



Well Managed Company Navigates Through Testing Times

Company/ASX Code	ALS Limited
AGM date	Wednesday, 28 July 2021
Time and location	10am, online via the Lumi platform
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Kelly Buchanan assisted by Andrew Higgs
Pre AGM Meeting?	Yes with Company Secretary Michael Pearson and Investor Relations Head Simon Star

The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

The company had intended to hold a hybrid meeting with a physical element held at Pullman Brisbane King George Square Hotel, cnr Roma and Ann Streets. Regretfully, it did not come to pass due to a resurgence in the pandemic.

Summary of issues for meeting

In general, this company is competently governed and the executives are fairly compensated. We would like to see some small improvements including the inclusion of a Board Skills Matrix in the Annual Report, less reliance on underlying figures when awarding LTI's, and a longer vesting period for LTI's.

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

Summary of ASA Position

ALS Limited is a global testing company operating in Geochemistry – mining, Life Sciences – environment, food and pharmaceuticals and an Industrial Division – Asset Care. ALS has benefited from strong mining rates and extending testing lead times, paired with solid execution in their Life Sciences and Industrial sectors, contributing to strong margin performance. ALQ's share price has recovered over the past year from COVID-19 lows around \$4.64 on 24 March 2020, rebounding to \$9.93 a year later and trading at \$12.11 on 30 May 2021 after reporting strong profit growth. The share price changes have had a significant impact on total shareholder return.

We commend the group for voluntarily repaying COVID-19 related government net subsidies in Canada of \$20.5m and \$3m in Australia, under their respective Job Keeper programs.

Due to the impact of the COVID-19 pandemic in the first half, revenue declined by 5% (-0.1% at constant currency) to \$1,761m. Reported revenue rose to \$172.6m, up \$44.8m, with one-off gains in H1 FY20, from the sale of the China business.

Despite the beginning impact of COVID, ALS Limited reported an increased Revenue of 10% to \$1,368m. Statutory profit decline was impacted by further impairments; however, the company reported a 4.3% improvement in underlying NPAT and strong cash flows. The Board and management took quick action to respond to market uncertainty in response to COVID-19, flexibly aligning capacity to client demand. The laboratories have remained functioning, and in some cases, have picked up some new pandemic-related testing.

Governance and culture

ALS is governed by a six-member Board of Directors, 1/3 of which is female. The board divides its work among committees including Sustainability and Innovation, Audit and Risk, Nominations, and People. The company successfully accommodates a wide range of communities and cultures around the globe with its worldwide operations.

Financial performance

Total dividends declared for FY21 increased by 31%, from 17.6 cents to 23.1 cents, reflecting strong trading conditions and business liquidity. With a rising share price, total shareholder returns for the 1 April 2020 to 31 March 2021 period, were over 61%.

Key events

Acquisitions of ARJ and Aquimisa made a strong contribution to earnings, along with the integration of Brazil and USA based pharmaceutical testing company Investiga (acquired in March 2021). The sale of the China business in H1 FY20, contributed to statutory NPAT gains in the FY21 reporting period.

Management has strengthened the balance sheet during FY21 by preserving capital through the COVID-19 pandemic. The group reduced gearing by 6% to 1.6 times and net debt by \$186m, following a placement of \$281m of USPP debt and refinancing \$U350m in bank facilities.

Key Board or senior management changes

Following the retirement of NED Grant Murdoch at the AGM in July 2020, there were no other changes to the board, nor senior management changes during the year. The Board continues to show a depth of education, experience and skills that appear well suited to the company. While there is detailed documentation about the individual Directors, there does not appear to be anything approaching the ASA-preferred matrix view that would indicate each Director's particular contribution to the Board.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT (\$m)	185.9	188.8	181.0	51.8	81.6
UPAT (\$m)	172.6	127.8	153.8	142.2	112.7
Share price (\$) at 31 Mar	9.68	5.56	7.59	8.50	6.60
Dividend (cents)	23.1	17.6	22.5	17	13.5
TSR (%)	61	-24	5	24	57
EPS (cents)	35.8	26.5	31.6	10.3	16.2*
CEO total remuneration, actual (\$m)	2.987	2.649	2.565	2.061	2.316

* Actual EPS restated for discontinued oil and gas business

For 2021, the CEO's total actual remuneration was **29.5** the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics).

Note - For November 2020, the Full-time adult average weekly total earnings (annualised) was \$92,034.80 (www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings").

Item 2.i.	Re-election of Bruce Phillips
ASA Vote	For

Summary of ASA Position

Mr Phillips was appointed as a Director of ALS Limited in 2015 and became Chairman following the Company's AGM in 2016. As a qualified geophysicist, he has technical, managerial and financial experience in the energy sector. He founded Australian Worldwide Exploration (ASX: AWE) in 1997, which he ran until 2007. In 2009 he re-joined the Board of AWE, serving as Chairman until his retirement in 2017. He has also been a Director on four other ASX listed companies, serving as Chairman of Platinum Capital Limited for 6 years. He serves on ALS Limited's People Committee and Nomination Committee. His skills and experience are appropriate for ALS Limited and he does not appear to be an over-committed Director. At the end of the Company's financial year, he held 60,160 shares in the company, well in excess of ASA's minimum shareholding requirement.

Item 2.ii.	Re-election of Charlie Sartain
ASA Vote	For

Summary of ASA Position

Mr Sartain joined the ALS Limited Board in 2015. Trained as an engineer, he has worked in the mining and minerals industry for over 30 years, having senior experience in Xstrata's copper business in Australia and Latin America. He has held a number of Director and advisory positions that are synergistic with the ALS Limited businesses. He is Chairman of the Sustainability and Innovation Committee, a member of the Audit and Risk Committee and Nomination Committee. At the end of the Company's financial year, he held 90,000 shares in the company, well in excess of ASA's minimum shareholding requirement, at over four times his annual Directorship remuneration.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Key Management Personnel (KMP's) are remunerated with a combination of fixed pay, Short Term Incentives (STI) and Long Term Incentives (LTI). STI is earned over a one-year time frame and paid in cash with any outperformance STI's deferred into equity for two years. LTI is granted at face value, measured over a three-year performance period and paid as equity.

The LTI component of remuneration has four equally weighted financial hurdles including Return on Capital Employed, Relative Total Shareholder Return, Underlying EBITDA margin relative to global peers, and underlying earnings per share growth. Three of these hurdles are based on 'underlying' figures rather than on statutory figures.

Going forward, 1/3 of all STI will be paid in equity held for two years. The company will introduce a mandatory shareholding requirement of 100%(CEO) and 50%(KMP) of fixed rem to be accumulated over five years. No changes to the LTI scheme are foreshadowed. Regrettably LTI's will still vest over three years rather than ASA's preferred four years. As well, there will be no changes to the current use of 'underlying' metrics in the calculation of LTI's.

Balancing the fact that the Remuneration structure is improving, and that executives appear to be very fairly compensated we will vote in favour. However, we would like to see further improvement in a few areas as outlined in Appendix One below.

Item 4	Grant of Performance Rights to the Managing Director/CEO Raj Naran
ASA Vote	For

Summary of ASA Position

The company proposes to issue 112,436 Performance Rights under the LTIP valued at US\$1,060,900 (A\$1,394,545) for FY2021-22. Pleasingly, the number of Performance Rights was determined based on the average weighted price of the shares (not fair value).

Four equally weighted hurdles (25% each) with sensible levels for achievement must be cleared for rights to vest including Underlying EPS Growth, Underlying EBITDA margin relative to that of comparator peer companies, Total Shareholder Return (TSR) relative to that of the ASX 100 Index, and Return on Capital Employed (ROCE). Although the Asa prefers hurdles to be measured over four years, these are measured over only three years. And some of the hurdles are based on ‘underlying’ measures. The ASA prefers the use of statutory measures and we would hope ALS would move toward a longer vesting period and the use of statutory measures in the future.

Item 5	Approval of Prospective Termination Payments
ASA Vote	For

Summary of ASA Position

This item is refreshing the Board’s approval to act, last given in 2018 where ASA said: As a general rule, the ASA opposes pre-approval of termination benefits. However, we now add “unless the amounts are given or adequately described”. The explanatory notes on this resolution communicate the considerations well. The ALQ STI and LTI describe KMPs’ entitlements to payments to be made in case of cessation of employment. Without the advance shareholder approval sought here, the board could not comply with those STI & LTI contractual obligations unless it first received shareholder approval, which is a lengthy and costly process. We intend to vote FOR this resolution in order to allow the board to meet its existing obligations.

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Appendix 1 Remuneration framework detail

CEO rem. Framework for FY21	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	\$1.604	46.5%	\$1.604	40%
STI - Cash	\$0.962	27.3%	\$0.962	24%
STI – Equity*	\$0	0%	\$0.481	12%
LTI	\$0.962	27.3%	\$0.962	24%
Total	\$3.529	100.0%	\$4.010	100%

The amounts in the table above are the amounts that were envisaged in the design of the remuneration plan and have been rounded up or down. Targets and quantities were reduced mid-year due to Covid. * STI paid in equity only if the CEO earned more than the Target STI.

Overview

Key Management Personnel (KMP's) are remunerated with a combination of fixed pay, Short Term Incentives (STI) and Long Term Incentives (LTI). STI is earned over a one-year time frame and paid in cash with any outperformance STI's deferred into equity for two years. LTI is measured over a three-year performance period and paid as equity.

The CEO has ample skin in the game, owning over \$2m in shares which equates to about 1.4 times his fixed remuneration.

Pleasingly LTI incentives are granted on a face value calculation rather than fair value and the company provides shareholders with a very readable table of actual take-home pay.

Although no changes to the remuneration framework were planned for this year, the board made several temporary changes mid-year in response to Covid. The usual STI gateway of meeting the previous FY's Underlying NPAT was lowered from \$188.8m to \$149m. And the quantum-at-target amount was also lowered by 25%. Other non-financial KPI's were re-set to focus on business resilience, cost and cash management, margin preservation, and staff safety.

The breakdown of Fixed Rem/STI/LTI for the CEO is set out in the table above. STI has an equity deferral component ONLY for those who attain the outperformance financial KPIs. The additional STI, if earned, is deferred into rights to receive ALS shares after two years provided the executive remains employed

All executives earned STI payments this year although they were below levels earned in the previous year reflecting the Covid-induced lowering of the quantum-at-target amounts.

The LTI component of remuneration has four equally weighted financial hurdles including Return on Capital Employed, Relative Total Shareholder Return, Underlying EBITDA margin relative to global peers, and underlying earnings per share growth. Three of these hurdles are based on 'underlying' figures. We prefer these measures to be based on statutory rather than underlying figures. Executives each earned just under 75% of the LTI granted under the 2017 LTI plan.

There were no changes to NED fees this year.

Changes for next FY

Last year prior to the onset of Covid, the Board commissioned an external review of the remuneration framework which identified the Group's 'at risk' remuneration opportunity for its executives as significantly below market practice. It also identified ways to increase the alignment of executive and shareholders' experience and encourage and reward longer term decision making. These recommendations were put on hold for FY21; the board plans to implement several of these changes for the coming year. Previously the STI equity component only paid 'outperformance' amounts in equity held for two years. Going forward, 1/3 of all STI will be paid in equity held for two years. The company will introduce a mandatory shareholding requirement of 100%(CEO) and 50%(KMP) of fixed rem to be accumulated over five years. No changes to the LTI scheme are foreshadowed. Regrettable LTI's will still vest over three years rather than ASA's preferred four years. As well, there will be no changes to the current use of 'underlying' metrics in the calculation of LTI's.

Read-ability

The ALS Remuneration Report is generally no more difficult to comprehend than most Rem Reports, which is a compliment to the company. However, the temporary Covid-induced changes to this year's remuneration scheme were an added challenge.