Alaris Royalty Corp. Receives $97.6 Million From Repurchases, Resulting in a 40% Gain on Invested Capital

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CALGARY, Alberta, May 17, 2018 (GLOBE NEWSWIRE) -- Alaris Royalty Corp. ("Alaris" or the "Corporation") (TSX:AD) is announcing today that Labstat LP and its affiliates (collectively “Labstat”) have entered into a purchase and sale agreement (“PSA”), with a third party (the “Third Party”), pursuant to which the Third Party will acquire Labstat (the “Labstat Sale”). The Labstat Sale will result in a repurchase (the “Labstat Repurchase”) of all of the units Alaris holds in Labstat (the “Labstat Units”) and Alaris receiving gross proceeds of $69.63 million (the “Labstat Gross Proceeds”). However, the Labstat Sale is subject to customary closing conditions and is expected to close by the end of May or early June, 2018. Alaris is also announcing today that PF Growth Partners LLC (“PFGP”) has repurchased 48% of the units (the “PFGP Units”) Alaris holds in PFGP (the “Partial PFGP Repurchase”) for US$25.00 million (the “PFGP Gross Proceeds”), which is a 30% premium to Alaris’ cost. The Partial PFGP Repurchase closed on May 11, 2018 and the PFGP Gross Proceeds will go towards debt reduction.

Alaris is realizing a combined 40% gain on invested capital with the Labstat Repurchase resulting in $65.61 million of exit capital received on a $47.2 million investment and the PFGP Partial Repurchase resulting in US$25.00 million (CAD $31.95 million) of exit capital received on a US$19.20 million (CAD$22.32 million) cost. The Labstat Repurchase and the Partial PFGP Repurchase will have no impact on Alaris’ current monthly dividend as we fully expect to deploy capital in excess of the Gross Labstat Proceeds and Gross PFGP Proceeds before the end of the year returning closer to our targeted annualized payout ratio of 80%.

Labstat Repurchase

The Labstat Gross Proceeds Alaris will receive upon the closing of the Labstat Repurchase consist of the following: (i) $65.61 million (the “Labstat Repurchase Price”) for the Labstat Units, which represents a premium of $13.61 million over Alaris’ original cost of $47.72 million plus a further premium of $4.28 million for previously unpaid distributions (the “Unpaid Distributions”) and (ii) $4.02 million of Loan Proceeds representing the repayment of $3.73 million of principal and $0.28 million of accrued interest owing on a loan agreement Alaris had with Labstat. Alaris also received the cash sweep relating to 2017 distributions of $4.21 million at the end of April 2018. Alaris will provide an update when the Labstat Sale closes or if there are any material changes to the process.

Upon closing of the Labstat Sale and subsequent Labstat Repurchase, Alaris will have achieved a total return on its Labstat Units of approximately $56.64 million, or 120% as well as an internal rate of return (“IRR”) of approximately 19% over the 6 year investment. Such returns are derived by successfully collecting all $41.44 million of distributions from Labstat over the life of the investment as well as getting a 29% premium above Alaris’ cost of its Labstat Units. Alaris had previously not assigned any value on its balance sheet to the collection of the $4.28 million of Unpaid Distributions therefore it will result in an increase to book value following the Labstat Repurchase.

“I would like to congratulate our partner Bill Rickert and his fine team at Labstat for achieving an

incredible outcome on a business venture that started many years ago at the University of Waterloo. Bill took a vision and turned it into a world leader in its field and has become a great Canadian success story. We are very proud of the role that Alaris was able to play in this success. Labstat, like most companies, has had its challenges to overcome over the years and it is gratifying to see that the flexibility that we were able to provide the company several years ago by paying down their senior debt, reducing and modifying our preferred equity dividend and providing the company with working capital has resulted in an outcome for the common shareholders that would not have been possible with other forms of capital. Outcomes like this are extremely important in providing yet another case study for future entrepreneurs that are interested in partnering with a solution provider like Alaris. Based on our 14 year track record of deployment and on already identified opportunities, we remain confident that this capital will be redeployed profitably and prudently,” said Steve King, President and Chief Executive Officer, Alaris.

Partial PFGP Repurchase

As guided in our Q1, 2018 earnings release on May 8, 2018, we expected PFGP to redeem approximately half of Alaris’ PFGP Units for a total of US$25.00 million, which includes a premium of US$5.8 million over the cost of the PFGP Units. The Partial PFGP Repurchase closed on May 11, 2018 and resulted in 48% of the PFGP Units being repurchased. Going forward, Alaris will have a monthly distribution from PFGP equal to US$293,917 (US$3.53 million annually) and a fair value of the remaining PFGP Units of US$23.50 million with a cost of US$20.57 million following the Partial PFGP Repurchase. Alaris had wrote the value of its PFGP Units up by US$2.70 million in Q1 2018 to reflect the premium it expected to get on the Partial PFGP Repurchase as well as the remaining PFGP Units. The Partial PFGP Repurchase results in a gross return of 30.2% in USD or 39.0% in CAD given the favorable exchange rate move since the original investment.

“Based on PFGP’s continued and consistent profitability growth, we were comfortable in consenting to a refinancing that reduces the company’s overall cost of capital yet still leaves the company with ample room to grow. PFGP could have bought out all of Alaris’ preferred shares if they had wanted to but the company continues to value our partnership and has expressed a desire to use more of our capital to fund growth opportunities going forward,” said Mr. King.

ABOUT THE CORPORATION:

Alaris provides alternative financing to the Partners in exchange for distributions with the principal objective of generating stable and predictable cash flows for dividend payments to its 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.

NON-IFRS MEASURES:

The term Annualized Payout Ratio is a financial measure used in this news release that is not a standard measure under International Financial Reporting Standards (“IFRS”). The Corporation’s method of calculating Annualized Payout Ratio may differ from the method used by other issuers. Therefore, the Corporation’s Annualized Payout Ratio may not be comparable to similar measures presented by other issuers.

Annualized Payout Ratio: Annualized payout ratio refers to Alaris’ total annualized 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 press release).

FORWARD LOOKING STATEMENTS

This news release contains forward-looking statements as defined under applicable securities laws. Statements other than statements of historical fact contained in this news release may be forward-looking statements under applicable securities legislation, including, without limitation, management's expectations, intentions and beliefs concerning: the closing of the Labstat Sale; the Labstat Gross Proceeds; continuing

distributions from PFGP; Alaris’ annualized payout ratio; total return and IRR resulting from the Labstat Sale; Alaris capital deployment in 2018; the premium included in the Labstat Repurchase Price and Partial PFGP Repurchase; and the impact of the Labstat Repurchase and Partial PFGP Repurchase on Alaris’ outstanding debt, book value and dividend. 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. To the extent any forward-looking statements herein constitute a financial outlook, 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 over the next 24 months 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 over the next 12 months, that interest rates will not rise in a material way over the next 12 to 24 months, that Alaris will achieve the benefits of any concessions or relief measures provided to any Partners, that the Partners will continue to make distributions to Alaris as and when required and in line with management’s expectations, that the businesses of the Partners will continue to grow, what the Corporation expects to experience regarding resets to its annual royalties and distributions from its Partners upon the reset dates for each Partner, that the Labstat Sale will close as currently expected, that Alaris will have the ability to raise required equity and/or debt financing on acceptable terms and that the Corporation will deploy capital in excess of the Labstat Gross Proceeds and the proceeds from the Partial PFGP Repurchase. Management of Alaris has also assumed that capital markets will remain stable and that the Canadian dollar will remain in a range of approximately plus or minus 10% relative to the U.S. dollar over the next twelve 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 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; 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’ preferred distributions; a change in the unaudited information provided to the Corporation; a failure to achieve resolutions for outstanding issues with Partners on terms materially in line with management’s expectations; 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, 2017, 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 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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