

# 24<sup>th</sup> Macquarie Australia Conference - Prepared Remarks

3 May 2022



## Presenters:

### Mark Schubert – CEO and Managing Director

Good afternoon, everybody.

Firstly, I would like to acknowledge the traditional owners on the lands on which we meet today and those from lands across Australia that Cleanaway operate on and pay my respects to elders past present and emerging.

It is my pleasure today to present at the 24<sup>th</sup> Annual Macquarie Australia Conference on behalf of Cleanaway. Today I will provide you with an update on how we are going and where we are going.

#### Snapshot of Cleanaway

So let me start by reflecting on the Cleanaway team. I can honestly say that together as a team we are more aligned with shared goals and expectations. As a team we are working together, identifying and managing risks together, sharing our operational learnings together, addressing challenges together and celebrating shared and individual successes together. We are collaborating more effectively across business units and functions. And when we leverage the humble, willing, and hard-working characteristics of our workforce, this becomes really powerful.

We are much better at asking for and receiving help, and we saw that in spades when our Queensland and Northern NSW colleagues suffered significantly from the devastating floods in February and March. We quickly mobilised people and equipment from other parts of the country to assist our affected operations and colleagues and everyone dug in to pick up the slack.

It was gratifying to see how much our teams truly care about each other on a personal level. Those deep personal connection will be a foundation of the successful execution of our strategy. We will keep each other safe, protect the environment, deliver today and improve for tomorrow as we continue to strive towards our mission together.

#### Diversified Revenue streams with cost inflation protection

One of the hallmarks of our business is the diversity of our revenue streams and the contracted nature of much of our cash flows. That diversification extends beyond our three segments presented on the left-hand side of this slide. Within each segment of our business, we have further diversification.

For example, In Solid Waste Services we are diversified in terms of collections and post-collections and then further again through customer type – municipal, national accounts, SME and container deposit schemes, and through activity – resource recovery, recycling and landfills.

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In Liquid Waste and Health Services we service hazardous and non-hazardous bulk and packaged liquid wastes. We collect and recycle hydrocarbons and provide related equipment cleaning services, and we provide a full suite of health-related waste services.

Our Industrial and Waste Services segment performs a wide range of industrial services across many parts of the economy, including at large infrastructure and resource projects.

We do most of this work under medium to long term contracts, and through time develop strong working relationships with our customers and often a shared purpose.

After years of low Inflation, we are now starting to see strong inflation flowing through the economy. There are several reasons for this including supply chain constraints, the war in Ukraine and the broad impacts of the pandemic on the economy.

While Cleanaway is not immune to these inflationary pressures, we do have cost pass through mechanisms within our contracts that allow us to recoup rising costs over time.

On the right-hand side of this slide, you can see the key expense categories that make up our total operating expenses. Almost half is labour related expenses, one third is disposal expenses, which include EPA landfill levies, tipping fees and freight and approximately 13% relates to fleet operating expenses, including fuel.

There are three broad categories of customers that we have in our Solid Waste Services business – Municipal, National and mid-market accounts and SME customers.

In the Muni, National and mid-market we have specific rise and fall clauses that capture the labour element and the fleet operating costs. We also have a general CPI passthrough that largely covers the other elements of our operating costs. While the contracts are all different, generally these customers have at least annual price resets. It is typically on the anniversary of the contract for the municipal customer and on the 1 July for the national and mid-market customers. For our SME customers price adjustment can be more dynamic and as such, with these customers we seek to recover cost increases closer to the time they are incurred.

One of the largest contributors to rising operating costs has been on fuel. Since February we have seen a dramatic rise in fuel costs over and above the high average prices that we experienced in the first half. As a business, we do not benefit fully from the halving of the fuel excise rate implemented at the end of March due to the associated treatment of fuel tax credits. In simple terms we realise about 5 cents of the 22 cent per litre reduction.

And finally on fuel, at the higher crude prices today we have also seen less correlation between the diesel price and the base oil and fuel oil price, which negates any offsetting benefit we may have realised traditionally through our Hydrocarbons business.

## Targeting increased workforce participation

Moving to the next slide

With close to record low unemployment rates many businesses are seeking ways to increase workforce participation and reduce voluntary turnover.

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I see our historically low female participation rates as a huge opportunity for Cleanaway. We are starting to make some real headway into improving this metric, both at the leadership level and throughout our operations.

One of the initiatives we have recently developed is a female driver academy.

In simple terms, we are offering females with a drivers licence an opportunity to obtain a heavy vehicle licence and join our workforce.

We are using this to attract new participants to the industry and combined with improving flexibility in our rosters and job re-design we hope to attract and retain high quality team members.

By designing jobs with characteristics that are attractive to a more diverse cross section of the workforce, whether that be facilitating job sharing, split shifts or flexible rosters, we will be better positioned to navigate the tight labour market.

While this is not a panacea for the tight labour market I trust it provides an illustration of the innovative ways we are looking to tackle some of the challenges.

Similarly, we have also been looking at overseas recruitment to address the current shortage of diesel mechanics.

## NSW and QLD Flood Events

I would now like to touch on the impact of the floods on our business.

We are fortunate that these type events have a relatively limited impact on our overall business. That said, we still incurred damage to property and equipment and the loss of 41 trucks across NSW and Queensland. Ultimately these will largely be covered by insurance.

However, the floods have resulted in inefficiencies in our operations in the affected areas with disruption to services due to the flooding and availability of trucks and sites.

Whilst we have relocated vehicles from other regions to support the local operations and new fleet is on order, it will take time to get back to normal operations.

There is also the human element to the disaster, whereby many employees were personally impacted by the floods, including the loss of their homes and we have wrapped our arms around these employees and their families.

A more recent impact of the floods is our decision to close the New Chum landfill temporarily. While the landfill was already operating at reduced capacity, it did enable us to undertake resource recovery and C&D activity in the region as we had prioritised internalisation of our waste into the landfill.

The decision to close the landfill was a result of significant damage to the cell under construction and flooding of the active cell. We have ongoing workstreams that we need to complete before accepting further volumes. We have action plans in place; however we don't expect to take further volumes into New Chum

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for the balance of the financial year. Given it is early days, it is too soon to make an assessment on when (in FY23) we will start accepting volumes again, but we will provide Investors with an update in due course.

So, moving to the next slide.

## Operational performance update

Here we have called out an expected net impact to EBITDA of approximately \$15-20 million relative to our expectations back in February, with the consequential impact being that second half margins will be lower than the first half.

We grouped the impact into two key buckets – those that we will recover progressively over time, and those that are one-off or unplanned in nature that we could not have foreseen and are unlikely to recur on a regular basis.

If we start with the first bucket, the rapid and unexpected rise in fuel prices has impacted us and we think the net result will be around \$10 million higher costs.

Constraints on labour availability continues to place pressure on the business and is impacting our ability to service the customer and operate efficiently. We haven't called out a specific figure here since it is so hard to quantify the financial impact, but suffice to say the team is putting in an extraordinary effort balancing our labour pools to maintain our service levels while we look to fill job vacancies.

Per my earlier remarks, we have mechanisms to recover these rising costs, but there is a lag and we will catch up progressively over time.

The second bucket is one-off or unplanned events.

The 2<sup>nd</sup> half run rate impact of floods in QLD and NSW is expected to cost \$5-7 million in terms of reduced profitability from the loss of fleet and the temporary closure of New Chum. I've just covered that in a bit of detail, so I won't revisit it.

We also had an unexpected failure of a piece of post-collections equipment in our Victorian Health Services business known as a hammer mill. It does what it sounds like it does and is used to process clinical waste. This has led to us having to utilise significantly more expensive disposal solutions and we expect this to result in a \$5-7 million 2<sup>nd</sup> half adverse impact.

We are also continuing to have to manage the inefficiencies in the Health Services business, exacerbated by the hammer mill outage, due to the continuation of the high volumes of clinical waste related to the pandemic. We were expecting these volumes to have reduced faster than they have, and to see a return to more normal profitability in that business unit.

On the positive side we are still receiving strong volumes into the Sydney Resource Network, which are providing a temporary offset. With those higher volumes naturally comes higher consumption of airspace and the related amortisation.

Moving now to where we are going starting on slide 8.

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## Blueprint 2030

We introduced the Blueprint 2030 strategy to you back in February.

Today I will take the opportunity to peel back another layer of the onion, but I will start with a brief refresh of how we got here.

Firstly, why Blueprint? Blue represents Cleanaway, it represents sustainability and it represent the blue-sky ambition and mindset that we will bring to the strategy, while "print" acknowledges this as an extension of our Footprint 2025 strategy, which underpins this strategy evolution

In Blueprint 2030 we will create superior shareholder value by integrating and extending our leading network of infrastructure assets to provide high-circularity low-carbon solutions, seamless customer service and value for money for our customers.

## Strategy Evolution

Under our BluePrint 2030 strategy, we will create a competitive advantage and generate significant value by extending and integrating our assets and capabilities to address Australia's increasingly complex waste needs. Doing this in the most sustainable way possible, with an exceptional customer experience, and powered by the passion of our workforce.

Building upon the platform created by Footprint 2025, Blueprint 2030 will be supported by three strategic pillars namely, Strategic Infrastructure Growth, Sustainable Customer Solutions and Operational Excellence.

## Four C's – the right market conditions for Cleanaway

We are seeing tailwinds for our business under four headings – or the four C's. The four C's when coupled with a supportive regulatory environment and our existing footprint represent the industry drivers that create an exciting environment for Cleanaway's future growth

We know that Customers are demanding more. They no longer just want bins collected and sent to landfill. They want exceptional service; value for money; and increasingly across our commercial, industrial and municipal customers, they want us to help them to achieve their sustainability goals.

Communities – as well as regulators and other stakeholders - expect we do more to reduce environmental impact, including increased recovery and recycling of materials.

To incentivise this, landfill levies will continue to increase, which increases the value in the waste management chain.

Climate relates to the energy transition and economy wide decarbonisation efforts are creating new and emerging waste streams and hence a need for new solutions. There are also new technologies available to reduce the carbon footprint resulting from waste.

There are many lessons to be learned from the pandemic, but a clear one is the need to be self-sufficient, and this is now an emerging and observable trend. Circularity is about the increasing demand for recycled content both from manufacturers looking to be more sustainable and through societal demand.

So, with sustainability here to stay in the form of lower carbon and higher circularity driven by customers and communities, our landscape review showed a long and exciting runway of domestic opportunities in our core markets which we are well positioned to capture.

To capture these opportunities, we need the right capability. We are continuing to strengthen our foundations of safety and the environment, develop core processes and build that capability for future growth, aligned with the trajectory of our strategic initiatives.

## Customer – Our proposition

As I mentioned, customers are demanding more.

The Blueprint 2030 strategy is informed by our customer's feedback about what is important to them. Across our segments from SME, mid-market, muni and national accounts: service and value and sustainability together have been identified as important and Blueprint 2030 delivers against those in different ways.

Our service offering will be enabled by seamless systems and data. We will be able to offer improved online self-service options, and more targeted reporting, such as landfill diversion.

Our value offering will be driven by our Operational Excellence blueprints, which will contribute to how our customers experience value through our service. For less engaged customers there might be only a small change to the service we provide and for others it might be significantly different, but in all cases, we are striving to deliver value for money.

Our sustainability offering is derived from each of our strategic pillars and in particular strategic infrastructure growth blueprints like energy from waste, organics, C&D resource recovery – combined with innovation and a focus on climate and circularity will ensure we're delivering solutions consistent with our customers' sustainability objectives.

## Climate – Leadership in Carbon

With respect to climate and carbon there are two interrelated elements to this.

First, we need to build capability and maturity in internal carbon management and that involves

- Developing an emissions forecast based on a set of scenarios,
- Setting 2030 and 2050 targets
- Implementing a process to organize initiatives into a single marginal abatement cost curve
- Setting simple, annual metrics that motivate and prioritize initiative implementation, and
- Tracking performance.



Second, by successfully delivering the latter we will be better positioned to develop carbon solutions for our customers and make significant carbon related infrastructure investments.

Reducing our Scope 1 and 2 emissions can be passed on as reduced downstream Scope 3 emissions to customers.

Emissions transparency along supply chain, insights about certified products and carbon credits methodologies, and lessons learned from internal carbon management can be shared with our customers.

We know that sustainability pioneer customers, our municipal customers and our value hunter customers each have different carbon needs so we can deliver carbon solutions that are aligned to each aspirations – e.g., offering a suite of 1.5°C products to our most aspirational customers, which can lead to trust and customer loyalty.

Growth in carbon solutions for customers can underpin a demand for investments in the carbon space, which in turn can generate low-cost carbon credits and solutions for customers.

These investments can in turn be applied to lower Cleanaway's internal emissions.

## Communities – Consumer Behaviours

I said that communities expect we do more to reduce environmental impact, including increased recovery and recycling of materials.

We recently released our second Recycling Behaviours Report

The report tells us that community concern for the environment, minimisation of waste into landfill and doing the right thing are the three primary motivators for recycling, while clear product labelling, clear and consistent recycling information and a better understanding of how recycling is done would encourage more Australians to recycle.

Education remains a critical pillar when it comes to improving waste management. The choices we make as individuals will ultimately determine how successful we are at creating a circular economy.

Bin harmonisation and initiatives to improve source separation will simplify recycling decisions for the community and result in actual recycling behaviours that are more consistent with desired outcomes.

We look forward to further roll outs of new initiatives such as the container deposit schemes in Victoria and Tasmania and increased provision of Food Organics and Garden Organics bins across a broader range of councils to support this.

## Circularity – transition to greater resource recovery

We are increasingly prioritizing solutions that prevent material from going to landfill – either by avoiding that waste, recovering it for reuse in manufacturing or generating energy from the material. It is only through increased diversion that we can advance the circular economy.

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Transitioning from landfill provides a range of benefits for the environment and our customers. By recovering more material, we reduce Cleanaway's scope 1 and 2 emissions, which are our customer's scope three emissions.

With increased resource recovery we see Energy from Waste gaining traction as an alternative to landfills for residual waste. It is a safe and proven way to provide our customers with the highest landfill diversion and lowest carbon solutions. The priority remains to divert as many resources as possible for recycling and reuse, but for residual waste, like nappies and other unrecoverable material, the residual resource to be recovered is its embodied energy.

We see C&D recovery volumes as remaining broadly. It is a large segment that remains relatively fragmented outside a few key competitors. Our aspiration in the segment is to deliver high resource recovery and landfill diversion and maximise circular outcomes for our customers.

Organics is the fastest growing category with more councils moving to FOGO and source separated food collections. Structural changes in the sector create the need for new organics processing infrastructure, including in-vessel composting, anaerobic digestion and other innovative solutions. This infrastructure will provide ways to reduce emissions for our business and customers.

Notwithstanding this transition, landfills will remain critical and in the case of putrescible landfills scarce infrastructure. We will optimise the value of our airspace and selectively invest in new capacity, while continuing investments in on-site gas capture & processing to reduce emissions and generate renewable energy.

## Executing Blueprint 2030

I won't dwell on this slide too long other than to highlight that we are busy executing on Blueprints 2030.

Our strategy breaks down into 3 pillars and a suite of 14 detailed blueprints each with its own plans and milestones, its own leader supported by a small but capable program management office.

We have installed a value capture tracking methodology with a regular cadence to monitor, support and track the progress of the strategy implementation.

## Blueprint 2030 Strategy Update

I said back in February that we see the communication and delivery of the strategy as an ongoing dialogue with investors. As such, we have scheduled the first of a series of deep dives across our three strategic pillars for investors on Strategic Infrastructure Growth for 7 June. The webcast details are provided on the slide and further communications will be provided in the lead up to the event.

That concludes my presentation, thanks for your time this afternoon and I'm happy to take questions.



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