# ASX & Media Release

**19 August 2022**

## FY22 FULL YEAR RESULTS
## Continued growth through BluePrint 2030

Cleanaway Waste Management Limited ("Cleanaway") ASX:CWY today announced a Statutory Net Profit of $80.6 million for the financial year ended 30 June 2022 ("FY22"), down 45.4% on the prior corresponding period ("pcp" or "FY21"). Statutory Net Profit was $64.4 million lower than Underlying Net Profit of $145.0 million predominantly due to costs associated with the acquisition and integration of the Sydney Resource Network ("SRN"), New Chum landfill rectification post floods, leadership transition and equipment loss in Health Services business.

## Highlights

**Financial Performance**

- ✓ Strong revenue growth across all segments
- ✓ Strong net operating cash flow generation
- ✓ Sydney Resource Network acquisition completed with contribution ahead of expectations
- ✓ Recovering cost increases through contractual mechanisms

**Operational**

- ✓ Established our foundations - safety and environment
- ✓ Leadership transition delivering new capability
- ✓ Established 'Lighthouse branches' to identify and target value drivers
- ✓ Resilience through significant operational challenges
- ✓ Set greenhouse gas reduction targets

**Strategic**

- ✓ BluePrint 2030 strategy execution underway
    - Continued to build-out growth platforms
- ✓ Added carbon, sustainability and core process capabilities

**Financial Performance Snapshot**

| | FY22 | FY21 | Variance |
|---|---|---|---|
| Net revenue ($m) | **2,603.8** | **2,198.9** | **18.4%** |
| Underlying EBITDA ($m) | **581.6** | **535.1** | **8.7%** |
| Underlying EBIT ($m) | **257.1** | **258.7** | **(0.6%)** |
| Underlying Net profit after tax ($m) | **145.0** | **153.2** | **(5.4%)** |
| Underlying Earnings per share (cents) | **7.0** | **7.3** | **(4.1%)** |
| Cash flow from operating activities ($m) | **466.3** | **424.4** | **9.9%** |
| Total dividend (cents per share) | **4.90** | **4.60** | **6.5%** |

Net Revenue of $2,604 million was 18.4% higher than the pcp with higher revenue across all segments primarily driven by a general recovery in economic conditions, new customer contracts, recent acquisitions, pandemic related clinical waste and higher commodity revenue.

Underlying EBITDA of $581.6 million was 8.7% higher than the pcp reflecting the contribution from SRN, new customer contracts and commodities partially offset by lower volumes from New Chum landfill, higher fuel prices, COVID-19 related impacts - particularly in the Health Services business, floods and labour availability.

Underlying EBIT of $257.1 million was 0.6% lower than the pcp largely due to an increase in depreciation and amortisation expenses related to the SRN acquisition.

Underlying earnings per share ("EPS") attributable to ordinary equity holders of 7.0 cents per share ("cps") was 4.1% lower than the pcp.

Net cash from operating activities increased by $41.9 million to $466.3 million compared to FY21, reflecting increased underlying EBITDA and lower tax payments, partially offset by cash outflows attributable to underlying adjustments and higher interest payments. This resulted in a strong cash conversion ratio of 99.9%.

The Board declared a final unfranked dividend of 2.45 cps taking the full year dividend to 4.90 cps, 6.5% higher than the pcp.

## Management Commentary

Chief Executive Officer and Managing Director of Cleanaway, Mark Schubert, said, "*I am proud to report Cleanaway's performance for the financial year ended 30 June 2022, and pleased that during the year we made good operational and strategic progress, including:*

- *Refreshed our strategy to meet the evolving and emerging opportunities that will come from the transition to a high circularity and low-carbon economy*
- *Enhanced the capabilities of our executive leadership team including the appointment of dedicated resources to lead the carbon and sustainability functions to support delivery of BluePrint 2030*
- *Completed the acquisition of the Sydney Resource Network (SRN) and integrated the assets into our New South Wales business unit*
- *Delivered strong revenue growth in a year of significant operational challenges. The revenue growth will support strong earnings growth as temporary headwinds subside and higher costs are recovered in FY23*
- *Setting 2030 and 2050 greenhouse gas reduction targets that align to COP22 and are supported by the IPCC's 2022 Sixth Assessment Report – with initiatives identified to reduce emissions. "*

*"During the year, we redefined protecting our people and protecting the environment as the two foundations upon which Cleanaway operates. Defining the two as foundations rather than priorities is both deliberate and important. This ensures our frontline teams do not need to choose between competing priorities and instead our foundations are always first. Our foundations are central to our purpose of making a sustainable future possible together.*

*In a year of significant challenges posed by a global pandemic, natural disasters, supply chain disruptions and emerging inflation, Cleanaway delivered a strong financial performance.*

*The company reported underlying net profit after tax of $145.0 million, 5.4% lower than the prior year, translating to earnings of 7.0 cents per share. On a statutory basis, net profit after tax of $80.6 million was 45.4% lower than the prior year, largely reflecting costs associated with the rectification of the New Chum landfill resulting from the significant flood events, Sydney Resource Network acquisition and integration costs and costs associated with executive leadership transition and restructuring projects.*

*COVID-19 continued to adversely affect the market and our business throughout the year. High volume and low margin customers came with significant inefficiencies in our Health Services business. More generally, lockdowns impacted revenues and efficient operations and widespread community infections reduced labour availability and increased pandemic leave costs.*

*Against this backdrop, it was pleasing that we were able to grow net revenue by 18.4% to $2,603.8 million and underlying EBITDA by 8.7% to $581.6 million. Underlying EBIT was marginally lower than the prior year at $257.1 million.*

*After years of low Inflation, we started to see inflation increase sharply across the economy. There are several reasons for this, including supply chain constraints, the war in Ukraine and the wider economic impacts of the pandemic. One of the largest contributors to rising operating costs has been fuel, with the price of oil having risen dramatically over the year.*

*While Cleanaway is not immune to inflationary pressures, we do have mechanisms within many of our contracts that allow us to recoup rising costs over time, but there is a time lag on our ability to recover these amounts, which has resulted in a temporary impact on margins.*

*During the year, flooding in NSW and QLD caused inefficiencies in our operations in the affected areas, with disruption to services and unavailability of vehicles and sites. In response, we relocated vehicles from other regions to support the local operations, and while we have new fleet vehicles on order, it will take some time to get back to normal operations.*

*Constraints on labour availability continue to place pressure on many businesses including ours, impacting our ability to service our customers and operate efficiently. Our team has mitigated the impact by making an extraordinary effort to balance our labour pools and maintain our service levels as we continue to fill job vacancies."*

## Dividend

A final unfranked dividend of 2.45 cents per share (pcp: 2.35 cents per share) has been declared, representing an increase of 4.3% on the final dividend paid last year. This takes the total dividends for the year to 4.90 cents per share (pcp: 4.60 cents per share). The dividend will be unfranked and paid on 7 October 2022 to shareholders on the register on 23 September 2022.

The Dividend Reinvestment Plan (DRP) will be in operation for this dividend. Shareholders residing in Australia or New Zealand may elect to participate in the DRP. The DRP election date is 26 September 2022. Under the DRP, Cleanaway shares will be issued at the average of the daily Volume Weighted Average Price (VWAP) of all shares sold on ASX over the period from 27 September to 3 October 2022. No discount will be applied to shares issued under the DRP.

Cleanaway is eligible to participate in the Commonwealth Government's Instant Asset Write Off Scheme, which is forecast to reduce tax payments made by the Group in FY22, FY23 and FY24. Because of lower tax payments resulting from the Instant Asset Write Off Scheme, Cleanaway does not expect to resume franking dividends fully until December 2024.

## Underlying Segment Performance

**Solid Waste Services**

Solid Waste Services (SWS) net revenue increased 23.2% or $342.3 million to $1,818.6 million. Underlying EBITDA increased 15.8% or $63.9 million to $469.4 million, and underlying EBIT increased $14.8 million to $227.8 million.

We completed the acquisition of the Sydney Resource Network from Suez on 18 December 2021 and our integration team quickly onboarded ~100 new employees.

The integration team worked tirelessly over the first few days post acquisition to ensure a seamless transition for customers and Cleanaway. This has been completed with a full operational handover to the NSW business unit in February.

The assets contributed $127.5 million net revenue and $57.7 million EBITDA during the period.
We are also benefiting from enhanced operating leverage through expanded footprint and route optimisation and we expect to extract further synergies through leveraging the network, licences and land to accelerate the progress of our organics and C&D blueprints in NSW.

Solid Waste Services revenue benefited from an initial contribution from the Sydney Resource Network assets, new municipal collection and post-collections contracts, higher commodity prices and a full year contribution from the Perth MRF. This was partially offset by the impacts of COIVD lockdowns (in particular, NSW), reduced contributions from flood affected regions and the lower volumes into New Chum landfill.

In addition to costs associated with new assets and contracts, higher operating costs were driven mainly by significantly higher diesel prices, higher working costs in flood affected regions and higher index-linked commodity rebates and shipping costs. Labour costs were higher due to greater use of overtime and sub-contractors and provision of pandemic leave.

Initial or increased contributions from municipal collections included Logan, Randwick, Wyndham and Charles Sturt together with increased post-collections volumes from the Metropolitan Waste and Resource Recovery Group (MWRRG).

Underlying EBITDA increased 15.8% while underlying EBITDA margins decreased 170bps across the year reflecting several factors including higher diesel prices, lower commodity margins, higher COVID-19 related labour costs (pandemic leave and temporary labour), lower average landfill margins (ex SRN) resulting from the lower volumes into New Chum and the impacts of the floods in New South Wales and Queensland. This was partially offset by the initial contribution from SRN.

The segment reported 25.5% higher depreciation and amortisation costs compared to FY21. The increase was predominantly due to the amortisation related to the SRN landfills together with full year contributions from acquisitions and municipal contracts that partially contributed in FY21, new municipal contracts that started in FY22, commencement of operations at the rebuilt Perth MRF and higher landfill depreciation.

During the year stage 2 of the MSE wall at the Erskine Park landfill was completed with the wall creating 400 thousand cubic metres of additional airspace. The team successfully tendered for the Bayside, Eurobodalla, City of Clarence, Hobart (recycling) and City of Vincent municipal contracts and were awarded an extension to the NSW CDS contract until late 2026.

Cleanaway was also awarded the Supplier Service champion of the year by Coles for supporting its landfill diversion goal.

The significant flood events and damage to cells at New Chum landfill during the year resulted in a decision to temporarily close the landfill until rectification work has been complete. This is expected to be completed over the course of FY23.

## Liquid Waste & Health Services

Liquid Waste & Health Services revenue increased 7.4% to $550.5 million while underlying EBITDA decreased 12.5% to $96.2 million. Consequently, underlying EBITDA margins decreased 400 basis points to 17.5%.

Underlying EBIT decreased 21.6% to $53.0 million and underlying EBIT margins decreased 380 basis points to 9.6%.

The **Liquids and Technical Services** (LTS) business realised 9% higher revenue and 6% higher EBITDA than the pcp predominantly due to a strong recovery in QLD, and significant work on the Tottenham (now complete), Kaniva and Parramatta Light Rail projects. This was partially offset by increased cost of disposal in NSW, capacity constraints due to labour availability and higher fuel and labour costs.

We are exploring opportunities to treat more complex waste streams and working collaboratively with clients on potential future issues and how we can support them.

From an underlying EBITDA perspective, the **Hydrocarbons** business performed in line with the prior year. Revenue increased 8% benefitting from higher post collections volumes and prices, and higher Cleanaway Equipment Services revenue from increased machine sales and growth in servicing activity. This was offset by higher natural gas and diesel input costs, higher freight and labour costs and the non-recurrence of the temporary increase in product stewardship receipts for high quality recycled base oil.

The **Health Services** business revenue increased by 12% while underlying EBITDA decreased 36%. Higher revenue was largely attributable to increased clinical and general waste at health care facilities (hospitals, labs, aged care facilities, hotel quarantine and testing centres) because of the pandemic. There was also an increase in biosecurity waste as borders reopened and sharps collectors from vaccination centres and hospitals.

The significant increase in volume of waste and the associated increase in services caused by COVID-19 coupled with the need to maintain this critical health service led to significant inefficiency and additional costs in our health collections and post collections infrastructure. In collections, additional labour and hire vehicles were required to perform the extra services. In processing, additional operational labour was required for increased receptacle management and treatment. In disposal, additional cost were incurred from using third-party infrastructure, and in waste movement the intra business sub-contracted freight costs to move waste interstate to ensure that we remain within site licence limits further added to costs.

This was further exacerbated during the second half of the year by two incidences that resulted in damage to and the loss of waste processing equipment.

Our Health Services team was also impacted by community infections, which impacted our staff availability. This required the prioritisation of public health needs and resulted in the deferral of higher margin services.

COVID-19 care personal protective equipment has now been reclassified from clinical to general waste in multiple jurisdictions leading to a meaningful reduction in volumes and improved efficiency and flow through our clinical waste infrastructure.

## Industrial & Waste Services

Industrial & Waste Services (IWS) reported underlying EBITDA of $47.2 million, 1.7% lower than FY21. Underlying EBITDA margin at 14.4% was 130 bps lower than FY21. The segment performed well in challenging external market circumstances.

The compression in underlying EBITDA margin reflected higher unit labour costs and costs to cover pandemic leave, higher fuel costs and fewer higher margin infrastructure projects in Queensland and Victoria, which were delayed due to COVID-19. This was partially offset by a strong performance in the Western Australian, South Australian and Northern Territory markets that were less affected by COVID-19 during the year.

Underlying EBIT decreased by $2.7 million to $19.9 million and underlying EBIT margin decreased 130bps to 6.1% reflecting the underlying EBITDA outcome and accelerated depreciation of some legacy lease payouts.

During the year IWS re-signed available contract extensions with a 100% renewal rate, and progressively improved its new business win rate.

COVID-19 impacts have been compounded by inflationary pressures, particularly fuel costs and we expect labour rate pressures to follow. The nature of our business means that these higher costs will be directly reflected in the pricing of new contracts.

The highly competitive infrastructure segment remains buoyant with opportunities to participate in large Government funded projects. Opportunities in the Mining/Mineral processing and Oil & Gas segments continue to have a positive outlook, with the larger contract and project opportunities more suited to the larger Tier 1 national providers like IWS.

Indigenous participation is an increasingly important consideration for Tier 1 resource companies, who are looking to ensure their efforts in this area results in direct financial benefits to indigenous people and businesses. The Pilbara Environmental Services joint venture between Cleanaway and King Kira Group (a female indigenous-owned business) will be well placed to participate in the next wave of Industrial Services contracts starting in north-west WA.

IWS continues to deliver organic growth from its existing client base (re-signs, increasing scope of services and market share) plus new business across the regions, with the outlook for sustainable growth over the next few years supported by a healthy pipeline of work. This pipeline continues to be developed and balanced across the key segments in which we operate. We expect to see our segment portfolio shift from a historical mining segment bias to a greater share of the oil & gas segment given the current activity In the sector, with several material opportunities being tendered and awarded during FY23.

During the year, IWS led a cross-segment collaboration with the SWS segment to tender for and win a Bechtel awarded 4-year contract on Woodside's Pluto LNG site. The vertical capability that Cleanaway can provide together with Bechtel's prior engagement and experience of IWS were significant contributing factors to the successful tender.

IWS also secured the first tranche of ExxonMobil's decommissioning tank cleaning work at its Altona plant and is well positioned to extend the contract and leveraging its capabilities into additional workstreams.

Furthermore, there is a significant opportunity related to decommissioning ageing oil and gas assets. Much of Australia's onshore and offshore oil and gas infrastructure is approaching the end of its productive life, leading to a significant forecast ramp-up in decommissioning activity through the next decade and beyond. The total cost will be an estimated $50 billion.

**FY23 Outlook**

FY23 earnings are expected to be higher than FY22 due to a full year contribution from SRN, underlying growth and Blueprint 2030 initiatives.

We expect FY23 underlying EBITDA to be in the range of $630-670 million. Based on current operating conditions and a balanced assessment of the opportunities and risks the business is tracking towards the mid-point of this range.

This excludes the ~$21m annualised EBITDA contribution from the GRL acquisition.
The material factors that can influence the outcome are volumes into post collections assets and labour availability.

Guidance assumes no material change to prevailing market and economic conditions.

Depreciation and amortisation (excluding GRL) is expected to be ~$360 - $370 million.
Cleanaway Waste Management Limited will hold its 2022 AGM at 11am (AEDT) on Friday 22 October 2022.

**END**

## Investor Briefing

The Company will be holding an investor and analyst briefing on the results at **10.00am** (AEST) today.

**Presenters:** Mr Mark Schubert - Managing Director & Chief Executive Officer
Mr Paul Binfield - Chief Financial Officer

**Tele-conference:** https://s1.c-conf.com/diamondpass/10022666-yxAp7Z.html

**Webcast:** https://event.choruscall.com/mediaframe/webcast.html?webcastid=ahsTLOh2

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