Today's Changes	Annual EPS (adj.)	Annual EBITDA	Rating/Target
	2014E $1.37 from $1.40 2015E $1.71 from $1.73	2014E $59M from $63M 2015E $83M from $84M	No changes

Alaris Royalty Corp.

AD : TSX : C$30.11

BUY

Target: C$35.50

Evan Minsky, CFA - Canaccord Genuity Corp. (Canada)
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COMPANY STATISTICS:

52-week Range:	C$23.79 - 37.70
Current Dividend:	C$1.50
Current Dividend Yield %:	5.0
Forecast Return %:	22.9
Shares Out (M):	32.6
Market Cap (M):	C$983
FYE:	Dec
Last quarter reported:	Q2/14

EARNINGS SUMMARY:

FYE Dec	2013A	2014E	2015E
Revenue (M):	C$49.6	C$70.4	C$92.9
EBITDA (M):	C$44.6	C$58.8	C$82.7
EPS fd adj.:	C$1.13	C$1.37	C$1.71
EV/EBITDA (x):	33.4	16.7	11.9
P/E (x):	26.7	22.0	17.6

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Alaris Royalty Corp. invests in a diversified group of private businesses in exchange for royalties/distributions that rank in priority to the owners' common equity position. Alaris is based in Calgary, AB, with a headcount of eight employees.

All amounts in C$ unless otherwise noted.

Financials -- Diversified Financials

IN-LINE QUARTER; FOLLOW-ONS SUPPORT CONTRIBUTION OUTLOOK

Investment recommendation

We maintain our BUY rating and 12-month target price of C$35.50/sh. Supporting our ~$130 million forecast for partner transactions this year, Alaris announced $15.5 million in follow-on contributions. We believe that the $72 million available on the transaction line supports our near-term investment outlook and that future deals will carry positive implications for DCPS growth, top-line diversification, and the dividend (5.0% yield).

Investment highlights

- Alaris reported Q2/14 revenue (excluding fx contract gains) of $16.2 million (slightly above our $16.0 million estimate), up 2.8% QoQ owing to the initial/partial quarter inclusion from Kimco and a $0.5 million accrual for the 1H/14 variable component of the Labstat distribution. Earnings were in line with our forecasts with Adj. EPS FD of $0.29 and normalized DCPS of $0.36.
- The payout ratio (DCPS) was ~100% vs. 95% last year reflecting the increase in G&A and finance expenses. For 2014 and 2015, we expect ratios of 87% and 79%, respectively, based on the recent transactions, our partner contribution outlook, and our expected dividend increases (totaling 8.0% by the end of 2015).
- Two follow-on contributions totaling $15.5 million were also announced (to add $2.4 million to the top line; closing in Q3/14). Alaris intends to contribute $7.5 million in SMi (for a 16.0% yield) and US$7.5 million in Sequel (for a 14.7% yield). Based on the existing partner companies, management expects distributions of $17.3 million in Q3/14 and $66 million in 2014.

Valuation

We value AD using a DCF model incorporating an 8.1% WACC and a 2.5% terminal growth rate.

Q2/14 RESULTS SUMMARY

We provide a summary of Q2/14 results and comparisons to our estimates and prior quarters in Figure 1. For the quarter, total revenue (excluding fx gains) was $16.2 million (up 2.8% QoQ and 39.6% YoY), slightly above our $16.0 million forecast. Expenses were higher than expected with non-cash stock based compensation of $1.1 million (vs. our $0.8 million forecast) and G&A of $3.2 million (vs. our $3.0 million forecast).

For the quarter, the company earned normalized DCPS (the most important metric we gauge) of $0.36 (down 8.9% QoQ; up 5.5% YoY), in line with our $0.36 estimate. Similarly, we calculate that normalized EPS was also in line with our forecast at $0.29. We have adjusted for the $3.6 million unrealized foreign exchange loss (vs. the $0.8 million gain last year) and the $0.7 million gain on foreign exchange contracts (vs. the $0.3 million loss last year).

Figure 1: Q2/14 results summary

	30-Jun-13	31-Mar-14	30-Jun-14	30-Jun-14	Change	
($MM, except as noted)	Q2/13	Q1/14	Q2/14	Q2/14E	QoQ	YoY
REVENUE						
Royalties and distributions	11.4	15.5	15.9	15.8	2.8%	40.1%
Interest and other	0.3	0.3	0.3	0.2	0.9%	17.2%
Gain on partnership interest	13.1	0.0	0.0	0.0	nmf	nmf
Gain/(loss) on forex contracts	-0.3	-0.4	0.7	0.0	nmf	nmf
Total	**24.4**	**15.4**	**16.9**	**16.0**	**9.5%**	**-30.6%**
EXPENSES						
Finance cost	0.4	1.2	0.9	0.8	-24.8%	149.2%
Non-cash stock based compensation	0.7	0.7	1.1	0.8	53.5%	48.4%
G&A	2.6	1.1	3.2	3.0	183.0%	24.0%
Depreciation and amortization	0.0	0.0	0.0	0.0	4.1%	4.8%
Total	**3.7**	**3.1**	**5.3**	**4.7**	**71.7%**	**40.6%**
Unrealized foreign exchange loss/(gain)	-0.8	-2.9	3.6	0.0	nmf	nmf
EBT	**21.4**	**15.3**	**8.1**	**11.3**	**-47.0%**	**-62.2%**
Income taxes	3.8	3.3	-0.6	2.7	-119.3%	-116.9%
NET INCOME	**17.6**	**11.9**	**8.7**	**8.6**	**-26.8%**	**-50.3%**
FD EPS	$0.68	$0.41	$0.30	$0.29	nmf	nmf
Adj. FD EPS	$0.23	$0.34	$0.29	$0.29	-15.9%	22.4%
Dividend per share	$0.325	$0.360	$0.360	$0.360	0.0%	10.8%
EBITDA						
EBITDA	21.8	16.5	9.0	12.1	-45.3%	-58.7%
EBITDA margin	89.5%	106.7%	53.2%	76.1%	-5,343	-3,621
Fundamentals (changes in bps)						
ROE	20.9%	11.2%	7.4%	7.2%	-383	-1,353
Payout ratio (distributable cash)	95%	92%	101%	101%	838	622
Debt-to-capital ratio	22.2%	10.4%	0.0%	0.0%	-1,043	-2,219

Source: Company reports, Canaccord Genuity estimates
*Adjusted EPS FD excludes the after-tax impact from realized/unrealized foreign exchange losses/(gains) and mark-to-market hedge on US$.

Partner exposure increasingly diversified

In Figure 2, we provide Q2/14 partner distributions with comparisons to our forecasts and prior periods. For the quarter, partner distributions of $15.9 million (vs. our $15.8 million forecast) were up 2.8% QoQ, mostly reflecting the first (partial) quarter inclusion of the

Kimco distribution (based on the June 6 close date). From existing partners, the distribution of $1.4 million (up 58.4% QoQ) from Labstat included a $0.5 million accrual for the cash sweep on the variable portion for 1H/14. Recall, last quarter, the lower leverage targets required by Labstat's lenders to allow the sweep had been met. Distributions from KMH were $1.9 million, down 8.6% QoQ, due to the decline in same clinic sales.

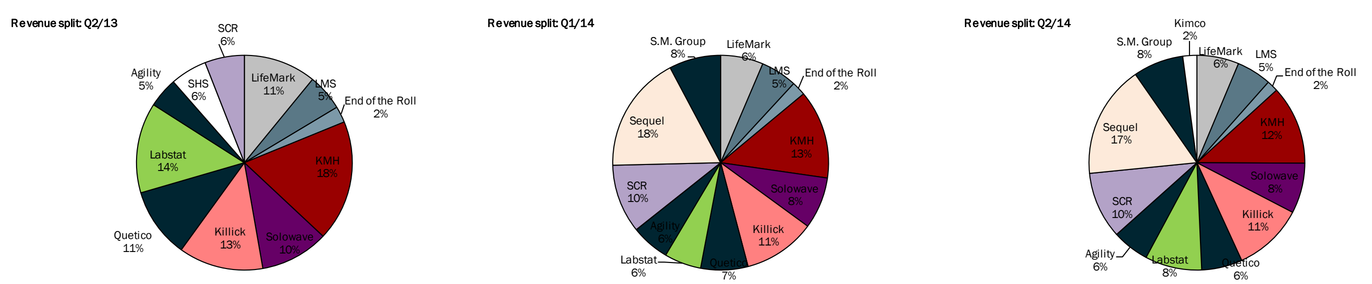
Figure 2: Q2/14 revenue summary

	30-Jun-13	31-Mar-14	30-Jun-14	30-Jun-14	Change	
($MM, except as noted)	Q2/13	Q1/14	Q2/14	Q2/14E	QoQ	YoY
LifeMark	1.2	1.0	1.0	1.0	1%	-19%
LMS Reinforcing Steel	0.6	0.8	0.8	0.9	-1%	33%
End of the Roll	0.3	0.3	0.3	0.3	-17%	-3%
KMH	2.1	2.1	1.9	2.1	-9%	-9%
Solowave	1.2	1.2	1.2	1.2	0%	3%
Killick	1.4	1.7	1.7	1.7	0%	16%
Quetico	1.2	1.1	1.0	1.1	-11%	-19%
Labstat	1.5	0.9	1.4	0.9	58%	-12%
Agility	0.5	0.9	0.9	0.9	-1%	73%
SHS	0.6	0.0	0.0	0.0	nmf	-100%
SCR Mining/Tunneling	0.7	1.6	1.6	1.6	0%	nmf
Sequel	0.0	2.7	2.7	2.7	-1%	nmf
S.M. Group	0.0	1.2	1.2	1.2	0%	nmf
Kimco	0.0	0.0	0.3	0.3	nmf	nmf
Total	**11.4**	**15.5**	**15.9**	**15.8**	**3%**	**40%**

Source: Company reports, Canaccord Genuity estimates

During Q2/14, Alaris received distributions from 13 partner companies, up from 11 last year (and 12 last quarter), reflecting the completed transactions with new partners over the LTM. As shown in Figure 3, top-line diversification has improved with each partner accounting for 2-17% of total distributions. At the partner level, Sequel distributions represented 17% (vs. nil last year) of the total, KMH 12% (vs. 18% last year), and Killick 11% (vs. 13% last year). Looking ahead, we expect that Alaris will continue to add to the portfolio (new partners/follow-ons) and approach the long-term target of <10% of revenue from any single partner.

Figure 3: Partner company distribution split



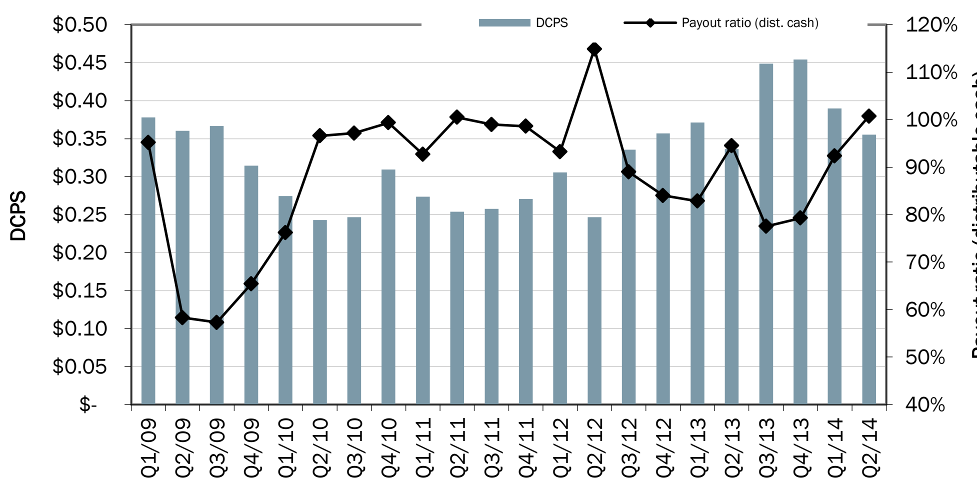
Source: Company reports, Canaccord Genuity estimates

Dividend attractive and well supported

Normalized distributable cash per share (DCPS) came in at $0.36 for the quarter, meeting our $0.36 estimate. While salaries and benefits expenses were slightly lower than expected at $2.4 million (and included $2 million in variable compensation, up from $1.5 million last year), legal and accounting expenses were higher than expected at <$0.5 million (vs. <$0.3 million last year), driving G&A of $3.2 million (vs. our $3.0 million estimate). Legal and accounting fees reflect the CRA reassessment and incremental tax compliance work for filing returns in different states.

Based on paid dividends of $0.36/share the adjusted payout ratio was ~100% for the quarter, up from 95% last year and 92% last quarter (Figure 4). Next quarter, we expect an 85% ratio primarily reflecting a full quarter of distributions from Kimco, follow-ons in SMi and Sequel (in July/August), and normalized expenses (i.e., excluding the annual bonus payment in Q2), and the higher dividend (of 12.5c/month). Recall, the dividend was recently increased by 4.2% in Jun/14.

Figure 4: DCPS and payout ratio trends

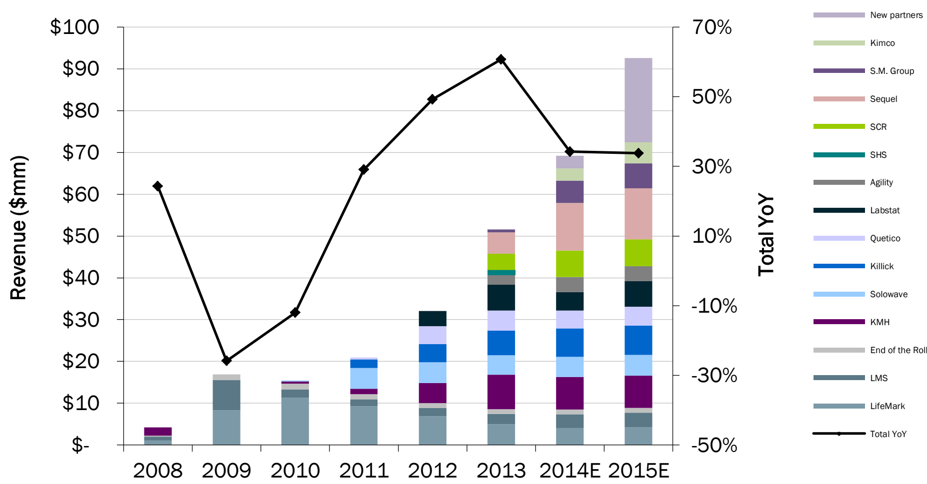


Source: Company reports, Canaccord Genuity estimates

EXISTING PARTNER COMPANY OUTLOOK

For Q3/14, management anticipates $17.3 million in existing partner distributions and $66 million in 2014, which were slightly higher than expected due to the follow-on contributions in SMi and Sequel (which add $2.4 million on an annualized basis). Including our assumptions for new partner investments and existing partner companies (discussed below), we estimate distributions of $69 million (up 34%) in 2014, followed by $93 million (up 34%) in 2015.

Figure 5: Revenue forecasts by partner company



Source: Company reports, Canaccord Genuity estimates

We provide outlooks for select partner companies (% of existing partner distributions) with whom Alaris announced follow-on transactions and upcoming distribution resets:

- **Sequel (17.0% of 2015E distributions).** With results, the company announced a US$7.5 million follow-on contribution in Sequel. Alaris is expected to earn a 14.7% yield based on the US$1.1 million distribution. This is the company's second transaction with Sequel and is anticipated to bring the annualized distribution to US$11 million. For the 11 months ended May/14, revenue and EBITDA are modestly up YoY and the next reset is July 1. The earnings coverage ratio is in the 1.0-1.5x range.
- **SMi (8.3% of 2015E distributions).** The second follow-on contribution announced with results is the $7.5 million deal with SMi (closing expected on July 25). Alaris is expected to earn a 16.0% yield based on the $1.2 million distribution. This transaction is expected to bring the annualized distribution to $6.0 million. For the 3 months ended Mar/14, revenue is flat and EBITDA is up YoY, and the next reset is Jan/15. The earnings coverage ratio is in the 1.5-2.0x range.
- **KMH (10.8% of 2014E distributions).** For the five months ended May/14, total revenues and EBITDA are flat YoY. During 2013, same clinic sales declined 6.1% due to the US operations (reflecting some of the acquired clinics), while Canadian same clinic sales increased. The earnings coverage ratio is in the 1.0-1.5x range.
- **Solowave (6.8% of 2014E distributions).** For the seven months ended May/14, revenue and EBITDA are up +10% YoY. The earnings coverage ratio remains above 2.0x.
- **Quetico (6.2% of 2014E distributions).** For the five months ended May/14, revenue and EBITDA are well behind the previous year due to results from one segment. The earnings coverage ratio remains in the 1.5-2.0x range, but due to revised growth expectations in distributions, the fair value was reduced by US$1.4 million (or ~5%).

OUTLOOK & RECOMMENDATION

Accretion sensitivity to partner transactions

In our opinion, the next catalyst for AD will be from a contribution into a new partnership LP. Management has previously indicated that a pipeline of opportunities exists, particularly in the US. For 2014 and 2015, we expect transactions totaling ~$130 million and ~$110 million, respectively, vs. the $164 million in 2013. We view the accessibility of an $85 million transaction line (with $72 million undrawn) as supportive to completing – near-term investment(s).

In Figure 7, we provide a sensitivity analysis of DCPS to additional partner contributions. Based on the current partner portfolio (i.e., excluding new and follow-on partner transactions) and a fully taxed basis, we estimate 2015E revenue and DCPS of $72 million and ~$1.57, respectively. In light of the depleting tax shelter (management expects to fully utilize assets by mid-2015), we have assumed full taxability in. In our analysis, we incorporate valuations of 6.5x (vs. the 6.4x average) and funding from the credit facility and future equity issues (at 25%/75%). Based on our analysis, every $16 million invested adds ~2.0% to our base DCPS forecast. During the quarter, LMS paid back $1.0 million of its $3.0 million promissory note, and the potential exists for the remainder to be paid down, as well as the $2.0 million SHS note, which could be used toward investing in new partners.

Figure 6: DCPS sensitivity to new distributions (NTM)

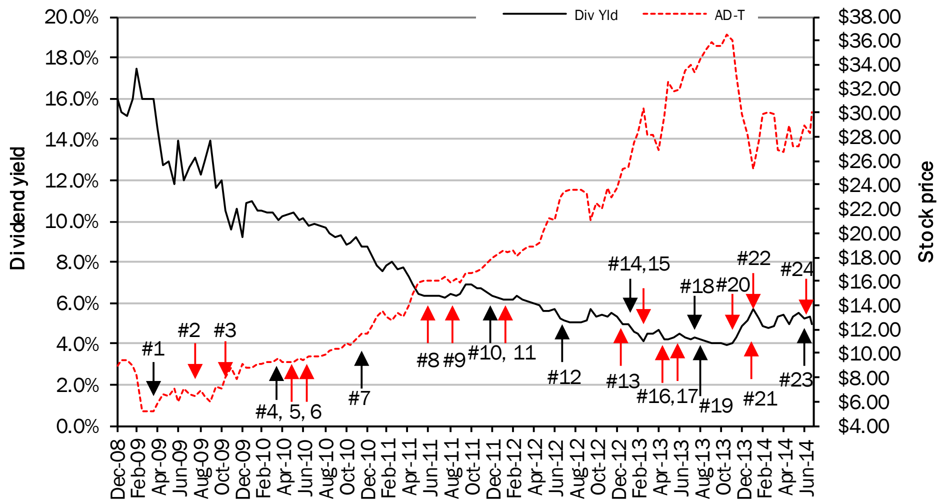
		Share price at issuance				
		$28.00	$28.50	$29.00	$29.50	$30.00
New distribution acquired ($000)	$2,500	$1.60	$1.60	$1.60	$1.60	$1.60
	$3,500	$1.61	$1.61	$1.61	$1.61	$1.61
	$4,500	$1.62	$1.62	$1.62	$1.62	$1.63
	$5,500	$1.63	$1.64	$1.64	$1.64	$1.64
	$6,500	$1.65	$1.65	$1.65	$1.65	$1.65
	$7,500	$1.66	$1.66	$1.66	$1.66	$1.66

Source: Canaccord Genuity estimates

Attractive yield

In the meantime, we believe that investors can take advantage of an attractive dividend yield. Based on yesterday's close, the $1.50/sh dividend represents a 5.0% yield. We note that the current yield compares favorably to that offered by the stock over the last year, where it traded in the 3.9-5.0% range throughout 2013.

Figure 7: Share price vs. dividend yield



Corporate events:

#1 Mar-09: Dividend -42%
#2 Jul-09: LifeMark follow-on investment ($1M)
#3 Oct-09: LifeMark follow-on investment ($12M)
#4 Mar-10: Dividend +14.3%
#5 Apr-10: new KMH Ltd investment ($5M)
#6 May-10: LifeMark follow-on investment ($8M)
#7 Nov-10: new Solowave investment ($32.5M); Dividend +6.25%
#8 May-11: LifeMark/MEDIchair transaction ($65M)
#9 Jul-11: new Killick investment ($27.3M)
#10 Oct-11: KMH follow-on investment ($22M); Dividend +12%
#11 Nov-11: new Quetico investment ($27.7M)
#12 Jun-12: new Labstat investment ($41.2M): Dividend +5.3%
#13 Nov-12: KMH follow-on investment ($19M)
#14 Nov-12: Dividend +5.0%
#15 Dec-12: new Agility investment (U$12.5M); follow-on investments in KMH ($6.2M) and Killick ($9.0M)
#16 Mar-13: new SHS investment ($15M)
#17 Apr-13: partial LifeMark redemption ($22.5M)
#18 May-13: new SCR investment ($40M); Dividend +9.5%
#19 Jun-13: new Sequel investment (U$66M); Dividend +4.3%
#20 Nov-13: new S.M. Group investment ($30M); Agility follow-on (U$7.6M)
#21 Dec-13: SHS receivership announcement
#22 Jan-14: Follow-on investments in Killick ($5M) and Labstat ($6M)
#23 Jun-14: new Kimco investment (US$29.2M); Dividend +4.2%
#24 Jul-14: Follow-on investments in SMi ($7.5M) and Sequel (US$7.5M)

Source: Thomson Reuters, Company reports, Canaccord Genuity estimates

DCF-derived target price

We maintain our BUY rating and 12-month target price of C$35.50/sh. Our valuation is based on a DCF analysis using an 8.1% WACC and a 2.5% terminal growth rate (Figure 8). We believe that a DCF analysis is appropriate since Alaris pays out a large portion of DCPS to shareholders as dividends. Supporting our ~$130 million forecast for partner transactions this year, Alaris announced $15.5 million in total follow-on contributions with Sequel and SMi. We believe that the $72 million available on the transaction line supports our near-term investment outlook and that future transactions will carry positive implications for DCPS growth, top-line diversification, and the dividend (5.0% yield).

Figure 8: DCF analysis

(in $000, unless specified	2015E	2016E	2017E	2018E	2019E	Terminal Value
REVENUE						
Royalties and distributions	92,613	109,526	123,460	137,466	151,549	
Expenses						
Finance cost	2,550	3,671	4,792	5,913	7,035	
Non-cash stock based compensation	5,099	5,303	5,515	5,735	5,965	
G&A	5,108	6,800	6,030	6,867	6,972	
Depreciation and amortization	113	117	122	127	132	
Total expenses	12,869	15,890	16,459	18,643	20,103	
Distributable cash	70,565	74,429	84,496	93,435	102,972	1,869,650

Sum of NPV of distributable cash	334,112
NPV of terminal value	1,267,017
Enterprise value	1,601,129
Add: Cash (pro forma)	20,565
Less: Debt	(116,245)
Equity value	1,505,449
Shs o/s	42,507
Equity value per share	$35.42

Equity cost	8.8%
Debt cost	6.0%
WACC	8.1%

Source: Canaccord Genuity estimates

*Cash includes Labstat and SHS promissory notes and credit facilities

Figure 9: Financial forecasts

(in $000, unless specified)	Q3/13	Q4/13	Q1/14	Q2/14	Q3/14E	2013	2014E	2015E	2013/2012	2014/2013	2015/2014
REVENUE											
Royalties and distributions	14,465	14,982	15,489	15,920	17,270	51,576	69,228	92,613	61%	34%	34%
Interest and other	298	368	312	315	136	1,131	898	328	nmf	-21%	-64%
Gain (loss) on reduction/sale of partner interests/intangible assets	0	(15,512)	0	0	0	(2,460)	0	0	nmf	nmf	nmf
Gain/(loss) on forex contracts	466	(629)	(360)	676	0	(652)	316	0	nmf	nmf	nmf
Total revenue	15,229	(792)	15,441	16,910	17,406	49,595	70,442	92,940	54%	42%	32%
Expenses											
Finance cost	297	433	1,165	876	268	1,677	2,740	2,550	62%	63%	-7%
Non-cash stock based compensation	1,348	983	723	1,110	1,110	3,809	4,098	5,099	100%	8%	24%
G&A	798	743	1,144	3,237	1,114	4,971	6,601	5,108	21%	33%	-23%
Depreciation and amortization	27	27	27	28	28	106	110	113	-1%	4%	2%
Total expenses	2,469	2,761	3,059	5,251	2,520	11,137	13,550	12,869	56%	22%	-5%
Unrealized foreign exchange loss/(gain)	1,329	(1,988)	(2,898)	3,559	0	(1,910)	661	0	nmf	nmf	nmf
Net Income before taxes	11,430	(1,565)	15,279	8,101	14,887	40,367	56,231	80,071	63%	39%	42%
Income taxes	3,043	1,293	3,333	(645)	3,506	10,544	10,438	18,948	58%	-1%	82%
Net Income	8,388	(2,856)	11,947	8,745	11,380	29,823	45,793	61,123	65%	54%	33%
EPS, fully diluted	$0.29	($0.10)	$0.41	$0.30	$0.35	$1.09	$1.45	$1.71	31%	33%	18%
Adj. EPS, fully diluted	$0.31	$0.33	$0.34	$0.29	$0.35	$1.13	$1.37	$1.71	33%	21%	25%
EBITDA excluding gain on reduction of partner interests	11,754	13,624	16,471	9,004	15,182	44,611	58,766	82,733	72%	32%	41%
EBITDA margin	77.2%	88.8%	106.7%	53.2%	87.2%	85.7%	83.4%	89.0%			
Dividend	$0.360	$0.360	$0.360	$0.360	$0.375	$1.360	$1.475	$1.590	16.2%	8.5%	7.8%
Payout ratio (on distributable cash)	78%	79%	92%	101%	85%	82%	87%	79%	-10.7%	4.2%	-7.7%
ROE	8.6%	-2.6%	11.2%	7.4%	8.8%	8.4%	9.1%	9.9%	1.4%	0.7%	0.7%
Debt-to-capital	0.0%	9.4%	10.4%	0.0%	2.5%	9.4%	4.1%	5.9%	-5.8%	-5.3%	1.7%

Source: Company reports, Canaccord Genuity estimates

Investment risks

Portfolio company risk. Each of the portfolio companies carry risks specific to their operations. For example, Lower Mainland Steel (LMS) is exposed to the variability of steel prices. LifeMark is dependent on contracts from certain government agencies. General risks for each include (and are not limited to): competition, supply, seasonality, reliance on key personnel, and leverage.

Competition. Alaris faces competition from private equity funds and mezzanine funds, investment banks, other equity- and non-equity-based investment funds, and other sources of financing, including the public capital markets. Certain competitors are substantially larger and have considerably greater financial resources than Alaris. Competitors may have a lower cost of funds, and many have access to funding sources that are not available to Alaris.

Credit. Alaris partially relies upon funding from third parties which, if pulled back, could affect the company's ability to add royalty/distribution streams.

Key man risk. Retaining intellectual capital is extremely important. With a lean headcount of ten, the company is exposed to key man risk. Any loss of management could impact our forecasts.

Low liquidity. Directors and executives own ~10% of outstanding common shares. While the float represents ~90% of outstanding shares, the average daily trade volume for AD : TSX shares is ~120,000 over the last 100 trading days. Thus, a large block of shares could create an overhang on the stock. Looking ahead, investment(s) partially funded via equity issue(s) should increase the float, improving liquidity.

APPENDIX: IMPORTANT DISCLOSURES

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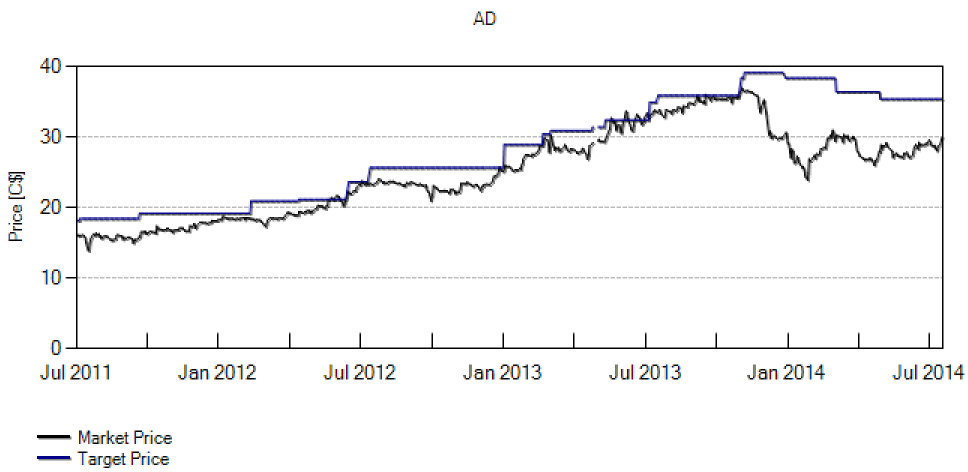
Site Visit: An analyst has not visited the issuer's material operations.

Price Chart:*



	Date	Analyst	Rating	Target Price		Date	Analyst	Rating	Target Price
1)	07/28/2011	Minsky	Buy	18.50	10)	05/06/2013	Minsky	Buy	31.50
2)	10/12/2011	Minsky	Buy	19.25	11)	05/23/2013	Minsky	Buy	32.50
3)	03/01/2012	Minsky	Buy	21.00	12)	07/18/2013	Minsky	Buy	35.00
4)	05/01/2012	Minsky	Buy	21.25	13)	07/28/2013	Minsky	Buy	36.00
5)	07/03/2012	Minsky	Buy	23.75	14)	11/10/2013	Minsky	Buy	38.50
6)	07/30/2012	Minsky	Buy	25.75	15)	11/15/2013	Minsky	Buy	39.25
7)	01/15/2013	Minsky	Buy	29.00	16)	01/06/2014	Minsky	Buy	38.50
8)	03/04/2013	Minsky	Buy	30.50	17)	03/10/2014	Minsky	Buy	36.50
9)	03/14/2013	Minsky	Buy	31.00	18)	05/05/2014	Minsky	Buy	35.50

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:
Global Stock Ratings
(as of 3 July 2014)

Rating	Coverage Universe #	Coverage Universe %	IB Clients %
Buy	602	61.2%	38.2%
Speculative Buy	49	5.0%	55.1%
Hold	290	29.5%	13.1%
Sell	41	4.2%	7.3%

984	100.0%

*Total includes stocks that are Under Review

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Company	Disclosure
Alaris Royalty Corp.	1A, 2, 7

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