3 December 2024

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ALS (ALQ)

Aced the test

Recommendation
Buy (Initiation)
Price
$15.78
Target (12 months)
$17.30 (Initiation)

Sector

Commercial Services and Suppliers

Expected Return	
Capital growth	**9.6%**
Dividend yield	**2.5%**
Total expected return	**12.1%**

Company Data & Ratios	
Enterprise value	**$9,406m**
Market cap	**$7,647m**
Issued capital	**485m**
Free float	**99.9%**
Avg. daily val. (52wk)	**$19.7m**
12 month price range	**$11.75-16.50**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	14.13	15.76	12.12
Absolute (%)	11.7	0.1	30.2
Rel market (%)	7.9	-5.1	9.6

Absolute Price

SOURCE: IRESS

A leading global Testing, Inspection & Certification Group

ALS (ALQ) is a global Testing, Inspection and Certification (TIC) company, servicing clients across several industries. ALQ commands a market-leading position in geochemical testing, leveraging its hub-and-spoke model, Laboratory Information Management System (LIMS) and innovative value-added capabilities. In Life Sciences, ALQ operates one of the largest global environmental testing businesses, with a footprint spanning 35+ countries. The company's Pharmaceutical division aims to establish regional leadership in key geographies including Western Europe, delivering Contract Research Organisation (CRO) services, Beauty and Cosmetics claims testing and batch release testing. ALQ's food testing division services clients across the food value chain from farm to food retailer, predominantly in Western Europe.

Tracking ahead of FY27 targets

We forecast 8.5% EPS CAGR over FY24-27, with revenue and EBIT tracking ahead of the company's FY27 targets ($3.3b and $0.6b, respectively). This outlook is underpinned by: (1) a recovery in exploration testing sample volume growth from FY26 and further take-up of higher margin, value-added services; (2) high single-digit organic revenue growth in Environmental driven by increased penetration and regulation in traditional markets and rapid growth in PFAS testing demand in the USA and key markets in Europe; (3) further business development success at Nuvisan and ongoing progression of the €25m (~A$43m) cost-out program (>50% complete), delivering significant profitability improvements by FY26; (4) greater demand for CRO services in Europe once the BIOSECURE Act is legislated in the USA; and (5) further scope growth in the Life Sciences segment through programmatic acquisitions.

Investment thesis: Initiate with Buy; TP$17.30/sh

We see compelling value in ALQ as an investment leveraged to increasing societal demands for green environmental testing practices, stringent enforcement of PFAS remediation and monitoring programs and a recovery in global exploration testing volumes and regional (European) CRO activity. ALQ should continue to create value through its targeted capital allocation framework, delivering >15% ROCE.

Earnings Forecast

Year ending 30 June	2024a	2025e	2026e	2027e
Sales ($m)	2,586	2,948	3,162	3,437
EBIT ($m)	492	507	573	651
NPAT (reported) ($m)	15	266	316	374
NPAT (adjusted) ($m)	319	307	348	406
EPS (adjusted) (¢ps)	65.0	62.7	71.2	83.1
EPS growth (%)	-1.5%	-3.5%	13.5%	16.7%
PER (x)	24.3x	25.2x	22.2x	19.0x
FCF Yield (%)	1.6%	0.9%	2.7%	3.5%
EV/EBIT (x)	19.1x	18.6x	16.4x	14.4x
Dividend (¢ps)	39.0	38.0	43.2	50.3
Yield (%)	2.5%	2.4%	2.7%	3.2%
Franking (%)	15%	15%	15%	15%
ROE (%)	25%	26%	28%	29%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Company overview & investment view

Company overview

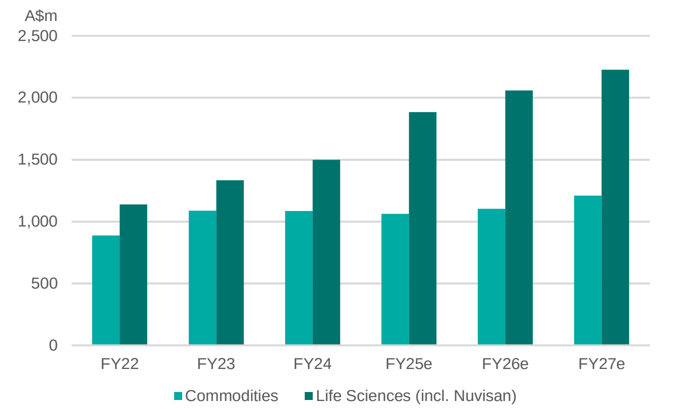
ALS (ALQ) is a global Testing, Inspection and Certification (TIC) company, servicing clients across several industries. ALQ commands a market-leading position in geochemical testing, leveraging its hub-and-spoke model, Laboratory Information Management System (LIMS) and innovative value-added capabilities. In Life Sciences, ALQ operates one of the largest global environmental testing businesses, with a footprint spanning 35+ countries. The company's Pharmaceutical division aims to establish regional leadership in key geographies including Western Europe, delivering Contract Research Organisation (CRO) services, Beauty and Cosmetics claims testing and batch release testing. ALQ's food testing division services clients across the food value chain from farm to food retailer, predominantly in Western Europe.

Figure 1 - Company overview

Commodities | 37% of 1H FY25 revenue | 3.7% revenue CAGR (FY24-27)		Life Sciences | 63% of 1H FY25 revenue | 14.1% revenue CAGR (FY24-27)		
Minerals	Industrial Materials	Environmental	Food	Pharmaceutical
Services offered				
Exploration testing High-performance testing Consulting & data analytics Metallurgy Mine-site production	Commodity inspection Coal market services Lubricants & transformer oil reliability	Water testing, air testing & waste testing Soil, solid and biota testing Construction & transportation safety	Food, beverage, agriculture & feed quality	CRO / CDMO services: Drug discovery; pre-clinical trials; clinical trials; FDA review; and post approval / monitoring Personal care product safety & claims
Clients				
Mining and exploration companies	Coal producers, traders and industrial companies	Engineering and construction companies, consultants, utilities, government bodies and universities	Global food and beverage companies and retailers	Biopharma, pharma and biotech companies
Competitors				
Global competitors: Eurofins Scientific (Life Sciences focussed); Intertek; SGS; Bureau Veritas; Charles River Laboratories (Pharmaceuticals focussed; large North America presence)				
Industry megatrends				
Regulation & outsourcing: More health-related regulations; increased healthcare spending; increased outsourcing; ageing infrastructure in developed markets **Technology development:** Predictive analytics; artificial intelligence; machine learnings; and robotics **Sustainability services demand:** Increased sustainability investments; societal aspirations; and transition from self-declare to 3rd party verified **Digitisation & data analytics demand:** Use of data management systems; increasing size and complexity of data; and security **Energy transition (for Commodities):** Increased demand for battery metals; government and corporate commitments; and EV take-up				
Value creation framework				
FY27 financial targets: Revenue of $3.3b (delivered by nearly equal split of organic and scope growth); EBIT of $0.6b; Group EBIT margin >19%; cash conversion of >90%; and a ROCE of >20% **Growth pillars:** Organic & innovation led growth; operational improvements; cash generation; and selective and opportunistic M&A **Capital framework:** Portfolio assessment (market attractiveness; portfolio and operational fit; and growth opportunity); growth ambition (protect and extend; expand; selective; and manage and monitor); and capital allocation (risk-weighted approach to capital allocation; and a minimum ROCE of 15%)				

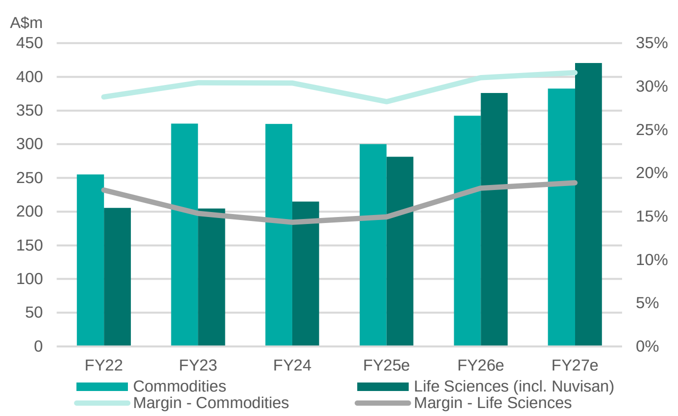
SOURCE: COMPANY DATA

Figure 2 - Historical & forecast segment revenue



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 - Historical & forecast segment EBIT & margins



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Investment thesis & recommendation

Investment thesis: Initiate with Buy; TP$17.30/sh

We initiate coverage of ALQ with a Buy recommendation, noting the following drivers:

Positive medium-term outlook: We forecast 8.5% EPS CAGR over FY24-27, with revenue and EBIT tracking ahead of the company's FY27 targets ($3.3b and $0.6b, respectively). This outlook is underpinned by: (1) growth in sample volumes from FY26 as the global exploration testing market recovers, improved Metallurgy activity and further take-up of higher margin, value-added services; (2) high single-digit organic revenue growth in Environmental driven by increased penetration and regulation in traditional markets and rapid growth in PFAS testing demand in the USA and key markets in Europe; (3) further business development success at Nuvisan, replacing ramping down contracted revenue from a key client (Bayer), and ongoing progression of the €25m (~A$43m) cost-out program (currently >50% complete), delivering significant profitability improvements by FY26; (4) greater demand for CRO services in Europe once the BIOSECURE Act is legislated in the USA; and (5) further scope growth in the Life Sciences segment through programmatic acquisitions.

Positive long-term structural trends: ALQ operates in markets with attractive long-term structural drivers including: (1) rising critical mineral exploration activity, reflecting greater usage of minerals in decarbonisation technologies; (2) increasing societal demands for green environmental testing practices; (3) rising demand for PFAS testing services in Environmental, Food and Beauty and Cosmetic applications as more states in the USA and countries in Europe regulate and enforce testing programs; and (4) outsourcing of services in the Environmental and Pharmaceutical sectors.

Reduced Commodities cyclicality through diversification: Efforts to expand value-added and downstream services have diversified Minerals revenue generation, softening the skew to cyclical exploration testing while decoupling sales and sample volume growth. ALQ's sales from new services and downstream activities contributed 26% of 1H FY25 Mineral revenue, up from 13% in FY18. We expect the expansion of these higher margin services to bolster Mineral profitability and resilience as subdued operating conditions persist in the short-term.

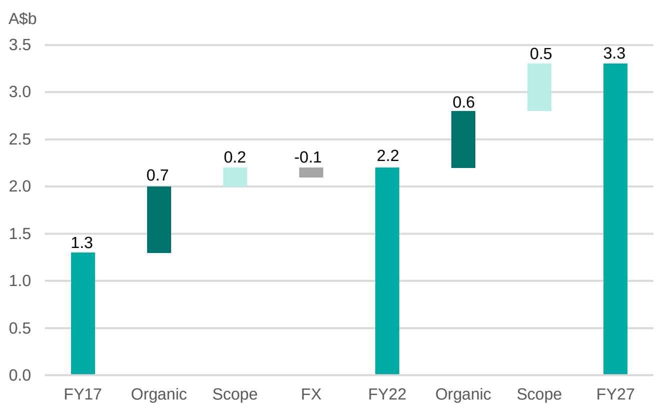
Attractive & disciplined capital allocation framework: ALQ has demonstrated an ability to deliver ROCE of >15% on inorganic growth investments and 20% on organic growth expenditures, while prudently managing net leverage and gearing levels. We expect rapid deleveraging over the next 12-18 months as ALQ delivers strong FCF growth. ALQ's growth capital allocation has been prioritised to Environmental through acquisitions and Commodities through targeted capacity growth ahead of an expected recovery in exploration testing demand.

EBIT margin expansion: We forecast ALQ to deliver 180bps of EBIT margin expansion over FY25-27 to achieve its FY27 target, underpinned by: (1) a recovery in sample volume growth, driving operating leverage, and further up-take of higher margin, high performance exploration testing methods; (2) improved organic Environmental profitability driven by scale; (3) completion of the Nuvisan cost-out program; (3) integration of the recently acquired Wessling and York acquisitions, generating operational improvements and efficiencies; and (4) implementation of productivity enhancing initiatives.

Relative valuation: ALQ trades at a ~21% premium to its global peer group (CY24-25 EV / EBIT). We believe this premium is justified given ALQ's leading EBIT margin outlook and near-term earnings growth upgrade potential should a recovery in global exploration testing demand occur. ALQ operates the largest global geochemistry testing network, providing significant leverage when exploration markets recover.

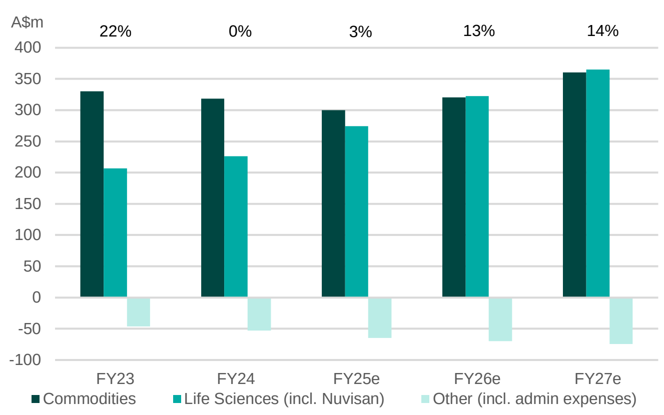
Investment thesis in charts

Figure 4 - FY27 revenue target: Organic vs scope growth



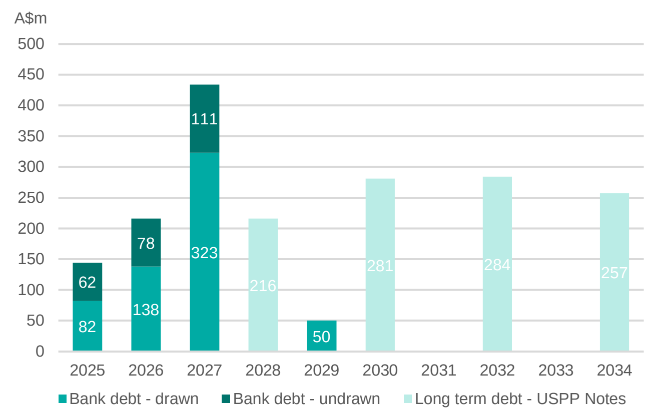
SOURCE: COMPANY REPORTS

Figure 5 - Segment EBIT & Group EBIT growth (top of chart)



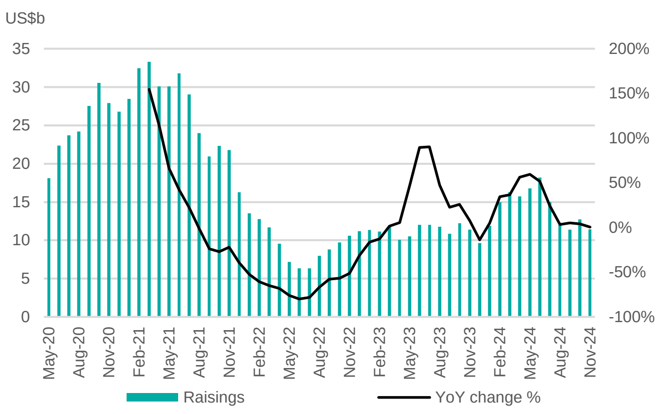
SOURCE: COMPANY DATA

Figure 6 - Debt maturity profile as of end of September 2024



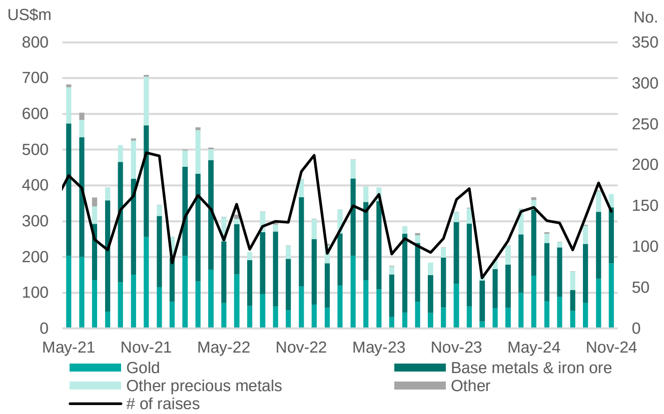
SOURCE: COMPANY REPORT

Figure 7 - R6m global small to mid-sized biotech firm raisings



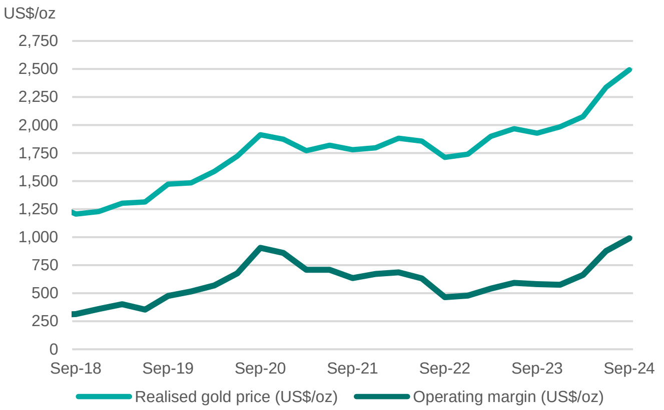
SOURCE: BLOOMBERG

Figure 8 - Global Junior equity financings



SOURCE: BLOOMBERG

Figure 9 - Gold Majors operating margin vs gold price



SOURCE: COMPANY REPORTS

Valuation & methodology

DCF-driven valuation of segments

Our ALQ valuation is derived from DCF models of each of ALQ's segments and valuation allowances for corporate and acquisition costs (financing of inorganic growth). A nominal WACC of 8.7% and a terminal growth rate of 4.0% have been applied in our valuation determination. Table 1 outlines our ALQ valuation summary.

Table 1 - ALQ SOTP valuation summary

Diluted shares on issue		**487m**
SOTP - 12-month valuation	**$m**	**$/sh**
Commodities	5,254	10.79
Life Sciences	6,884	14.14
PV of acqusition costs	-1,221	-2.51
Corporate costs	-712	-1.46
Enterprise valuation	**10,206**	**20.96**
Net debt / (net cash)	1,804	3.70
Equity valuation	**8,402**	**17.26**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Global Testing, Inspection & Certification peer group comp

ALQ trades at a ~21% premium to its global peer group (CY24-25 EV / EBIT). We believe this premium is justified given ALQ's leading EBIT margin outlook and near-term earnings growth upgrade potential should a recovery in global exploration testing demand occur. ALQ operates the largest global geochemistry testing network, providing significant leverage when exploration markets recover.

Table 2 - Global Testing, Inspection & Certification peer group comparison

		EPS growth (%)		EV / EBIT (x)		PE ratio (x)		EBIT margin (%)		FCF yield (%)	
	EV (A$m)	**CY24e**	**CY25e**	**CY24e**	**CY25e**	**CY24e**	**CY25e**	**CY24e**	**CY25e**	**CY24e**	**CY25e**
SGS	34,106	0.6%	10.3%	19.7x	17.7x	24.3x	22.1x	14.6%	15.4%	4.5%	5.0%
Bureau Veritas	23,673	11.8%	8.6%	15.1x	13.9x	20.9x	19.3x	15.7%	16.0%	5.1%	5.2%
Eurofins Scientific	19,240	15.6%	14.8%	12.9x	11.6x	15.7x	13.7x	13.2%	13.7%	5.6%	6.4%
Intertek	16,693	9.7%	8.8%	14.8x	13.8x	19.5x	17.9x	16.9%	17.1%	5.1%	5.7%
ALS	**9,406**	**-1.5%**	**10.5%**	**18.6x**	**17.0x**	**24.6x**	**22.4x**	**17.6%**	**17.7%**	**3.3%**	**4.3%**
Simple average				**15.4x**	**14.1x**	**20.0x**	**18.0x**	**15.9%**	**16.2%**	**4.7%**	**5.5%**
Median				**14.8x**	**13.8x**	**19.5x**	**17.9x**	**16.9%**	**17.1%**	**5.1%**	**5.7%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

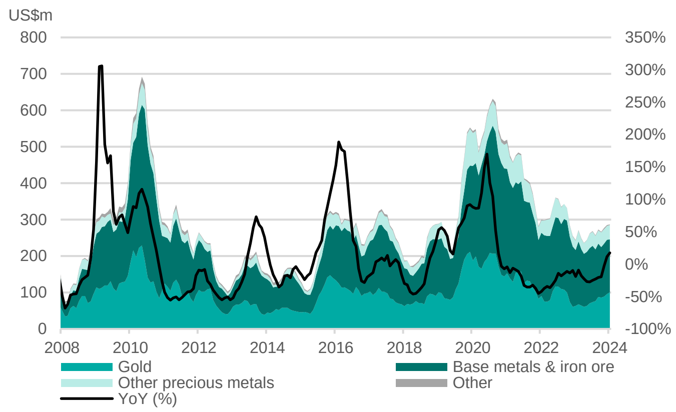
Industry trends & themes

Commodities: Poised for a recovery in sample volume growth

Geochemistry sample flows leveraged to a recovery in Junior equity financings

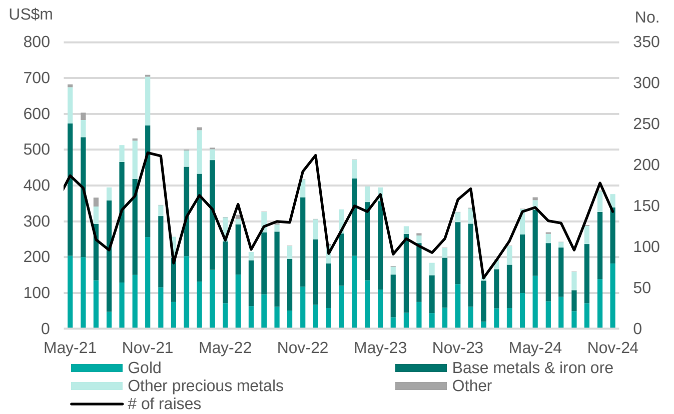
Our proxy for Junior equity financings provides a 6-9 month leading indicator for changes in Junior greenfield exploration activity. Figures 10-11 illustrate weakening equity financing conditions for Junior explorers (predominately in the Canadian and Australian markets), which has contributed to subdued demand for exploration testing in recent years. ALQ is leveraged to a recovery in global Junior raisings, with improvements to exploration activity to follow 6-9 months after. Historically, Juniors have accounted for 25-40% of geochemistry sample volumes through the cycle, with cyclicality driven by access to capital. Conversely, Majors' FCF from operations support relatively more stable activity through the cycle.

Figure 10 - R6m global Junior equity financings



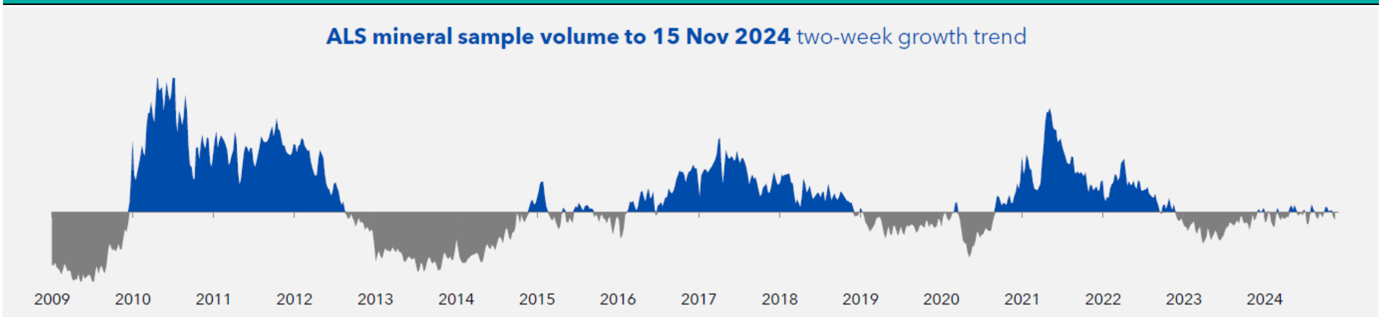
SOURCE: BLOOMBERG

Figure 11 - Global Junior equity financings



SOURCE: BLOOMBERG

Figure 12 - ALQ mineral sample volume growth to 15 Nov. 2024

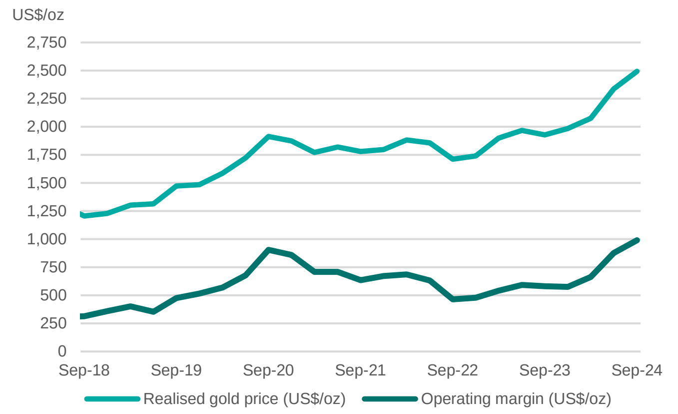


SOURCE: COMPANY DATA

Gold Majors poised to lift exploration budgets for CY25

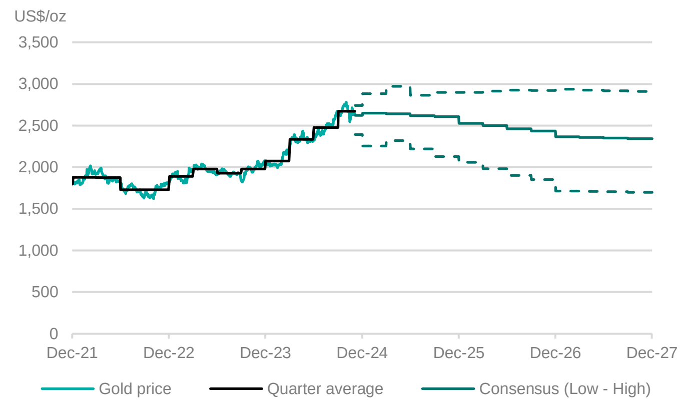
Figure 13 illustrates operating margins reported by 5 gold Majors. Given the recent gold price strength and moderating cost base inflation among the Majors, operating margins have surpassed the CY20 peak. CY25 consensus gold price forecasts of US$2,658/oz (up 12% on the CY24TD average) reinforces the margin outlook and may spur Majors to reinvigorate exploration budgets for CY25. We anticipate a Major-driven recovery in exploration activity in FY26. Gold has historically contributed ~50% of total global exploration budgets, with majors at 40-50%.

Figure 13 - Gold Majors' operating margin vs gold price



SOURCE: COMPANY REPORTS

Figure 14 - Gold historical price and outlook



SOURCE: BLOOMBERG & CONSENSUS ECONOMICS

Metallurgy pipeline supported by gold price outlook & critical minerals demand

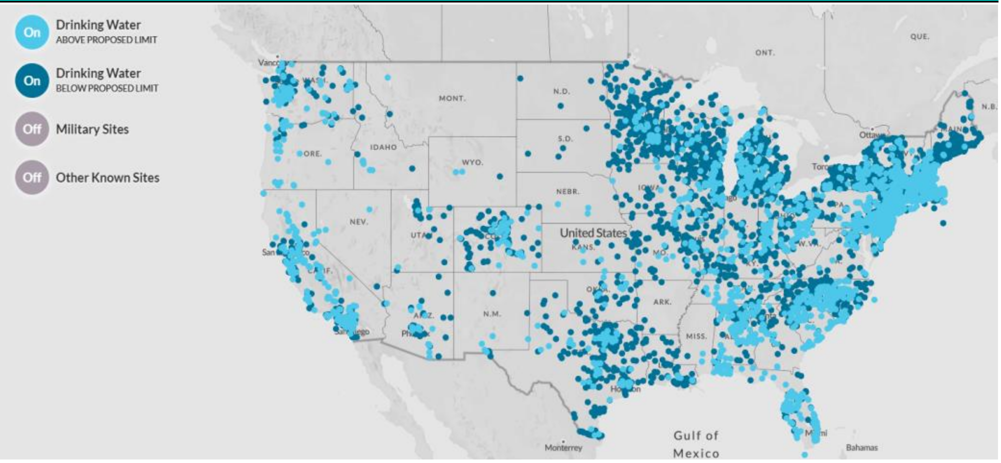
ALQ's market-leading position in gold and base metals process flowsheet design and metallurgy positions it to benefit from increased project development in these commodity markets. The supportive outlook for gold prices will likely spur increased development activity for greenfield and brownfield projects, increasing demand for gold processing solutions. Similarly, demand for critical minerals (particularly copper) is expected to increase significantly in the medium to long term to enable the electrification of industries around the world. The development of critical mineral projects should enhance the demand outlook for ALQ's Metallurgy service offering.

Life Sciences: PFAS testing a key growth market

Growing awareness & further regulation of PFAS presents testing opportunities

The number of states and communities in the USA confirmed to be contaminated with PFAS has been growing at a fast pace. In April 2024, the Environment Protection Agency announced new regulation on 6 PFAS substances in drinking water, requiring public water systems to complete initial monitoring of these substances by 2027. Several states are looking to address PFAS pollution by banning some uses of the substances and establishing cleaning standards. The introduction of regulations in the USA and Europe, requiring PFAS monitoring, represents a significant testing opportunity in the near-term.

Figure 15 - Known PFAS contamination in the U.S. (as at 20 November 2024)



SOURCE: EWG.ORG

Other Environmental end-market testing trends:

- Stringent regulatory changes (eg. for PFAS - EU REACH);
- Increasing societal demands for "green" environmental testing practices; and
- Rising global infrastructure spend for greenfield and brownfield projects and remediation.

Pharma & biotech drug development pipeline challenges to persist in the short term

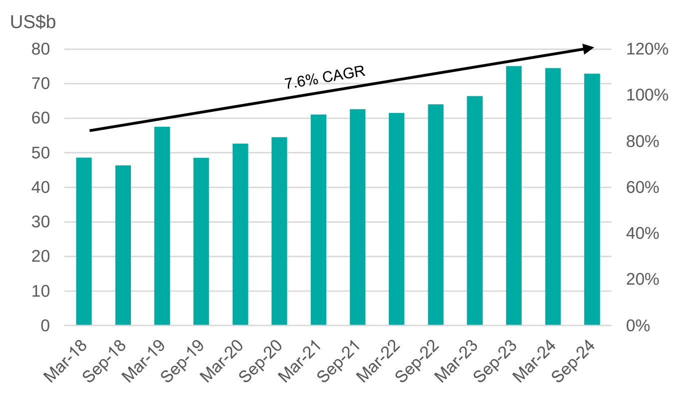
The short-term outlook for biotech and pharma drug development appears challenged as outlined by ALQ's larger global peers in the Contract Research Organisation (CRO) / Contract Development and Manufacturing Organisation (CDMO) industries. Impending patent expiries and incoming IRA legislation have led global pharma companies to exercise R&D spending cutbacks and reprioritise spending programs towards maturer commercial opportunities. Some of these spending restraints involve delaying or cancelling R&D programs with CRO and CDMO partners. Activities across drug discovery and safety assessment (pre-clinical and phase 1 trails) are most receptive to the spending cuts given they are considered relatively early stage and risky propositions of deployed capital. Phase 2-4 trial scopes are expected to continue as they represent maturer opportunities to commercialise developed drugs. Weakened global pharma spending is anticipated to persist into CY25. On a positive note, cost disciplined pharma companies may expedite outsourcing of CRO and CDMO services as a cost-effective approach to delivering drug development, a positive for ALQ.

Commentary from peers also indicates an aggressive competitive landscape that has led to pricing pressures on services offered and challenged negotiations for business development opportunities.

Our proxy for venture capital (VC) and equity market biotech financings demonstrated strong growth in early CY24, before declining over the remainder of the year. Given small-to-mid sized biotech firms' reliance on external capital, larger CRO / CDMO peers have anticipated spending restraint by these companies as perceived access to capital is constrained. Figure 17 outlines equity financings by global small-to-mid sized biotech companies.

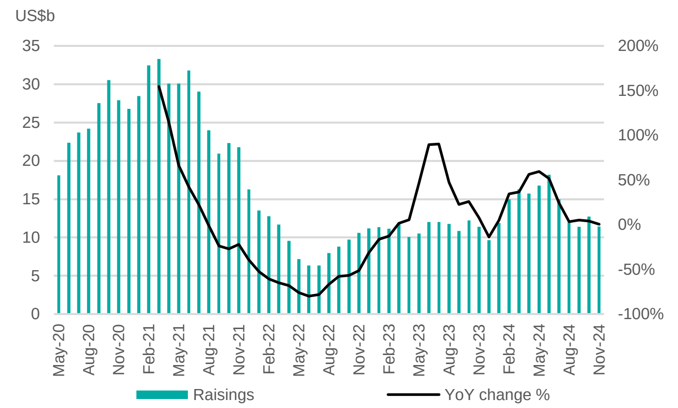
We view the potential BIOSECURE Act legislation by the US Federal government as a significant disruptor to the global biotech industry, which may increase demand for CDMO services in western countries, including Europe. The BIOSECURE Act will prohibit federal agencies from contracting with or providing funding to any company working with a "biotechnology company of concern", taking aim at any country considered a foreign adversary of the USA.

Figure 16 - Sample of global big pharma R&D expense incurred



SOURCE: BLOOMBERG

Figure 17 - R6m global small to mid-sized biotech firm raisings



SOURCE: BLOOMBERG

Other pharmaceutical end-market testing trends:

Outsourcing of services to CROs & CDMOs: Pharmaceutical and biotechnology companies benefit from outsourcing services to CROs and CDMOs. CROs and CDMOs specialise in various disciplines including chemistry, biology, clinical trial management, regulatory engagement, drug manufacturing and compliance. Specialisation of these services make CROs' and CDMOs' operating model scalable and flexible, lowering cost to serve. Outsourcing provides pharmaceutical and biotechnology companies with a cost-efficient route to commercialising drugs, while allowing them to focus on other core competencies like marketing of products.

Food end-market testing trends:

- Growing demand and awareness for safe and high quality foods;
- Food scares and crises;
- New product development;
- Increased government regulation on quality control;
- Increased food sourced from countries with lax quality control standards; and
- Growing importance for transparency and traceability.

Key financials

Income statement

The table below outlines key ALQ historical and forecast income statement metrics. We estimate ALQ to achieve revenue CAGR of 9.9%, underlying EBITDA CAGR of 9.9% and underlying NPAT CAGR of 8.5% over FY24-27. Our revenue and EBIT forecasts are tracking ahead of the company's FY27 financial targets of $3.3b for revenue and $0.6b for EBIT, with the expectation of steady Group EBIT margin improvement. Corporate costs are expected to be ~2.2% of revenue in FY25.

Table 3 - Historical & forecast income statement

Income statement metrics - $m	FY23	FY24	1H FY25	2H FY25	FY25	FY26	FY27
Total revenue	**2,421**	**2,586**	**1,464**	**1,484**	**2,948**	**3,162**	**3,437**
Commodities	1,087	1,087	536	528	1,063	1,103	1,211
Life Sciences	1,334	1,499	929	956	1,885	2,059	2,226
Total operating expenses	**-1,788**	**-1,922**	**-1,116**	**-1,127**	**-2,244**	**-2,376**	**-2,554**
Share of profit of equity-accounted investees, net of tax	3	2	6	1	7	2	2
Underlying EBITDA	**648**	**666**	**354**	**357**	**711**	**788**	**884**
Commodities	390	384	185	182	367	389	436
Life Sciences	280	316	201	208	409	469	523
Nuvisan	*23*	*15*	*0*	*0*	*0*	*0*	*0*
Unallocated expenses (corporate costs / FX)	-45	-49	-32	-33	-65	-70	-74
Underlying EBITDA margin %	*26.8%*	*25.7%*	*24.2%*	*24.1%*	*24.1%*	*24.9%*	*25.7%*
Depreciation & amortisation	**-157**	**-174**	**-104**	**-101**	**-204**	**-215**	**-233**
Depreciation as a % of revenue %	*-6.5%*	*-6.7%*	*-7.1%*	*-6.8%*	*-6.9%*	*-6.8%*	*-6.8%*
Underlying EBIT	**491**	**492**	**250**	**257**	**507**	**573**	**651**
Underlying EBIT margin %	*20.3%*	*19.0%*	*17.1%*	*17.3%*	*17.2%*	*18.1%*	*19.0%*
Net interest expense	**-44**	**-54**	**-41**	**-44**	**-85**	**-90**	**-88**
Profit before tax	**447**	**438**	**209**	**213**	**422**	**483**	**563**
Tax	**-125**	**-120**	**-56**	**-59**	**-115**	**-135**	**-157**
Tax rate %	*-28.1%*	*-27.4%*	*-27.6%*	*-27.7%*	*-27.7%*	*-28.0%*	*-28.0%*
Underlying net profit after tax	**322**	**319**	**153**	**154**	**307**	**348**	**406**
Underlying NPAT margin %	*13.3%*	*12.3%*	*10.5%*	*10.4%*	*10.4%*	*11.0%*	*11.8%*
Non-controlling interest	1	2	1	1	2	2	2
Profit attributable to shareholders (underlying)	**321**	**317**	**152**	**153**	**305**	**346**	**404**
Dividends cps	**37**	**39**	**19**	**19**	**38**	**43**	**50**
Dividend payout %	*56%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*
Franking %	*15%*	*15%*	*30%*	*0%*	*15%*	*15%*	*15%*

SOURCE: COMPANY DATA & BELL POTTER SECURITIES ESTIMATES

SEGMENT FINANCIAL COMMENTARY

The table below outlines our key segment forecasts:

Table 4 - Key segment financial metrics

	FY24	1H FY25	2H FY25	FY25	FY26	FY27	CAGR FY24-27
Revenue							
Commodities	1,087	536	528	1,063	1,103	1,211	*3.7%*
Life Sciences (incl.Nuvisan)	1,499	929	956	1,885	2,059	2,226	*14.1%*
EBIT							
Commodities	319	151	149	300	321	361	*4.2%*
Life Sciences (incl.Nuvisan)	226	134	141	274	322	365	*17.3%*
EBIT margin							
Commodities	29.3%	28.2%	28.3%	28.2%	29.1%	29.8%	
Life Sciences (incl.Nuvisan)	15.1%	14.4%	14.7%	14.6%	15.7%	16.4%	

SOURCE: BELL POTTER SECURITIES ESTIMATES

Commodities: We forecast revenue CAGR of 3.7% over FY24-27, with growth skewed towards FY26-27 following a recovery in sample flow growth from FY26. We anticipate further uptake of ALQ's high-performance testing methods and mine-site production services, diversifying Mineral's revenue mix away from highly cyclical exploration testing. For context, the uptake of high-performance testing methods has driven a 3-year revenue CAGR of 28% to FY24, while the expansion of mine-stie production services has demonstrated a CAGR of 21%. Revenue from new service offerings and downstream activities has grown from 13% of Minerals revenue in FY18 to 26% in 1H FY25. This trend has supported margin expansion and segment resilience during the current down-cycle. We expect further expansion of value-added and mine-site production services to reinforce Commodities' EBIT margin outlook. We forecast EBIT CAGR of 4.2% over FY24-27, with minor margin expansion to 29.8% in FY27 (up from 29.3% in FY24). Effective capacity planning is critical to managing underutilisation risk, while keeping up with increasing customer demand over time.

Life Sciences: Revenue CAGR of 14.1% is expected over FY24-27, mostly driven by organic growth in Environmental. Key organic drivers for Environmental include: (1) increasing demand for emerging containments (eg. PFAS) testing services in the USA and Europe as new regulations underpinning monitoring and remediation requirements are enforced; (2) rising global infrastructure and construction spend; and (3) increasing societal demands for green and sustainable business practices. Pharmaceutical (Beauty and Cosmetics and batch release testing) is expected to deliver modest positive organic growth. For Food, ALQ aim to maintain regional leadership across specialised verticals (including pesticide testing) in select European countries. We expect ALQ's future acquisitions will mostly focus on expanding capabilities and geographic footprint for this segment. EBIT CAGR of 17.3% over FY24-27 is forecast, with margin contraction expected to rise to 16.4% in FY27 (up from 15.1% in FY24).

Nuvisan: Nuvisan is leveraged to a recovery in R&D spend in the Pharmaceutical and Biotechnology sectors. We remain cautious of near-term sales growth given a challenged operating environment, however, see the BIOSECURE Act as a catalyst for a recovery in demand for CRO service in Europe. Importantly, we are encouraged by the progression to date for the cost-out program which should deliver ~€25m p.a (~A$43m) in EBIT improvement by FY26, equivalent to >100bps of Life Sciences EBIT margin expansion between FY24-FY26. Most of these restructuring costs and annual costs savings will be realised in the Innovation Campus Berlin business of Nuvisan, which delivers drug discovery services. Nuvisan's revenue split is 47% drug discovery and 53% pre-clinical and clinical development.

Balance sheet & cash flow

Table 5 outlines key historical and forecast balance sheet metrics and financial ratios.

Table 5 - Historical & forecast balance sheet

Balance sheet metrics - $m	FY23	FY24	1H FY25	2H FY25	FY25	FY26	FY27
Cash	180	300	255	310	310	406	525
Borrowings	1,203	1,475	1,637	1,687	1,687	1,837	1,987
Net debt / (cash)	**1,023**	**1,175**	**1,383**	**1,377**	**1,377**	**1,431**	**1,463**
Net gearing %	*43%*	*50%*	*55%*	*54%*	*54%*	*52%*	*50%*
Net leverage x	*1.8x*	*2.0x*	*2.3x*	*2.2x*	*2.2x*	*2.1x*	*1.9x*

SOURCE: COMPANY DATA & BELL POTTER SECURITIES ESTIMATES

Net leverage: ALQ is targeting net leverage (excl. leases) between 1.7-2.3x. Following the acquisition of York and Wessling in FY25, ALQ's net leverage has risen to the top end of this target range. ALQ is committed to de-lever over the next 12-18 months.

Debt mix & liquidity: As of 30 September 2024, ALQ had undrawn debt capacity of $251m and available liquidity of $375m. Following a refinance and upgrade of ALQ's bilateral revolving facilities, totalling US$300m (A$484m) in April 2024, weighted average debt maturity lifted to 4.8 years, with average cost of debt now 4.44% (67% of debt is fixed at 3.70%; variable debt rate is 5.93%). Revolving facilities account for 45% of ALQ's debt stack (by total capacity) which mature before 2029. The remaining debt is long-term US Private Placement (USPP) senior notes with long-dated maturities ending, November 2028 (A$216m), November 2030 (A$281m), July 2032 (A$284m) and July 2034 (A$257m). These USPP notes are fixed rate issued in AUD, USD, EUR, CAD and GBP currencies.

Table 6 - Historical & forecast cashflow

Cash flow metrics - $m	FY23	FY24	1H FY25	2H FY25	FY25	FY26	FY27
Operating cash flow	440	350	181	240	420	535	617
Capital payments	-146	-152	-74	-85	-159	-181	-197
Payments for acquisitions	-232	-91	-174	-25	-199	-150	-150
Other investing cash flows	111	16	5	1	6	2	2
Free cash flow	**173**	**123**	**-62**	**130**	**68**	**206**	**271**
Debt proceeds (repayment)	108	248	165	50	215	150	150
Repayment of leases	-53	-61	-43	-33	-76	-69	-73
Dividends paid	-177	-190	-90	-92	-181	-191	-229
Other financing activities	0	0	0	0	0	0	0
Net change in cash	**52**	**120**	**-30**	**56**	**26**	**96**	**119**
Cash conversion (pre-AASB16)	**98%**	**91%**	**91%**	**109%**	**100%**	**110%**	**110%**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Capital expenditures & payments for acquisitions: Majority of growth capital is allocated to the Environmental and Minerals businesses. ALQ has guided for capital expenditures to be 5-6% of FY25 revenue, consistent with FY22-24 levels, with growth and maintenance capital expenditure mix broadly two third / one third, respectively. ALQ's risk-weighted approach to capital allocation targets >15% ROCE from acquisitions.

Dividend payments: A dividend policy of 50-60% payout ratio is a pillar of the company's capital allocation framework. ALQ has delivered a payout ratio at the top-end of this range since FY21. Our dividend payout ratio assumptions over FY25-27 are 60%, consistent with recent financial years.

Cash conversion: ALQ aim to achieve >90% cash conversion, as outlined in its FY27 financial targets.

Demand-boosting regulation

The table below outlines key regulation supporting the global TIC industry.

Table 7 - Key regulation supporting the global TIC industry

Notable regulation	Comments
Environmental	
European REACH directive	In September 2024, the EU announced new measures to restrict the use of undecafluorohexanoic acid ('PFHxA') and PFHxA -related substances following a transitional period of between 18 months and 5 years (depending on use). These chemicals were deemed to pose an unacceptable risk to human health and the environment.
U.S. Environmental Protection Agency (EPA) - National Primary Drinking Water Regulation	The EPA established legally enforceable levels, called Maximum Contaminant Levels, for six PFAS in drinking water: PFOA, PFOS, PFHxS, PFNA, and HFPO-DA as contaminants. The EPA also announced US$1 billion funding through the Bipartisan Infrastructure Law to assist states and territories to implement PFAS testing and treatment at public water systems and to address PFAS contamination.
U.S. Comprehensive Environmental Response, Compensation, and Liability Act	PFOA and PFOS were designated as hazardous substances under CERCLA, allowing EPA to pursue parties responsible for PFOA and PFOS pollution
Food	
European Food Regulation (EC)No 178/2002	Also known as the General Food Law regulation, it is a broad framework covering the production of food and feed legislation in the EU and at the national level for EU countries. The regulation outlines general principles, requirements and procedures that govern decision making in relation to matters of food and feed safety, applied to all stages of food and feed production and distribution.
U.S. Country of Origin Labelling	A labelling law that requires retailers to label food products with information regarding the source of certain foods, including muscle cut and ground meats, fresh and frozen fruits and vegetables, and certain nuts.
U.S. Food Safety Modernization Act	Several rules are implemented under this act to enforce the prevention of contamination across the global food supply chain, targeting produce safety, pre-harvest agriculture water, laboratory accreditation of food analysis third party certification and food traceability.
U.S. Federal Food, Drug and Cosmetic Act	Permits the EPA to set tolerances, or maximum residue limits, for pesticide residues on foods
Pharmaceutical & Beauty Products Claims	
European Union Cosmetic Products Regulation 1223/2009	Governs the safety and quality standards for cosmetic products with the EU. A recent amendment to this regulation addressed limits to the concentration of Vitamin A (retinol) in cosmetic products to protect consumers, with manufacturers required to comply.
European Union Regulation 2023/1545	Mandates stricter transparency for consumers regarding potential allergens present in fragrances. The Regulation updates Annex III of the EU Cosmetic Products Regulation with 56 new fragrance ingredients for which presence of these allergens should be indicated on the label if their presence exceeds established thresholds for leave on and rinse off products (0.001 and 0.01%).

SOURCE: VARIOUS WEBSITES

Board & management

Table 8 - Board of Directors & senior management

Director	Position	Appointed to position in
Nigel Garrard	Chairman & Non-Executive Director	July-2024
John Mulcahy	Independent Non-Executive Director	Feb-2012
Tonianne Dwyer	Independent Non-Executive Director	Jul-2016
Siddhartha Kadia	Independent Non-Executive Director	Jan-2019
Leslie Desjardins	Independent Non-Executive Director	Nov-2019
Peter Possemiers	Non-Executive Director	Nov-2022
Erica Mann	Non-Executive Director	Mar-2024
Malcolm Deane	CEO & Managing Director	May-2023

SOURCE: COMPANY ANNUAL REPORT & WEBSITE

Board of Directors & executive team

Nigel Garrard - Chairman & Non-Executive Director

Nigel Garrard was appointed as a Non-Executive Director of the company on 7 June 2023 and was appointed Deputy Chair effective 8 February 2024.

He is an experienced executive with a successful track record across the fast-moving consumer goods and industrial/manufacturing sectors. He has over 20 years' experience as an ASX-listed CEO across three companies. In 2019, he retired as Managing Director and CEO of Orora Limited.

John Mulcahy – Independent Non-Executive Director

John Mulcahy was appointed a Non-Executive Director of the Company on 1 February 2012. He is Chairman of Orix Australia Corporation Limited, an unlisted public company (appointed March 2016), and Deputy Chairman of GWA Group Limited (appointed November 2010).

He is also a current Non-Executive Director of various Zurich Australia Insurance subsidiaries. John was previously a director and Chairman of both Mirvac Group Limited (November 2009 – December 2022) and Coffey International Limited (September 2009 – January 2016). He is a former Guardian of the Future Fund of Australia and former Managing Director and Chief Executive Officer of Suncorp-Metway Limited. Prior to Suncorp, John held several senior executive roles at the Commonwealth Bank and Lend Lease Corporation.

He is a member of the Sustainability and Innovation Committee and the Nomination Committee.

Tonianne Dwyer - Independent Non-Executive Director

Tonianne Dwyer was appointed a Non-Executive Director of the Company on 1 July 2016. She has significant experience as a company director and executive working in finance, corporate strategy and mergers and acquisitions across a variety of sectors and international markets.

She is an internationally experienced independent company director, having had a 25-year executive career in investment banking during which she held roles with Hambros Bank Limited and Société General in the UK and Europe.

Siddhartha Kadia - Independent Non-Executive Director

Siddhartha Kadia was appointed a Non-Executive Director of the Company on 15 January 2019. Siddhartha was formerly President and CEO of EAG Laboratories, a global scientific testing company headquartered in San Diego, California. He has also been a Director of USA-listed companies Newport Corporation (NSDQ: NEWP), Volcano Corporation (NSDQ: VOLC), Nuvasive, Inc (appointed February 2022) and was CEO and a Director of PhenomeX (NSDQ: CELL). He is currently a Non- Executive Director of ATS (Applied Technical Services). Prior to EAG, Siddhartha served as President of the Life Sciences Division at Life Technologies Corporation (NSDQ: LIFE), a publicly traded life sciences tools company. Siddhartha was also a management consultant at McKinsey & Company where his work focused on various life sciences and healthcare related engagements. Siddhartha has a PhD in Biomedical Engineering from Johns Hopkins School of Medicine. Siddhartha has lived and worked in the US, Japan, China, and India and has more than 20 years of international experience as a company director, executive and technical leader in the Life Sciences and TIC (testing, inspection and certification) sectors.

He is a Chair of the Sustainability and Innovation Committee, a member of the People Committee and the Nomination Committee.

Leslie Desjardins - Independent Non-Executive Director

Leslie Desjardins was appointed a Non-Executive Director of the Company on 21 November 2019. She has a background as a CFO and senior financial and governance professional in a range of large multinational and global businesses.

She has extensive commercial and financial governance expertise with large multinational public companies in North America, Canada and Australia, each with extensive global operations. Her areas of expertise include CFO level executive and financial strategic leadership, M&A, corporate finance and treasury, governance, financial and tax compliance, and enterprise risk management.

Peter Possemiers - Independent Non-Executive Director

Peter Possemiers was appointed a Non-Executive Director of the Company on 1 November 2022. He has a background as a TIC sector expert with almost 40 years' experience working as a senior executive in leadership roles globally for SGS. He has lead teams both regionally and globally most notably SGS's global Environment Health and Safety business, a CHF 550 million business with a global headcount which exceeded 6,000. As Executive Vice President, he was a member of the SGS Operations Council with responsibility for the strategic growth and profitability of the business, leading 15 strategic acquisitions.

Peter's career with SGS began following his completion of a degree in microbiology and chemistry at the University of South Australia. He quickly moved into management roles in Singapore, Philippines, China and Korea, where he established and developed new markets including food, pharma, and mobile technology.

Erica Mann - Independent Non-Executive Director

Erica was appointed as a Non-Executive Director of the company on 1 March 2024. Erica is an experienced C-suite executive with a 30-year career across complex, highly regulated, multi-channel and multi-product environment in top DAX, NYSE, NSDAQ pharmaceutical, OTC and FMCG multinationals. Before retiring as an executive, Erica led Bayer's Consumer Health Division, one of the world's largest OTC companies with €6 billion in turnover. Prior to joining Bayer, she was President and General Manager of Pfizer Nutrition following its acquisition of Wyeth Inc, where she served as Senior Vice President of Global Nutrition. This followed other senior executive roles of other Fortune 500 companies including Eli-Lily and Johnson & Johnson. She has held leadership positions in South Africa, Australia, New Zealand, Germany, Switzerland and the US.

Malcolm Deane - CEO & Managing Director

Malcolm Deane was appointed as Interim CEO and Managing Director for ALS Limited on 7 March 2023. He was then appointed as the CEO and Managing Director with effect from 8 May 2023. Malcolm has served the company in various executive positions for the past 10 years in such roles as General Manager for Life Sciences Latin America, Food & Pharma Americas, and most recently as the Chief Strategy Officer, leading corporate strategy, business development and acquisitions.

Malcolm has a Master of Laws from the University of Virginia School of Law and Juris Doctor from Universidad Austral – Buenos Aires, Argentina.

SOURCE: COMPANY WEBSITE & REPORTS

Capital structure

Table 9 - Capital structure	
Cash $m	255
Debt $m	1,637
Lease liabilities $m	377
Net debt (incl. leases) $m	**1,760**
Issued shares m	485
Share price $	15.78
Market cap $m	7,647
Net debt $m	1,760
EV (undiluted) $m	**9,406**
Options / rights m	2
Issued shares (diluted) m	487
Market cap (diluted) m	**7,684**
Net debt $m	1,760
EV (diluted) $m	**9,444**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

ALS (ALQ)

Company description

ALS (ALQ) is a global Testing, Inspection and Certification (TIC) company, servicing clients across several industries. ALQ commands a market-leading position in geochemical testing, leveraging its hub-and-spoke model, Laboratory Information Management System (LIMS) and innovative value-added capabilities. In Life Sciences, ALQ operates one of the largest global environmental testing businesses, with a footprint spanning 35+ countries. The company's Pharmaceutical division aims to establish regional leadership in key geographies including Western Europe, delivering Contract Research Organisation (CRO) services, Beauty and Cosmetics claims testing and batch release testing. ALQ's food testing division services clients across the food value chain from farm to food retailer, predominantly in Western Europe.

Investment thesis: Initiate with Buy; TP$17.30/sh

We see compelling value in ALQ as an investment leveraged to increasing societal demands for green environmental testing practices, stringent enforcement of PFAS remediation and monitoring programs and a recovery in global exploration testing volumes and regional (European) CRO activity. ALQ should continue to create value through its targeted capital allocation framework, delivering >15% ROCE.

Valuation methodology

Our ALQ valuation is derived from DCF models of each of ALQ's segments and valuation allowances for corporate and acquisition costs (financing of inorganic growth). A nominal WACC of 8.7% and a terminal growth rate of 4.0% have been applied in our valuation determination.

We initiate coverage of ALQ with a Buy recommendation and Target Price of $17.30/sh.

Investment risks

Risk to investment thesis

Key risks to ALQ include, although are not limited to:

Commodity price risk: ALQ's Commodities segment is exposed to various commodity prices that ultimately drives activity and sentiment for exploration and mining production activities. Mineral exploration and, to a lesser extent, mining production activities, may be impacted when commodity prices fall towards historically low levels or remain depressed for an extended period.

Macroeconomic risks: Risks of changing monetary policy, fiscal policy, regulation, tax regimes and inflation can adversely impact ALQ's businesses. This risk may be isolated to a country or region that ALQ operates in or prevalent across the globe.

Currency risk: ALQ is global enterprise with operations spanning over 70 countries. Movements in the underlying functional currency of a country or region that ALQ's business operate in may result in an adverse financial impact for ALQ.

Changing consumer preferences: ALQ's Life Sciences segment is exposed to varying customer food preferences which may affect the development pipeline of food and beverage businesses. Any resulting slowdown in the food development pipeline may drive reduced demand for testing and certification services offered by ALQ.

Competition risk: ALQ's operating markets are comprised of global, regional and local competitors. While there are high barries to entry in some testing markets, with respect to acquiring necessary testing accreditation, an increase in the number of new entrants may result in increased competition and lower prices for services offered.

Customer funding risk: A significant portion of ALQ's Commodities and Pharmaceutical customer bases are clients that are reliant on external capital to fund operating activities, including Junior greenfield explorers and small to mid-sized biotechnology companies. If access to external capital is constrained or limited, this dynamic may force these companies to scale-back operations, resulting in reduced demand for testing and CRO services.

Acquisition risk: Inorganic growth is a key pillar of ALQ's capital management strategy and 5-year revenue and EBIT growth targets. Earnings growth through acquisitions is risky and requires prudent review prior to deal completion. Insufficient understanding of the risks, earnings growth potential and competitive dynamics associated with a newly acquired business may lead to dilution of ALQ's Return on Capital Employed to levels below its internal benchmark.

Technology risk: Adoption of the latest analysis equipment and laboratory automation systems and bolstering features in the company's Laboratory Information Management System (LIMS) are key to remaining competitive and offering differentiated services. Failure to keep abreast with competitors in deploying relevant equipment to remain competitive can result in lost business and subdued earnings growth.

Debt repayment risk: ALQ's capital structure carries a significant portion of interest-bearing liabilities. While ALQ's cashflow generation is diverse, its operating markets are cyclical, leading to extended periods of below average cashflow generation. In these circumstances, reduced cashflow may constrain the company's ability to repay shorter-maturity debt.

Reputation risk: Poor delivery of services, failures, adverse media coverage or other publicity may impact ALQ's brand and reduce the demand for its services, adversely impacting relationships with potential and existing customers and/or employees.

ALS
as at 3 December 2024

Recommendation	Buy
Price	$15.78
Target (12 months)	$17.30

Table 10 - Financial summary

Date		3/12/24
Price	$/sh	15.78
Target price	$/sh	17.30

Bell Potter Securities
Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)

PROFIT AND LOSS

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
Revenue	**$m**	**2,421**	**2,586**	**2,948**	**3,162**	**3,437**
Expenses	$m	(1,776)	(1,922)	(2,244)	(2,376)	(2,554)
Equity share of accounted investee profits	$m	3	2	7	2	2
Underlying EBITDA	**$m**	**648**	**666**	**711**	**788**	**884**
Depreciation & amortisation	$m	(157)	(174)	(204)	(215)	(233)
Underlying EBIT	**$m**	**491**	**492**	**507**	**573**	**651**
Net interest expense	$m	(44)	(54)	(85)	(90)	(88)
Underlying profit before tax	**$m**	**447**	**438**	**422**	**483**	**563**
Tax expense	$m	(125)	(120)	(115)	(135)	(157)
Underlying NPAT	**$m**	**322**	**319**	**307**	**348**	**406**
Adjustments (post-tax)	$m	(29)	(304)	(41)	(32)	(32)
Reported NPAT	**$m**	**293**	**15**	**266**	**316**	**374**
Non-controlling interest	$m	1	2	2	2	2
Reported NPAT attributable to owners	$m	291	13	265	315	373
Underlying NPAT attributable to owners	**$m**	**321**	**317**	**305**	**346**	**404**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
OPERATING CASH FLOW						
Receipts from customers	$m	2,698	2,758	3,118	3,110	3,388
Payments to suppliers and employees	$m	(2,125)	(2,226)	(2,503)	(2,363)	(2,539)
Tax paid	$m	(90)	(128)	(117)	(122)	(145)
Net interest	$m	(43)	(54)	(78)	(90)	(88)
Other	$m	-	-	-	-	-
Operating cash flow	**$m**	**440**	**350**	**420**	**535**	**617**
INVESTING CASH FLOW						
Capital expenditures	$m	(146)	(152)	(159)	(181)	(197)
Payment for acquisitions	$m	(232)	(91)	(199)	(150)	(150)
Disposal of assets	$m	102	10	1	-	-
Other	$m	10	7	5	2	2
Investing cash flow	**$m**	**(267)**	**(227)**	**(352)**	**(329)**	**(345)**
Free cash flow	***$m***	***173***	***123***	***68***	***206***	***271***
FINANCING CASH FLOW						
Proceeds from share issues (net)	$m	-	-	-	-	-
Debt proceeds / (repayments)	$m	108	248	215	150	150
Dividends paid	$m	(177)	(190)	(181)	(191)	(229)
Other	$m	(53)	(61)	(76)	(69)	(73)
Financing cash flow	**$m**	**(121)**	**(3)**	**(43)**	**(110)**	**(152)**
Change in cash	**$m**	**52**	**120**	**26**	**96**	**119**

BALANCE SHEET

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
ASSETS						
Cash	$m	180	300	310	406	525
Receivables	$m	417	543	564	615	664
Inventories	$m	101	109	112	112	112
Capital assets	$m	581	657	733	875	1,020
Intangibles (including Goodwill)	$m	1,414	1,510	1,600	1,642	1,686
Other assets	$m	638	578	557	556	556
Total assets	**$m**	**3,330**	**3,696**	**3,876**	**4,206**	**4,563**
LIABILITIES						
Payables	$m	346	455	451	484	519
Borrowings	$m	1,203	1,475	1,687	1,837	1,987
Provisions	$m	66	87	94	94	94
Leases	$m	246	397	384	405	432
Other liabilities	$m	91	86	66	66	66
Total liabilities	**$m**	**1,952**	**2,499**	**2,681**	**2,886**	**3,098**
NET ASSETS						
Share capital	$m	1,326	1,326	1,333	1,333	1,333
Reserves	$m	(9)	(13)	(100)	(100)	(100)
Retained earnings	$m	50	(129)	(51)	74	219
Total equity	**$m**	**1,367**	**1,183**	**1,181**	**1,306**	**1,451**
Non-controlling interest	$m	11	14	14	14	14
Total shareholder equity	**$m**	**1,378**	**1,197**	**1,195**	**1,320**	**1,465**
Weighted average shares	m	484	484	484	484	484

FINANCIAL RATIOS

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
VALUATION						
EPS (underlying)	c/sh	66.0	65.0	62.7	71.2	83.1
EPS growth	%	23.2%	-1.5%	-3.5%	13.5%	16.7%
PER	x	23.9x	24.3x	25.2x	22.2x	19.0x
DPS	c/sh	37.3	39.0	38.0	43.2	50.3
Franking	%	15%	15%	15%	15%	15%
Yield	%	2.4%	2.5%	2.4%	2.7%	3.2%
FCF/share	c/sh	35.8	25.5	14.1	42.5	56.0
FCF yield	%	2.3%	1.6%	0.9%	2.7%	3.5%
EV/EBITDA	x	14.5x	14.1x	13.2x	11.9x	10.6x
EV/EBIT	x	19.2x	19.1x	18.6x	16.4x	14.4x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	1,023	1,175	1,377	1,431	1,463
Net debt / Equity	%	74.2%	98.2%	115.3%	108.4%	99.8%
Net debt / Net debt + Equity	%	42.8%	49.8%	53.8%	52.3%	50.2%
Net debt / EBITDA	x	1.8x	2.0x	2.2x	2.1x	1.9x
EBITDA / net interest expense	x	13.3x	10.9x	7.2x	7.5x	8.7x
PROFITABILITY RATIOS						
EBITDA margin	%	26.8%	25.7%	24.1%	24.9%	25.7%
EBIT margin	%	20.3%	19.0%	17.2%	18.1%	19.0%
Return on assets	%	10.4%	9.1%	8.1%	8.6%	9.3%
Return on equity	%	25.9%	25.0%	26.0%	28.0%	29.4%
Return on capital employed	%	18.1%	17.3%	15.9%	16.4%	17.1%
Return on invested capital	%	19.8%	17.9%	17.6%	18.8%	20.0%

SEGMENTS

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
Commodities						
Revenue	$m	1,087	1,087	1,063	1,103	1,211
EBIT	$m	330	319	300	321	361
EBIT margin	%	30.4%	29.3%	28.2%	29.1%	29.8%
Life Sciences (including Nuvisan)						
Revenue	$m	1,334	1,499	1,885	2,059	2,226
EBIT	$m	207	226	274	322	365
EBIT margin	%	15.5%	15.1%	14.6%	15.7%	16.4%

HALF YEARLY ASSUMPTIONS

Year ending 30 June	Unit	1H 2023a	1H 2024a	1H 2025a	1H 2026e	1H 2027e
Revenue	**$m**	**1,194**	**1,285**	**1,464**	**1,542**	**1,690**
Expenses	$m	(876)	(952)	(1,116)	(1,166)	(1,256)
Equity share of accounted investee profits	$m	6	1	6	1	1
Underlying EBITDA	**$m**	**324**	**333**	**354**	**378**	**435**
Depreciation & amortisation	$m	(76)	(88)	(104)	(105)	(115)
Underlying EBIT	**$m**	**248**	**245**	**250**	**273**	**320**
Net interest expense	$m	(20)	(23)	(41)	(45)	(45)
Underlying profit before tax	**$m**	**228**	**222**	**209**	**228**	**275**
Tax expense	$m	(65)	(63)	(56)	(64)	(77)
Underlying NPAT	**$m**	**162**	**159**	**153**	**164**	**198**
Adjustments (post-tax)	$m	(14)	(25)	(26)	(16)	(16)
Reported NPAT	**$m**	**148**	**134**	**128**	**148**	**183**
Non-controlling interest	$m	1	0	1	1	1
Reported NPAT attributable to owners	$m	147	134	127	148	182
Underlying NPAT attributable to owners	**$m**	**161**	**158**	**152**	**164**	**198**

VALUATION SUMMARY

Diluted shares on issue		**487m**
12-month valuation	**$m**	**$/sh**
Commodities	5,254	10.79
Life Sciences	6,884	14.14
PV of acqusition costs	(1,221)	(2.51)
Corporate costs	(712)	(1.46)
Enterprise valuation	**10,206**	**20.96**
Net debt / (net cash)	1,804	3.70
Equity valuation	**8,402**	**17.26**
Current share price $/sh		15.78
Premium / (discount) to share price %		9.4%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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