A SOLID YEAR OF ACHIEVEMENT – WITH A STRONGER BALANCE SHEET, BETTER UNDERLYING MARGINS AND INCREASED CASH FLOW

We made substantial progress on a number of fronts. Our balance sheet was supported by disposals and a bond issue, giving us valuable liquidity in these challenging times of Covid-19. Margins and returns also received a boost. Our Euronext listing connects us with an investor base focused on sustainability and we have received more investment from funds that have a strong environmental mandate

Toby Woolrych
Chief Financial Officer

INTRODUCTION

FY20 was a successful year in which we made good progress in strengthening the balance sheet, improving underlying margins and returns, and increasing free cash flow.

- We successfully strengthened the balance sheet through disposals and the issuance of a new €75m green bond. This resulted in our reducing core net debt from €552m to €457m, and having €252m of liquidity as at 31 March 2020.
- We delivered underlying growth of 30 bps to 7.4% in our operating margin and 180 bps in our return on operating assets to 24.1% (19.8% on an IFRS 16 basis) in our Commercial Waste and Monostreams Divisions (83% of revenue).
- We increased our free cash flow by €85m to €96m and, excluding the benefit of the disposals, we generated net positive cash, a year ahead of schedule.
- We completed our secondary listing on Euronext Amsterdam and we have seen increasing investment by funds with a significant environmental mandate.

Exceptional items were again significant. The majority were non-cash, such as disposals (€56m), or related to value-creating activities, such as synergy delivery (€13m). The introduction in the Netherlands on 1 January 2020 of a €32 per tonne tax on the import of burnable waste from the UK necessitated a €26m charge at our ELWA municipal contract. We have also taken a provision of €15m following the ruling by the European Union in February 2020 that it will be further investigating alleged state aid provided by the Walloon region of Belgium to our landfill site at Cetem in the period 2010-2015. The Walloon region and Renewi remain confident in our case, which is expected to take several years to resolve.

Looking forward, our financial strategy for Renewi is centred on:

- improving margins and returns through increased diversion, higher-value products and more efficient processes, including through the Renewi 2.0 programme;
- increasing free and net cash flows and reducing leverage towards the Board's target of 2x, taking into account the challenge of Covid-19; and
- eliminating unplanned exceptional items.

Financial performance

	FY20 IFRS 16 basis €m	FY20 IAS 17 basis €m	FY19 IAS 17 basis €m
Continuing operations			
Revenue	1,775.4	1,775.4	1,780.7
EBITDA	199.7	167.5	177.4
Underlying EBIT	87.6	82.0	85.5
Underlying profit before tax	54.1	54.3	62.5
Non-trading and exceptional items	(113.5)	(113.5)	(151.5)
Loss before tax	(59.4)	(59.2)	(89.0)
Total tax (charge) credit for the year	(1.1)	(1.1)	12.4
Loss for the year from continuing operations	(60.5)	(60.3)	(76.6)
Loss for the year from discontinued operations	(16.6)	(17.0)	(21.1)
Total operations: loss for the year	**(77.1)**	**(77.3)**	**(97.7)**

FINANCIAL REVIEW

IFRS 16 is a new reporting standard that has had a material impact on our reported results: for continuing operations, increasing EBITDA by €32.2m, EBIT by €5.6m and interest costs by €5.8m, as well as increased year-end assets and debt. The full impact is shown in note 9 to the financial statements. As we have applied the modified retrospective approach, prior year comparatives are not restated. The above table shows the reported performance on an IFRS 16 basis along with IAS 17 to provide a comparative with 2019.

As well as IFRS 16, the performance in the year has been impacted by the disposals. Reym is recorded as part of continuing operations with seven months in FY20 compared to the full year in 2019. The Canadian business, however, met the definition of a discontinued operation. Group revenue on a continuing operations basis increased marginally to €1,775m. Underlying EBIT from continuing operations decreased by €3.5m or 4% to €82.0m on an IAS 17 basis.

IFRS 16 also has a significant impact on underlying EBITDA given the depreciation on right-of-use assets, which amounted to €27m in the year. The table overleaf sets out the EBITDA by Division on both an IFRS 16 and IAS 17 basis for the current year.

As both disposed businesses were reported as assets held for sale at March 2019, the current year results have been favourably impacted by the suspension of depreciation at Reym and Canada for the periods up to sale. The table overleaf bridges the year on year performance excluding IFRS 16. This shows that for the ongoing businesses, underlying EBIT fell by €8.2m or 10%, in line with our expectations, primarily due to reduced output at ATM, the profitable legacy Derby contract last year and the reinstatement of bonus and LTIP provisions as forecast.

Non-trading and exceptional items excluded from pre-tax underlying profits

To enable a better understanding of underlying performance, certain items are excluded from underlying EBIT and underlying profit before tax due to their size, nature or incidence. The Group reported significant non-trading and exceptional items, under the main headings as follows:

- Merger and integration costs: items that were known and planned for in relation to the costs of integrating Renewi. These costs are one-off relating to the merger with VGG and exceptional in nature
- Portfolio costs: items associated with the acquisition or disposal of assets, including profit or loss on sale, goodwill impairments and transaction costs
- UK Municipal contract issues: including onerous contract provisions and impairments
- Other changes in long-term provisions, including significant legal provisions and changes in discount rates
- Other items

Total non-trading and exceptional items amounted to €120.2m (2019: €146.0m) as set out in the table on page 41 with cash items of €35m. Further details are provided in note 3.3 to the consolidated financial statements.

The portfolio management activity charge of €29.8m includes the final charge for the loss on >

disposal of the Reym business. Credits of €6.1m were recorded relating to previous transactions.

As previously announced, €25.9m relates to an impairment and onerous contract provision for the ELWA contract in UK Municipal, and €17.9m relates to the reduction in discount rates used for long-term provisions and a €15.1m legal provision for the recent Belgian state aid litigation. The exceptional finance costs include a current year credit for ineffectiveness of interest rate derivatives.

At merger completion we announced total expected merger-related cash costs of €50m for synergy delivery, €20m for other integration costs and €12m for rebranding capital spend. The table opposite shows how this has been incurred since the merger date and is in line with initial indications. As noted previously, branding spend has been expensed rather than capitalised. A final €4m of spend will be incurred in FY21 to complete outstanding IT integration.

The discontinued operations charge of €18.9m reflects the final loss on disposal of the sale of the Municipal Canada business. In line with accounting requirements as a result of uncertainty of receipt, the contingent proceeds from this disposal will only be recognised if more certain.

EBIT from continuing operations, after taking account of all non-trading and exceptional items, was a loss of €28.1m (2019: €56.6m loss).

Net finance costs

Net finance costs from continuing operations, excluding exceptional items, increased by €11.0m to €34.4m (2019: €23.4m). The largest driver was the adoption of IFRS 16 from 1 April 2019, resulting in a €5.8m increase in lease interest. Interest payable on borrowings increased by €2.2m due to higher levels of debt compared to the prior period and a higher margin payable due to higher leverage in the first part of the year. Other finance costs increased by

Underlying EBITDA

	FY20 IFRS 16 basis €m	FY20 IAS 17 basis €m	FY19 IAS 17 basis €m	Variance IAS 17 basis %
Commercial Waste Netherlands	107.3	93.8	92.5	1%
Commercial Waste Belgium	60.7	53.8	53.6	0%
Commercial Waste	168.0	147.6	146.1	1%
Hazardous Waste (excluding Reym)	10.7	7.1	9.9	-28%
Monostreams	28.1	25.5	24.1	6%
Municipal	(0.9)	(1.8)	1.9	N/A
Group Central Services	(18.3)	(20.9)	(16.5)	-27%
Ongoing businesses	**187.6**	**157.5**	**165.5**	**-5%**
Reym	12.1	10.0	11.9	
Continuing operations	**199.7**	**167.5**	**177.4**	**-6%**
Discontinued operations	3.1	2.5	3.9	
Total	**202.8**	**170.0**	**181.3**	**-6%**

Underlying EBIT

	FY20 €m	FY19 €m	Variance €m	Variance %
Underlying EBIT: Continuing operations	**87.6**	**85.5**	**2.1**	**2%**
Impact of Reym	(12.1)	(5.3)	(6.8)	
Underlying EBIT: Ongoing businesses excluding IFRS 16 impact	**75.5**	**80.2**	**(4.7)**	**-6%**
Impact of IFRS 16	(3.5)	-	(3.5)	
Underlying EBIT: Ongoing businesses	**72.0**	**80.2**	**(8.2)**	**-10%**

€1.1m, principally due to higher interest charges on invoice financing as referenced at the half year.

Share of results from associates and joint ventures
An increased profit of €0.9m (2019: €0.4m) due to one-off income, which is not expected to recur.

Loss before tax
Loss before tax from continuing operations on a statutory basis, including the impact of non-trading and exceptional items, was €59.4m (2019: €89.0m).

Taxation
Total taxation for the year on continuing operations was a charge of €1.1m (2019: credit of €12.4m). The effective tax rate on underlying profits from continuing operations was 24.5% at €13.3m, lower than last year's 25.0% and driven by enactment of lower tax rates in Belgium. A tax credit of only €12.2m is attributable to the non-trading and exceptional items of €113.5m given a significant proportion of these are non-taxable.

As reported previously, both the Dutch and Belgian Governments implemented a number of corporate tax reforms in recent periods which have resulted in exceptional tax credits from reductions in future tax rates. In the current year, the Dutch Government has made further revisions and reversed some of the planned tax rate falls, which has resulted in an exceptional tax charge of €1.6m being recorded this year. The total exceptional tax credit of €2.4m also includes a credit for the release of provisions in relation to pre-merger tax issues (€2.5m) and an enacted lower tax rate in the UK (€1.5m).

Looking forward, we anticipate the underlying tax rate may fall slightly to around 24% in the next few years as no further tax rate changes are anticipated.

The Group statutory loss after tax, including all discontinued and exceptional items, was €77.1m (2019: €97.7m). >

Non-trading and exceptional items

	FY20 €m	FY19 €m
Merger-related costs	16.3	56.8
Portfolio management activity	29.8	8.7
UK Municipal contract issues	25.9	64.3
Other changes in long-term provisions	33.0	-
Other items	4.3	5.9
Amortisation of acquisition intangibles	6.4	6.4
Exceptional finance costs	(2.2)	9.4
Non-trading and exceptional items in loss before tax	113.5	151.5
Tax on non-trading and exceptional items	(9.8)	(12.4)
Exceptional tax	(2.4)	(15.6)
Discontinued operations	18.9	22.5
Total	**120.2**	**146.0**

Merger-related P&L charges

	FY17 €m	FY18 €m	FY19 €m	FY20 €m	Total €m	Original €m	Difference €m
Integration costs*	3.4	8.5	12.5	2.3	26.7	20.0	(6.7)
Synergy delivery	5.3	13.4	22.1	13.8	54.6	50.0	(4.6)
Branding capex	–	–	–	–	–	12.0	12.0
Initial merger programme	8.7	21.9	34.6	16.1	81.3	82.0	0.7
Monostreams restructuring	–	0.5	10.0	(0.5)	10.0		
Non-cash costs	–	2.6	12.2	0.7	15.5		
Total	**8.7**	**25.0**	**56.8**	**16.3**	**106.8**		

*Including branding capex now expensed rather than capitalised.

Earnings per share (EPS)
Underlying EPS from ongoing businesses, excluding non-trading and exceptional items, was 3.9 cents per share, a decrease of 25% on a like-for-like basis. Basic EPS from continuing operations was 7.7 cents loss per share compared to a loss of 9.0 cents per share in the prior year.

Dividend
As announced previously, and in response to Covid-19, the Board has decided not to pay a final dividend for the year ended 31 March 2020. The interim dividend of 0.45 pence per share was paid on 10 January 2020.

CASH FLOW PERFORMANCE
A summary of the total cash flows is shown in the table (right). Free cash flow conversion on an IAS 17 basis was strong at 110% compared to the 35% in FY19. Working capital was an inflow of €22.9m based on the timing of payables, recovery on receivables delayed in the last quarter last year and increased efficiency on the sale of receivables programme. Some of this benefit is expected to reverse in the new financial year. Replacement capital spend, excluding new IFRS 16 leases, was well controlled at €64.2m (2019: €88.1m), representing c.75% of depreciation. Capital spend was restricted in the first half pending the completion of the disposals of Canada and Reym, which has resulted in a lower spend across the full year. In addition, a number of leases previously considered operating leases before the introduction of IFRS 16 totalling €61.8m have been entered into, and these are now recorded as right-of-use assets and are shown separately in the above cash flow. As previously reported, we are investing in a rejuvenation of our truck fleet through leases that spread the cash costs of the trucks over a six-year period.

UK Municipal contracts reflect the cash spend on UK onerous contracts of €23.6m, including a significant amount for the final months of the legacy

Cash flow

	FY20 IFRS 16 basis €m	FY20 IAS 17 basis €m	FY19 IAS 17 basis €m
EBITDA	202.8	170.0	181.3
Working capital movement	22.9	22.9	(22.2)
Movement in provisions and other	(4.5)	(4.5)	(9.8)
Net replacement capital expenditure	(64.2)	(64.2)	(88.1)
Interest, loan fees and tax	(37.1)	(31.2)	(30.9)
Underlying free cash flow	**119.9**	**93.0**	**30.3**
UK Municipal contracts	(23.6)	(25.2)	(19.0)
Free cash flow	**96.3**	**67.8**	**11.3**
Growth capital expenditure	(10.1)	(10.1)	(11.7)
Synergy, integration and restructuring spend	(24.3)	(24.3)	(38.7)
Other	(8.4)	(9.6)	(9.5)
Disposals net of acquisitions	95.7	95.7	24.1
Dividends paid	(8.6)	(8.6)	(27.4)
Net core cash flow	**140.6**	**110.9**	**(51.9)**
Net debt disposed/acquired	(6.4)	(12.8)	–
Replacement capital expenditure – new IFRS 16 leases	(61.8)	–	–
Total	**72.4**	**98.1**	**(51.9)**
Opening net debt excluding UK PPP net debt	(552.0)	(552.0)	(500.6)
Loan fee amortisation	0.9	0.9	2.2
Transfer to disposal group	–	–	4.2
IFRS 16 transition adjustment	(177.3)	–	–
Net debt movement excluding UK PPP net debt	72.4	98.1	(51.9)
Exchange	(3.9)	(4.2)	(5.9)
Closing net debt excluding UK PPP net debt	**(659.9)**	**(457.2)**	**(552.0)**
Free cash flow conversion	**132%**	**110%**	**35%**

All numbers above include both continuing and discontinued operations.
Free cash flow conversion is underlying free cash flow as a percentage of underlying EBIT.

Derby contract before it was terminated, along with spend on the ELWA contract, which is onerous as from 1 January 2020. The cash outflow on all other contracts was as expected.

The growth capital spend includes the Ottawa expansion (now disposed of) and the completion of the expansion of the Maasvlakte landfill site.

Synergy, integration and restructuring spend of €24.3m included €22.3m for synergy delivery and merger-related integration costs. In addition, €2m of spend has arisen for initial restructuring and fees relating to Renewi 2.0.

Other cash flows include the ATM spend on additional logistics and other associated costs of €4m, €3.5m funding for the closed UK defined benefit pension scheme and €2.4m relating to the purchase of short-term investments in the insurance captive.

The disposals and acquisitions inflow includes the net proceeds from the sale of our Canadian and Reym businesses, along with €4.3m spend on the acquisition of the Rotie organic waste collection business and the 32% stake in RetourMatras B.V., a mattress recycler, alongside IKEA.

Net cash generated from operating activities increased from €73.6m in the prior period to €157.7m in the current year. A reconciliation to the underlying cash flow performance as referred to above is included in note 8.3 in the consolidated financial statements.

RENEWI 2.0

As reported in the CEO's Review, we have launched our Renewi 2.0 programme, which is intended to complete the creation of a modern waste-to-product company with digital interfaces to customers and suppliers, supported by modern, lean and efficient core processes. These include the introduction of a cloud-based source-to-pay system and the creation of global process owners for core processes to standardise and reduce inefficiency.

We believe that Renewi 2.0 will deliver cost benefits at an annualised run rate of €20m by March 2023. The cost of the programme is expected to be €40m, split between capital and an exceptional charge as shown in the table (above right).

INVESTMENT PROJECTS

Expenditure in FY21

The Group's long-term expectations for replacement capital expenditure remain around 80% of depreciation. This level may from time to time be supplemented with larger-scale replacement projects. As a result of the current pandemic, total capital spend for FY21 is now estimated to be c.€75m, similar to the previous year and lower than our previous expectations. This spend will include the new infrastructure for the construction materials at ATM and a new de-packaging hall in Organics in Commercial Waste Netherlands.

Renewi 2.0: expected costs and benefits

	FY21 €m	FY22 €m	FY23 €m	FY24 €m
Net benefit	1	5	12	20
Exceptional costs	(14)	(10)	(6)	-
Capital spend	(1)	(4)	(2)	-
Net cash flow	**(14)**	**(9)**	**4**	**20**

In addition to the above cash spend certain non-cash impairments of c.€3m are anticipated.

Return on assets

The Group return on operating assets (excluding debt, tax and goodwill) from ongoing businesses increased from 26.7% at 31 March 2019 to 27.5 at 31 March 2020 on an IAS 17 basis. IFRS 16 adoption has increased assets by c.€175m, with a significant proportion reflecting very long-term leaseholds of Dutch waterside locations which cannot be owned under Dutch law. Under IFRS 16 the Group return on assets as at 31 March 2020 was 19.0%. The reported Group post-tax return on capital employed from ongoing businesses was 6.6% (31 March 2019: 6.9%).

TREASURY AND CASH MANAGEMENT

Core net debt and gearing ratios

Core net debt excludes the net debt relating to the UK PFI/PPP contracts, which is non-recourse to the Group and is secured over the assets of the special purpose vehicles (SPVs) and excludes IFRS 16 related leases. Core net debt at €457.2m (2019: €552m) was better than management expectations, with working capital and capital expenditure well controlled and cash received from the disposals. Liquidity was also very strong with cash balances of €195m and total liquidity of €252m. Net debt to EBITDA was 2.98x, comfortably within our covenant limit of 3.5x. On 29 May 2020 we announced a new structure of higher covenant test levels to ensure solvency through the Covid-19 crisis. These peak at 6.0x during 2020, falling steadily back to 3.5x in September 2021.

Debt structure and strategy

Borrowings, excluding PFI/PPP non-recourse borrowings, are mainly long-term as set out in the table overleaf.

The facility has been hedged with five cross currency swaps totalling €243.1m at fixed euro interest rates of between 1.27% and 1.41%, which expire between July 2022 and December 2022.

A €100m retail bond with a coupon of 4.23% was repaid in July 2019 and replaced by a €75m five-year green retail bond with a coupon of 3.00%. The remaining €100m green retail bond has a coupon of 3.65%. All of our borrowings are now >

green financed. As at 31 March 2020, 99% of our core net debt was fixed or hedged.

The Group operates a committed invoice discounting programme. The cash received for invoices sold at 31 March 2020 was €88.0m (March 2019: €68.2m).

The introduction of IFRS 16 on 1 April 2019 brought €177.3m of additional lease liabilities onto the balance sheet with an associated increase in assets. Additional leases have been entered into during the year and mostly relate to the truck replacement programme. Covenants on our main bank facilities remain on a frozen GAAP basis.

Debt borrowed in the special purpose vehicles (SPVs) created for the financing of UK PFI/PPP programmes is separate from the Group core debt and is secured over the assets of the SPVs with no recourse to the Group as a whole. Interest rates are fixed by means of interest rate swaps at contract inception. At 31 March 2020 this debt amounted to €90.0m (31 March 2019: €95.4m).

Treasury initiatives

During the year we issued a new €75m bond at 3% to 2024 and repaid the previous €100m 4.23% bond at maturity. This completed our transition to become entirely green financed across all our main banking facilities. After the year end we adjusted the banking covenants of our facilities to reflect the potential impact from Covid-19. We entered into various cross currency swaps during the year consistent with our hedging strategy, both to manage interest cost and fix our exposure to interest rates across a large proportion of the variable rate borrowings. We also extended the use of an invoice discounting programme as we integrated the IT systems supporting the Commercial Waste Division. We established and utilised additional green leasing facilities to fund our ongoing investment in our Clean and Green Fleet, increasing the proportion of Euro 6 trucks substantially, which are right-of-use assets under IFRS 16.

PROVISIONS AND CONTINGENT LIABILITIES

Around 85% of the Group's provisions are long-term in nature, with the onerous contract provisions in the UK Municipal being utilised over 20 years and landfill provisions for many decades longer. As referenced earlier, the Group has completed its detailed triennial review of long-term discount rates this year, which has resulted in a decrease of discount rates and an associated increase of €18m in the carrying value of provisions at 31 March 2020. The current provisions amount to €38m, including €4m for exceptional restructuring, €16m for Municipal onerous contracts and €5m for landfill-related spend. Municipal cash outflows are expected to reduce in subsequent years.

Details of contingent liabilities are set out in note 8.4 of the financial statements and the Group does not expect any of these to crystallise in the coming year.

Debt structure

	Drawn €m	Term
€100m Belgian Green retail bond	100.0	June 2022
€75m Belgian Green retail bond	75.0	July 2024
€495m Green RCF and term loan	437.1	May 2023/2024
Green EUPP	25.0	December 2023/2025
	637.1	
Historic IAS 17 finance leases and other	19.3	
Loan fees	(4.7)	
Cash and money market funds	(194.5)	
Core net debt (as per covenant definitions)	457.2	
IFRS 16 finance leases	202.7	
Net debt excluding UK PPP net debt	**659.9**	

Retirement benefits

The Group operates a defined benefit pension scheme for certain UK employees, which has been closed to new entrants since September 2002 and was closed to future benefit accrual on 30 November 2019. At 31 March 2020, the scheme had moved into an accounting surplus of €16.0m (31 March 2019: €3.7m deficit). The move into surplus was a result of a change in the scheme's investment strategy, which led to a higher return on assets along with a decrease in the discount rate assumption and lower inflation. During the year, pension increase exchange exercises were actioned which resulted in a past service saving of €1.4m. The latest actuarial valuation of the scheme was at 5 April 2018 and the future funding plan has been maintained at the current level of €3.5m per annum until February 2022.

There are also several defined benefit pension schemes for employees in the Netherlands and Belgium, which had a retirement benefit deficit of €7.5m at 31 March 2020, a €0.7m decrease from 31 March 2019.

Toby Woolrych
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