trained, she has a background in Investment Banking, particularly mergers and acquisitions in international markets. She has held Directorships in ASX Listed companies since 2011 and presently holds three other ASX listed Directorships. She additionally holds a Directorship with Queensland Treasury and is Deputy Chancellor of the Senate of the University of Queensland. She is a member of the Sustainability Committee and Chair of the People Committee. Ms Dwyer's shareholding in the company, at 70% of one year's fees, does not reflect the solid level that ASA prefers to see of Company Directors, however the amount falls within the ALS Ltd Board's requirement that Directors own one year's after tax worth of base fees as shares.

Ms Dwyer's background and experience as a Director appear suitable for a company that operates extensively internationally and that is continuing to grow both organically and by acquisition.

Item 2 (ii)	Re-election of Siddhartha Kadia as a Director
ASA Vote	For

Summary of ASA Position

The appointment of overseas directors to better oversight this globally diverse company was foreshadowed at last year Annual General Meeting. Dr Kadia was appointed director in January 2019. With Biomedical Engineering qualifications, Dr Kadia was formerly head of a testing laboratory based in San Diego with global reach. He has consulted for McKinsey & Co in the area of life sciences and healthcare. He has lived and worked in several countries, especially USA and Asia. He appears to have no other directorships at present, although he has been a director in similar US listed companies.

Dr Kadia has both the qualifications and experience appropriate to ALS Limited at a practical as well as Board level.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

The directors' fee pool was increased after approval at the 2018 AGM and enabled the recruitment of Dr Kadia. All other directors who have been with the company for more than three years have well in excess of the value of one year's remuneration in shares.

The company remuneration strategy is summarised in the company's Annual Report by a simple and understandable flow chart. The elements include how the company manages key risk areas

and aligns remuneration outcomes with shareholders' experience. Potential payment for the Managing Director is made up of fixed pay (45.5%), short-term incentive (STI) (27.3%) and long-term incentive (LTI) (27.3%). Extensive tables in the Annual Report provide a view of the remuneration from both actual and accounting perspectives and include information about how STI and LTI awards were calculated.

For executive staff to receive STI payments, the company must exceed last year's financial performance, then payment is made according to outcomes on three measures: financial (70%), health and safety (10%) and strategic matters (20%). The company is continuing to use underlying NPAT as the gateway measure rather than the ASA preferred Statutory financial measures for STI rewards for employees. STIs are paid in cash for target performance and an additional 50% can be earned for "outperformance" and is provided in deferred equity for two years with clawback, providing the employee remains with the company.

LTIs continue to vest over a three year period, where ASA prefers a longer performance term. LTIs are potentially paid equally on four measures. Two are peer comparative (TSR against ASX100 and EBITDA margin against industry peers); and two are based on company performance (EPS growth and ROCE). Three of the four performance measures were fully achieved. ROCE performance was partially achieved, and 10.7% vesting occurred on this measure instead of the full 25% vesting.

The remuneration level attained by the CEO reflects the continued growth of the company and its positive financial performance in this financial year, and on balance we will vote in favour of the report.

Statutory breakup for CEO remuneration framework 2018-19

	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.5	45.5%	1.5	40%
STI - Cash	0.9	27.3%	.9	24%
STI - Equity	0	0%	0.45	12%
LTI	0.9	27.3%	0.9	24%
Total	3.3	100%	3.75	100%

Item 4	Approval of LTI grant to CEO/Managing Director Raj Naran
ASA Vote	For

Summary of ASA Position

The LTI grant of rights for the CEO is based on 60% of his Total Fixed remuneration or \$US618,000. This translates to 123,359 performance rights based on \$A7.06 volume weighted average price of 10 trading days following the company's full year results announcement. This represents the maximum potential that can be awarded if full vesting conditions are achieved on the same continuing four performance criteria, viz Underlying earnings per share growth, total shareholder

return (TSR), return on capital employed (ROCE) and Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) margins.

ASA prefers the performance period to be greater than 3 years and preferably 5 years, and the use of statutory figures over underlying figures. In the case of ALS Limited, losses from divesting the poorly performing Energy Division are now moving further into history. When there are losses, shareholders lose capital, and this should be fairly reflected in the variable earnings of employees.

Item 5	Renewal of proportional takeover provisions
ASA Vote	For

Summary of ASA Position

The company is required by the Corporations Act to refresh the proportional takeover provisions every three years. Proportional takeover provisions would permit a predator to bid for a proportion of shareholders' interest. ASA prefers full takeovers so that shareholders are not left with a controlling shareholder.

The individual(s) (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

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