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A solid performer continues upward trajectory

Company/ASX Code	ALS Limited (ALQ)
AGM date	Tuesday 23 August 2022
Time and location	10am Pullman King George Square Hotel, Brisbane and online
Registry	Boardroom
Webcast	Hybrid meeting via Lumi
Poll or show of hands	Poll on all items
Monitor	Kelly Buchanan and Mike Stalley
Pre AGM Meeting?	Unfortunately, no

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

Summary of issues for meeting

In general ALS is a well-managed and well-governed company with sound financial performance. However, improvement could be achieved by providing shareholders with a meaningful Board Skills Matrix.

Further, we've always met with company representatives before the AGM to discuss shareholder issues and concerns and to seek clarification on various topics. This year however the company did not respond to our requests for a meeting. We hope this is only an oversight on the company's behalf.

Res No.	Resolution description - See pp3-5 for summary of position	Proposed vote
2i	Re-election of Director – Tonianne Dwyer	For
2ii	Re-election of Director – Siddhartha Kadia	Against
3	Adoption of Remuneration Report	For
4	Reinsertion of Proportional Takeover Approval Provisions	For
5	Increase in Fee Pool for Non- Executive Directors	For
6	Grant of Performance Rights to the Managing Director/CEO	For
7	Approval of financial assistance	For

Consideration of accounts and reports - No vote required

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 solid performance in its Life Sciences and Commodities sectors, contribution to strong margin performance with an increase in underlying EBIT of 29.3% and 42% respectively. The industrial division underlying EBIT was down 17.1%, albeit on a lesser turnover to produce an overall Total Services underlying EBIT increase of 32.9%. ALQ's share price has continued to recover over the past year from $9.68 to $13.40 at the balance date. The share price change has had a significant impact on total shareholder return.

Performance is now more than pre-Covid-19 pandemic levels. This FY22 completes the five-year strategic plan for the Company and was successful in exceeding all strategic priorities. A new strategic plan will be announced at the August AGM.

Governance and culture

Overall ALQ is a well governed company that acts in the best interests of shareholders. In past years the company has willingly engaged with your company monitor in a pre-AGM meeting to discuss issues that might arise at the upcoming AGM. Unfortunately, we received no response to several requests for a meeting this year.

Financial performance

Total dividends declared for FY22 increased by 38%, from $0.231 to $0.328 reflecting strong trading conditions and business liquidity. With a rising share price, total shareholder returns for the financial year were over 40%. The statutory net profit after tax was $190.5m a $20.9m increase with revenue increasing by 23.9% to $2.182m. The underlying NPAT of $264.2m and strong cash flows continue the sound financial position of the Company. The business and activities of the Company include a significant carrying amount of intangibles as a non-current asset on the Balance Sheet. FY22 intangibles have increased by 3.8% to $1,194.8m and represent 42% of FY22 Total Assets, down from 46% in FY21. Shareholder equity has increased by 5.8% in FY22 to $1,120.1m.

Key events

ALS made two bolt-on acquisitions during the year. In July 2021 the company acquired 49% of Nuvisan a pharmaceutical testing business with operations in Germany and France. ALS has the option to purchase the remainder of the company in the next few years.

The acquisition represents a significant and strategic expansion in ALS's Life Sciences capability as it increases ALS's presence in the pharmaceutical market. This moves ALS's service offering from quality control up the supply chain into drug development and research testing which constitutes the majority of client spend. The €145million purchase price was funded from existing debt facilities.

In December 2021 ALS acquired MinAnalytical Laboratory Services which operates a geochemistry testing business that will expand ALS's Western Australian operations by ~40% and will further expand ALS's capacity and technological service offering. The acquisition supports the strategy to grow mine-site testing which delivers more sample volume throughout the commodities cycle. The acquisition was made for $39million which was funded from existing debt facilities.

The share buyback program ended in December 2021 with 21.8 million shares bought back on market for a total consideration of $153.4 million at an average share price of $7.04

Key Board or senior management changes

Kristen Walsh, former General Manager, Industrial ceased employment with the company 8 October 2021.

ASA focus issue

Last year we highlighted the inadequacy of the company's Board Skills Matrix; sadly, there has been no improvement. Contained in the Corporate Governance Statement, the company has provided a list of skills but there is no indication whether any of the board members possess any of these skills.

The ASX Corporate Governance Council recommends that "A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership." The ASA advocates for a meaningful skills matrix that is easily accessible by shareholders.

We encourage the board to disclose to shareholders which skills the various board members might have so shareholders can see where the company's strengths and weaknesses lie. Further we would like to see the matrix in the Annual Report which is more readily available to shareholders than the Corporate Governance Statement.

ASA expects the company to identify, manage and communicate financial, cybersecurity and non-financial risks including ESG. These are well-communicated, including the fact that it expects to be carbon neutral by FY23. Pleasingly, the company's report gives the impression that these are just part of the management of the company rather than merely tacked on as window dressing.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	190.5	185.0	188.8	181	51.8
UPAT ($m)	264.2	172.6	127.8	153.8	142.2
Share price ($)	13.40	9.68	5.56	7.59	8.5
Dividend (cents)	32.8	23.1	17.6	22.5	17
Simple TSR (%)	41.8	61	-24	5	24
EPS (cents)	39.5	35.8	26.5	31.6	10.3
CEO total remuneration, actual ($m)	3.976	2.987	2.649	2.565	2.061

For FY2022, the CEO's total actual remuneration was **42 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Re-election of directors

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 is Deputy Chancellor of the Senate of the University of Queensland and is on the board of the Monash Foundation. On the ALQ board she chairs of the People Committee.

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

We are delighted to see that since her last bid for re-election she has significantly increased her shareholding in the company from 70% to 185% of her fees further aligning her interests with those of shareholders.

US-based **Dr Kadia** was appointed Director in January 2019. With Biomedical Engineering qualifications, Dr Kadia was formerly head of a California based global testing laboratory. 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. Dr Kadia holds directorships in five unlisted US companies specializing in both the biomedical and testing industries. And more recently he has become CEO of NASDAQ listed Berkely Lights (BLI).

Dr Kadia has both the qualifications and experience appropriate to ALS Limited.

Since his appointment three years ago, Dr Kadia has acquired shares to the value of 64% of his base fees. ASA prefers directors to have invested at least one year's worth of base fees after three years on the board. ALQ's stated policy is that NEDs must hold shares equal to, at a minimum, one year's fees (after tax) within three years of starting as a NED. Dr Kadia's share acquisition, which, given his unknowable tax situation, *may* satisfy the company's minimum shareholding requirement. However, this is not a large enough shareholding to meet ASA Guidelines.

We appreciate Dr Kadia's experience and his industry knowledge. However, his extreme overcommitment to other companies, especially his role as a CEO of a publicly listed company, puts him in a position to be less than able to devote adequate time to ALS, especially in the event of a corporate or industry catastrophe. On this basis, we will be voting against his re-election.

Adoption of Remuneration Report

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. 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 remuneration to be accumulated over five years. No changes to the LTI hurdles are foreshadowed however there will be some increase in opportunity for KMP. Regrettably LTI's will still vest over three years rather than ASA's preferred four years or more. As well, there will be no changes to the current use of 'underlying' metrics in the calculation of LTI's.

We would like to see longer LTI performance measurement hurdles and the use of statutory rather than underlying figures in the calculation of STI performance. Balancing the fact that executives now have a greater proportion of their remuneration at risk and appear to be fairly compensated we will vote in favour. However, we would like to see further improvement in a few areas.

Renewal of proportional takeover provisions

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.

Increase in Fee Pool for Non-Executive Directors

The company seeks to increase the amount of fees available to be paid to non-executive directors each year by 15% from $1,650,000 to $1,897,500. The last fee pool increase was four years ago. Since then, a benchmarking review of NED fees found the current structure is below the market average for a company of its size.

The company is currently using over 80% of its fee pool to compensate existing directors. As well, the company wants to increase the size of the board to facilitate flexibility in succession planning, i.e., to allow for overlapping terms of NEDs and the future appointment of more globally diverse Board members.

Given the growth of the company, the need to diversify the board with more international talent, and the current fees being below market average we fully support this item.

Approval of equity grants to MD/CEO, Raj Naran

The company proposes to grant 166,938 Performance Rights under the company's Long Term Incentive Plan valued at US$1,591,350 (A$2,296,055) for FY2022-23. Pleasingly, the number of Performance Rights was determined based on the average weighted price of the shares (not fair value).

Measured over three years, four equally weighted hurdles with sensible levels for achievement must be cleared for rights to vest (see details in Appendix 1 below). ASA prefers hurdles to be measured over four years and opposes the use of 'underlying' as opposed to 'statutory' measures. We would hope ALS would move toward a longer vesting period and the use of statutory measures in the future.

Approval of financial assistance

ALQ and its subsidiaries are parties to several loan facilities with external lenders. Funds were drawn on these facilities in December 2021 to acquire MinAnalytical Lab Services (MALSA). Adding MALSA as another party to these loan facilities will allow ALQ greater flexibility in the structure of its lending arrangements, including the possibility of adding MALSA as another guarantor to the loan facilities. This would be considered an act of "financial assistance" under the Corporations Act. As MALSA was a 'target' in an acquisition, shareholder approval is required for this 'financial assistance' because the target company would be giving a guarantee of the debt used to fund the acquisition of its shares.

With such shareholder approval ALQ would also be better able to manage compliance with its undertakings to the external lenders. Currently ALQ and a majority of its subsidiaries are already guarantors under the various loan documents. However, by adding MALSA as a guarantor, MALSA's balance sheet, future profits and future cash flow, in the case of any default by ALQ, could result in lenders making demand on MALSA under the terms of the loan documents.

We approve of this resolution so that ALQ can have more flexibility in the structure and arrangement of its loan agreements across the company and its subsidiaries.

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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	$1.573	38.5%	$1.573	34.5%
STI – Cash	$0.629	7.7%	$0.944	20.7%
STI - Equity	$0.315	15.4%	$0.472	10.3%
LTI	$1.573	38.5%	$1.573	34.5%
Total	$4.091	100.0%	$4.564	100.0%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

Overview

Key Management Personnel (KMPs) 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 with 2/3 paid in cash and 1/3 deferred into Deferred Service Rights vesting after two years subject to continued employment. Previously deferral only applied to any outperformance component earned.

The CEO has ample skin in the game, owning over $3.4m in shares which is more than double 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.

This year the CEO was awarded 90% of his STI and the other executives earned an average of 99% of their STI opportunities.

The LTI component of remuneration has four equally weighted financial hurdles including Return on Capital Employed (based on underlying earnings), Relative Total Shareholder Return, underlying EBITDA margin relative to global and industry peers, and underlying earnings per share growth. Although we prefer these measures to be based on statutory figures they are sadly based on underlying figures. Further we prefer these to be measured over a four-year performance period; the company only measures them over three years.

The CEO and other Executives all earned 100% of the LTI granted under the 2018 LTI plan which vested during FY 2022.

There were no changes to NED fees this year however shareholders are asked to approve changes for next year. The company hopes to modestly increase fees for FY23, and subject to shareholder approval, will increase the fee pool to allow for more headroom and to appoint another director.

Changes for next FY

There will be no increase in the CEO's fixed remuneration for the coming year. However, in recognition of the increased size of the business and the demand for senior executives, and following benchmarking against peers, the CEO's STI opportunity will increase from 60% to 70% of fixed remuneration at target. His LTI opportunity will increase from 100% to 150% of fixed remuneration.

For other Executive KMP increases in fixed remuneration will range from 3% to 15% of fixed remuneration and increases in LTI opportunity will range from 60% to 110% of fixed remuneration. There will be no change to STI opportunities which will remain at 60% of fixed remuneration at target.

Readability

The ALS Remuneration Report is generally no more difficult to comprehend than most Rem Reports, which is a compliment to the company.