FY23 RESULTS

Delivered FY23 EBIT in line with guidance; Set >$450 million FY26 EBIT ambition

Cleanaway Waste Management Limited ("Cleanaway") ASX:CWY today announces a Statutory Net Profit of $23.5 million for the year ended 30 June 2023 ("FY23"), down 70.8% on the prior corresponding period ("pcp" or "FY22"). Underlying Net Profit of $148.6 million was $125.1 million higher than Statutory Net Profit predominantly due to adjustments for costs associated with rectification and write-off of the New Chum landfill, the outage at a medical waste facility and IT transformation costs together with acquisition and integration costs.

Highlights

Financial Performance

- ✓ Strong revenue growth across all segments reflecting organic growth, contract price increases and fuel surcharges together with contribution from recent acquisitions
- ✓ Revenue growth, easing cost inflation and emerging efficiency gains drove EBIT growth in the Solid Waste Services and Industrial & Waste Services segments and in the Liquids and Hydro business units
- ✓ Strong net operating cash flow and cash conversion of 98.3%

Operational

- Embedded operational excellence through the business
- Strengthened our safety and environment foundations
- Good progress addressing key operational headwinds

Strategic

- Secured significant contracts with Santos, ExxonMobil and through the Victorian CDS
- Completed the GRL acquisition and leveraging it to accelerate our Organics blueprint
- Landfill gas capture program delivering financial and environmental benefits
- Completed acquisition of Australian Eco Oils

Mid-term financial ambition

- Set FY26 EBIT ambition of more than $450 million compared with $302.2 million reported in FY23

Financial Performance Snapshot

	FY23	FY22	Variance
Net revenue[1] ($m)	2,965.8	2,603.8	13.9%
Underlying EBITDA ($m)	668.1	581.6	14.9%
Underlying EBIT ($m)	302.2	257.1	17.5%
Underlying Net profit after tax ($m)	148.6	145.0	2.5%
Underlying Earnings per share (cents)	6.6	6.9	(4.3%)
Cash flow from operating activities ($m)	481.8	466.3	3.3%
Final dividend per share (cents)	2.45	2.45	-

[1] Excludes landfill levies

Net Revenue of $2,965.8 million was 13.9% higher than the pcp with higher revenue across all segments primarily driven by organic growth, price increases and recent acquisitions.

Underlying EBIT of $302.2 million was 17.5% higher than the pcp. Pleasingly underlying EBIT in the second half of $163.9 million was $25.6 million or 18.5% higher than the first half. Importantly, the actions taken during FY23 to address key challenges delivered in the second half and built strong momentum into FY24.

The $45.1 million increase in underlying EBIT to $302.2 million compared to FY22 reflected organic growth across most of the business, the full period contribution from SRN and an initial 10-month contribution from GRL together with the benefits of significantly improved landfill gas capture. This was partially offset by the impacts of a tight labour market, inflation, lower OCC (Old Corrugated Cardboard) prices, the residual effect of FY22 events on the Queensland and Health Services business and a higher volume-linked landfill amortisation expense.

Underlying net finance costs increased by $43.1 million or 81.3% to $96.1 million from higher interest rates, which largely eroded the operating profit increase.

Underlying earnings per share (“EPS”) attributable to ordinary equity holders of 6.6 cents per share (“cps”) was 4.3% lower than the pcp, reflecting a 2.4% higher profit diluted by the higher number of shares on issue following the equity raise in August and September 2022.

Net cash from operating activities increased by $15.5 million to $481.8 million compared to FY22, reflecting higher underlying EBITDA offset by cash outflows attributable to underlying adjustments and higher interest payments. This resulted in a cash conversion ratio of 98.3%. Adjusting for the cash flow associated with underlying adjustments and the New Zealand tax matter related to 2011, net operating cash flow would have increased by $54.5 million or 10.6% to $570.3 million.

The Board declared a final unfranked dividend of 2.45 cps, in line with the pcp.

Management Commentary

Chief Executive Officer and Managing Director of Cleanaway, Mark Schubert, said, “*I am proud to report to you the performance of your company for the financial year ended 30 June 2023. We have continued to make good operational and strategic progress.”*

“Against a backdrop of high inflation, a tight labour market and operational challenges, I am pleased to report that Cleanaway delivered underlying EBIT in line with the guidance provided in August 2022 and 17.5% higher than the prior year. This was underpinned by net revenue growth of 13.9% to $2,965.8 million and underlying EBITDA growth of 14.9% to $668.1 million.

We reported underlying net profit after tax of $148.6 million, 2.5% higher than the prior year, translating to earnings of 6.6 cents per share attributable to ordinary equity holders.

We reported a 11.9% lower TRIFR of 3.7 and 67% fewer regulatory direction notices compared to FY22 with our intense focus on our foundations of safety and the environment beginning to be reflected in our lagging indicators.

Our efforts to increase female participation across the organisation was a further highlight with a 200 bps or 9.6% improvement to 22.8% over the course of the year. We are also approaching our target of having at least 40% female leaders either reporting to me or reporting to the executives that report to me (CEO+2).

During the year we implemented several successful strategies to address our key challenges with good progress made and with strong momentum going into FY24. Our Recruitment Process Outsourcing (RPO) program and the Women's Driver Academy have helped in tackling labour vacancies. Our branch-level labour and asset value drivers are tracking and improving daily performance, particularly as vacancy rates decline. With retention being the focus now, we have ongoing initiatives in place across onboarding, closing our enterprise agreement backlog and our culture refresh. We feel very confident that this vacancy trend will continue leading to operational and financial improvements.

Both Queensland Solids and Health Services business units endured ongoing challenges from FY22, but pleasingly the targeted performance restoration that we have implemented over the course of the year has resulted in emerging performance improvement in those areas and we have line of sight to those businesses delivering to plan.

We have been successful in addressing some of the inflationary pressures through the strong contractual mechanisms that allow us to recoup rising costs over time together with more frequent price increases and fuel surcharges applied to our SME segment, however there is a temporary impact on margins while inflation remains elevated.

We undertook substantial rectification works at New Chum landfill in preparation for the wet season. We expect to recommence construction of the final cell in FY24 and expect the landfill should deliver a modest contribution in FY25. The court appeal for a height rise at New Chum was unsuccessful and we have decided not to pursue further appeals. As a result, we are now planning for its closure and final remediation.

Our Industrial & Waste Services segment's Oil & Gas strategy is developing well having secured significant contracts with Santos and ExxonMobil during the year. Our new Container Deposit Scheme vertical is busy rolling out its Victorian CDS footprint having successfully tendered for the western metro and regional zones. We have been leveraging our GRL business to accelerate our Organics blueprints nationally and our landfill gas capture program is delivering financial and environmental benefits, with our methane reduction for the year ahead of the 2030 target trajectory.

In early FY24 we completed the acquisition of Australian Eco Oils, which will provide us a good platform to develop our renewable fuel strategy to further aid our decarbonisation and that of our customers."

Mid-term Financial Ambition Commentary

Commenting on the mid-term financial ambition, Mr Schubert said, *"We have made good progress in stabilising the business. We also have the capability in place to deliver the blueprints and they are progressing at pace.*

That has now allowed us to outline our mid-term financial ambition aligned to the strategy. We have developed a scorecard aligned to Blueprint 2030 to track our progress and we have clearly linked the *long-term incentive plan to the financial ambition, with significant outperformance needed to achieve full vesting.*

Our ambition is to generate FY26 EBIT greater than $450 million, which will be achieved with incremental improvements in return on invested capital," he said.

Dividend

A final dividend of 2.45 cents per share (pcp: 2.45 cents per share) has been declared taking the full year dividend to 4.9 cents per share in line with the pcp. The dividend will be unfranked and paid on 6 October 2023 to shareholders on the register on 15 September 2023.

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 18 September 2023. 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 19 September to 25 September 2023. 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 FY23 and FY24. Because of lower Australian tax payments resulting from the Instant Asset Write Off Scheme, Cleanaway does not expect to resume paying tax until December 2024.

Underlying Segment Performance

Solid Waste Services

Solid Waste Services (SWS) net revenue increased 15.0% or $273.1 million to $2,091.7 million. Underlying EBITDA increased 19.9% or $93.3 million to $562.7 million, and underlying EBIT increased 22.1% or $50.3 million to $278.1 million.

The Solid Waste Services FY23 results include the first full-year contribution from the now fully-integrated Sydney Resource Network (SRN) and a ten month contribution from Global Renewables Holdings (GRL).

Solid Waste Services revenue benefited from a full year contribution from SRN, cost recovery through price increases in the existing customer base and increases in most landfill volumes. This was partially offset by lower commodity prices and no waste accepted at the New Chum landfill.

Commodity prices have partly recovered over the second half of the financial year and customer rebates have declined to restore margins.

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, higher fleet repair and maintenance costs and the general inflationary environment. Labour costs were higher due to greater use of overtime and sub-contractors.

As a result, underlying EBITDA increased 19.9%, while underlying EBITDA margins increased 110bps across the year reflecting several factors including business mix and contractual cost recovery beginning to restore margins.

The segment reported 17.8% higher depreciation and amortisation costs compared to FY22. The increase was predominantly due to the full year contribution of SRN, the initial contribution from GRL, increased volume into Erskine Park landfill following the Mechanically Stabilised Earth (MSE) wall completion and a larger fleet. Furthermore, rising inflation has impacted cell construction and remediation costs contributing to a higher landfill depreciation expense.

Underlying EBIT increased 22.1% to $278.1 million, with underlying EBIT margins increasing 80bps.
Cleanaway completed the acquisition of GRL on 31 August 2022. GRL operates a facility that processes approximately 220kt p.a. of Sydney's 'red bin' putrescible waste.

The business is strategically located and is currently delivering >30% landfill diversion. During the period, the operational team undertook trials at the facility with further analysis underway to determine the optimal transition plan for the facility as it prepares to capture the emerging Sydney Food Organics Garden Organics (FOGO) processing opportunity.

During the year, the business continued to leverage the network, licences and land from the SRN transaction to advance the progress of Solid Waste Services' organics blueprint in NSW.

The TOMRA Cleanaway joint venture was appointed the Network Operator for the Victorian Container Deposit Scheme Western metro and regional zones. The joint venture is expecting to process an estimated 500 million containers per annum once it ramps up to the initial target capacity.

The Ipswich City Council (ICC) refused an application by Cleanaway that would have allowed for additional airspace at the New Chum landfill. In October 2021, Cleanaway concluded its appeal of the decision of the ICC to refuse the application to the Queensland Planning and Environment Court, but in the decision handed down in June 2023, was unsuccessful in those proceedings. Cleanaway has decided not to appeal the decision and have commenced an end-of-life plan for the landfill. Cleanaway is currently awaiting approval from ICC to complete the necessary works that will allow us to fill the remaining airspace at the site.

Liquid Waste & Health Services[2]

Liquid Waste & Health Services revenue increased 10.9% to $610.6 million while underlying EBITDA decreased 4.0% to $92.4 million. Underlying EBIT decreased 7.9% to $48.8 million and underlying EBIT margins decreased 160 basis points to 8.0%. The performance of the Health Services business weighed on the segment performance. Excluding Health Services, the Segment expanded EBIT margins by 40 bps versus the pcp.

[2] References to revenue and EBIT within this segment are based on management accounts that are pre intercompany and divisional eliminations.

The **Liquid and Technical Services** (LTS) business realised 11.9% higher revenue than the pcp, predominantly due to increased project work including for NSW health, where Cleanaway processed and recycled bulk quantities of expired hand sanitiser, and the remediation of a site in Victoria on behalf of the EPA where hazardous waste was illegally dumped. The business managed increases in freight and labour costs through a combination of minimising use of third-party contractors and through contractual price increases.

Hydrocarbons revenue increased 16.6%, benefiting from favourable post collections price and volume mix and higher Cleanaway Equipment Services revenue. This was offset by higher natural gas and diesel input costs and higher freight and labour costs. From an underlying EBIT perspective, the Hydrocarbons business outperformed the prior year with EBIT growing 8.1% to $16.1 million.

The **Health Services** business revenue was largely flat on pcp. The Health Services business benefited from increases in revenue from biosecurity and cruise ships, following the rebound of the travel sector. Revenue uplift was offset by volume losses from lower network capacity and lower COVID-19 related clinical waste from hotel quarantine, hospital and vaccination clinics and aged care centres resulting in flat revenue growth when compared to pcp.

The loss of the hammer mill in Victoria resulted in a strain on the processing capability and network capacity of the Health Services business. Consistent with the broader Cleanaway business, the Health Services business experienced higher gas, labour and diesel costs, resulting in significantly lower EBIT.

In March 2023, the Health Services business received EPA approval for the business' two autoclave units (a replacement for the hammer mill) and have since installed these units and successfully begun operating them. The units have reached initial target production rates with several initiatives underway to exceed these rates and increase capacity.

Industrial & Waste Services

Industrial & Waste Services (I&WS) revenue increased 14.4% or $47.2 million to $375.8 million driven by significant project activity across key contracts. Underlying EBITDA increased 11.7% or $5.5m to $52.7 million. The segment performed well in challenging external market circumstances.

Underlying EBIT increased by $6.6 million to $26.5 million and underlying EBIT margin increased 100bps to 7.1%.

During the year, I&WS achieved a 92% renewal rate on available contract extensions. New contracts signed in FY23 represented almost three times the annual value of contracts signed in FY22.

Inflationary pressures, particularly fuel costs and labour rate pressures, impacted the segment performance. These higher costs will be directly reflected in the pricing of new contracts.

I&WS continues to deliver organic growth from its existing client base (re-signs and increasing scope of services) 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 I&WS operate. I&WS expect to see the segment portfolio shift from a historical Resources segment bias to a greater share of the Oil & Gas sector.

During the year, I&WS secured significant contracts in the Oil & Gas sector with ExxonMobil and Santos. The ExxonMobil contract was followed by an earlier contract to undertake decommissioning tank cleaning work at ExxonMobil's Altona plant. The Santos contract spans WA, NT, QLD & SA showcasing I&WS national capability. In addition, Cleanaway successfully tendered for a Snowy 2.0 contract with a further opportunity to extend the contract in the future.

First Nations participation continues to be an important consideration and requirement for Tier 1 resource companies who are looking to ensure their efforts in this area result in direct financial benefits to First Nations peoples and businesses. The Pilbara Environmental Services joint venture between Cleanaway and King Kira Group (a 100% female Indigenous-owned business) will be well placed to participate in the upcoming I&WS contract opportunities in north-west WA.

The infrastructure segment remains buoyant with opportunities to participate in large Government sponsored projects. Opportunities in the mining and mineral processing and Oil & Gas sector continue to have a positive outlook, with the larger contract and project opportunities more suited to the larger Tier 1 national providers like I&WS in the pipeline.

Furthermore, there is a significant opportunity related to decommissioning ageing Oil & Gas assets. Much of Australia's onshore and offshore Oil & 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.

FY24 Outlook

There is strong momentum and stability in the business heading into FY24. In addition, the impacts of inflation and higher interest rates are expected to taper over the year. With good progress made on key headwinds and operational excellence embedded across the business, operational efficiency is emerging.

Future earnings growth is expected to be driven by:

- further operational efficiency improvements including through our Data & Analytics and Fleet Optimisation blueprints,
- revenue growth as the business continues to recoup higher costs through various price levers,
- organic growth in each segment,
- the contribution from the Victorian Container Deposit Scheme,
- a partial recovery of the Health Services business, and
- the full year contribution from contracts secured by the I&WS Segment in FY23.

A trading update will be provided at the AGM on 20 October 2023

This announcement has been authorised for release by the Board of Cleanaway.

END

Investor Briefing

The Company will be holding an investor and analyst briefing on the results at **9.30am** (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/10031755-hsy7f.html

Webcast: https://ccmediaframe.com/?id=RAGzcWxt

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