



## Alaris Royalty Corp. Share Price Gets Welcome Bounce

### Description

Positive news from **Alaris Royalty Corp.** (TSX:AD) June 28 saw its shares gain almost 10% on three times the normal volume. For long-time shareholders and Alaris management, this has to be a welcome change from the past year, one in which its share price has seen a 25% decline.

For those of you unfamiliar with Alaris, it provides capital to middle-market privately owned businesses in return for a monthly distribution.

The beauty of Alaris is that it isn't private equity. It might look like it, but the company doesn't get involved in the operation of its partners, nor does CEO Steve King have any desire to sit on the board of any of its investments.

It's tailor-made for entrepreneurial owners who don't want to give up control.

### The best of both worlds

Rather than lend money or take an equity position in its partner businesses, Alaris places itself right in between the two, buying preferred shares that hopefully yield 16% or more on its initial investment and then grow from there based on the partners' future success.

It's a win/win business model where distributions are adjusted annually to reflect the top and bottom line. If things are good, distributions go up. If a partner is struggling, they go down.

The point is that unlike private equity firms that strive to maximize returns, often at the expense of the acquired businesses, Alaris benefits by the partners operating their companies in a "steady as she goes" manner.

Alaris's business isn't sexy, but it gets the job done, and that's what you want as an investor.

### Things don't always work correctly

It's been relatively smooth sailing for Alaris since its founding in 2004 and its IPO four years later.

However, like life itself, things don't always go according to plan. Alaris is no different.

In the past year, it's had to work through several difficult situations with some of its partners which have reduced the distributions it receives. The uncertainty surrounding these distributions caused investors to have second thoughts about Alaris.

That's only natural.

However, Alaris's latest announcement on June 28 that it had received almost \$10 million in cash from KMH Cardiology, one of its underperforming partners, along with \$21 million in secured notes that it will receive principal payments of \$80,000 per month starting in mid-July is further evidence it's working through these issues.

On top of that good news, Alaris announced that it's found a new partner in Accscient LLC, an IT staffing firm in Atlanta, making a \$20 million contribution in return for \$3 million in annual distributions — a 15% yield.

### **Bottom line**

The nature of this kind of business is that there are always issues to resolve. As the saying goes, "It's not what happens to you that matters; it's how you react to what happens that does."

In late May, I had this to [say](#) about Alaris:

"If you brought me 10 stocks whose performance over the last year was similar to Alaris's (down 26%), and you made me buy one of them, 100% of the time, I'd opt for Alaris ... Its management team is top notch, and I love its win/win business model. Better times are ahead."

Indeed they are.

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