



TFSA Investors: Don't Miss Out on This Dividend Aristocrat Yielding Over 8%

Description

It is well known that investing in private companies is almost impossible for retail investors. Without a large sum of money and access to small businesses, retail investors are forced to settle for public securities such as equity and debt. This leaves a gaping hole in their portfolios, as there is no exposure to the growing number of small businesses across North America.

For Canadian investors, it is even more difficult, as the market in Canada is considerably smaller than in the United States. Now, however, companies are innovating, bringing access to industries that have previously been off limits to retail investors. Enter **Alaris Royalty** (TSX:AD).

[Alaris Royalty](#) is a Canadian company that provides capital to small, private businesses, mostly in the United States. The business model is brilliant, as it provides an opportunity for Canadian investors as well as being a flexible capital provider to the growing small businesses it funds.

Shareholder incentives

Alaris has stated its goal is to create an optimal dividend stream for investors. It does this by providing capital to stable but growing private companies in North America. The structure of each deal is unique, but it gives investors the opportunity to be rewarded when the companies perform well while protecting capital in the event that some of the companies run into problems.

Management knows exactly what investors want to see out of potential investments, and they have done an incredible job of structuring the deals to adhere to those needs. Alaris protects itself from volatile cash flows by basing its royalty payments off top-line numbers. It also receives cash flow monthly, providing distributions to shareholders monthly rather than just collecting large sums when it exits the investments.

Management has also done a terrific job in diversifying the business. At the end of 2018, Alaris had 16 different investments and a long-term goal to have maximum exposure below 10%. The company also operates with incredibly low selling, general, and administrative (SG&A) expenses in comparison to the profit it generates. This allows the company to scale efficiently and add more investments without

increasing operating costs.

Incentives for businesses

One main reason that Alaris has been so successful is its appeal to small-business owners. Alaris selects companies with management they believe to be competent and continues to allow the management to run their business day to day. This is great for the small businesses, as they can access the capital they need and continue to run the business the way they know how.

Another positive for the business owner is the long-term structure of deals. By providing an ongoing royalty or distribution agreement, the companies are able to focus on their own long-term goals. This incentivizes the businesses to continue to make decisions for the long run rather than having to meet short-term targets set out by the capital provider.

Past investments

In the companies that Alaris has exited to date, it has generated 80% in returns. The returns include distributions throughout the investment as well as capital received when the investment was ended. On just over \$465 million in investments, the company has received a whopping \$324 million in distributions. It also has received over \$513 million in exit capital.

Dividend

Alaris's dividend is the main feature for investors. The dividend may be considered slightly risky, given that it yields over 8% and is tied to the revenues of small businesses. However, Alaris has done its best to ensure the dividend is as stable as possible.

Creating monthly distributions and basing its royalty agreements on top-line numbers has proven to help sustain the cash flow for shareholders. Since inception, the company has paid over 125 straight months, increasing the dividend 11 times since 2010. It is no surprise that it is considered one of the Canadian Dividend Aristocrats.

The bottom line

Alaris is a solid company that is growing organically for the long term. Management understands the importance of long-term goals and the focus is solely on that rather than trying to achieve short-term targets. Management has done an exceptional job in diversifying revenue streams to make the dividend more stable as it continues to grow.

The business is also structured to scale well and add very few costs as it expands. The ability of management to find stable small businesses in mature industries with low capital requirements is key to the stability of Alaris's portfolio. It is no surprise the company is considered a Dividend Aristocrat.

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