Agenda

Good morning, everybody and thank you for joining us on the call this morning to cover our first half FY23 financial performance.

Firstly, I would like to begin by acknowledging the traditional custodians of the many lands on which we meet today and pay my respects to elders past, present and emerging.

Joining me again on the call today is Paul Binfield our CFO and Richie Farrell, our Head of Investor Relations.

In terms of the agenda for the results presentation today, I will take you through our highlights for the period.

Paul will provide you with further details on the group financials and then I will then walk you through the performance of each of our operating segments.

This will be followed by a brief progress update on the execution of our Blueprint 2030 strategy.

I will finish the presentation with the outlook for the remainder of FY23.

Highlights

Let me start by saying that it is once again a privilege to report on behalf of the more than 7000 strong Cleanaway team our financial, operational and strategic performance and progress for the first half of fiscal 23.

In terms of the highlights for the half – on an underlying basis, revenue, EBITDA and EBIT were all up strongly. Paul will take you through each of the drivers in a bit more detail but briefly, each of the segments reported revenue growth reflecting new assets, organic growth and contractual price increases.

A full period contribution from SRN and an initial four-month contribution from GRL were partially offset by a significant drop in OCC prices. We also had the drag from New Chum being closed and some challenges in the Health Services business. Labour availability and efficiency were a further headwind.

Pleasingly we had EBIT growth across all segments versus the second half of FY22, which highlights the momentum that we are taking into the second half. We continue to recover cost increases through our contractual mechanisms with a rolling lag effect on margins until inflation tapers.

At an NPAT level our underlying performance was down 12.3% to $66.9 million largely due to higher net finance costs.

Net operating cash flow was 9% lower than the prior corresponding period reflecting the higher underlying EBITDA offset by New Chum rectification works, higher waste disposal costs related to the hammer mill loss higher interest paid and increased working capital.

The directors declared a 2.45 cent per share interim unfranked dividend in line with the prior corresponding period.

Operationally, we are continuing to embed safety and the environment as foundations in the business. We worked hard and focused our efforts on serving our customers using available labour, whilst building momentum in addressing job vacancies.

Pleasingly, our IWS team secured significant contracts with Santos and ExxonMobil and it continues to grow its pipeline of opportunities.

BluePrint 2030 is progressing well.

We continued to build-out growth platforms, and we are making steady progress on our Operational Excellence blueprints.

Our landfill gas capture program is delivering financial and environmental benefits and we continued to develop and roll out core processes.

We had very strong support for the equity raise in August and I thank our investors for their continued support.

We acquired the GRL organics facility and I'm happy to report that the business is performing in line with expectations.

We are also starting to deploy that capital across a number of projects including the new IWS contracts and the Western Sydney MRF, with further projects and contracts in the pipeline.

People and Environment

I would like to spend a moment talking about our people, culture and the environment.

Over the last 6 months we have embedded new HS&E capability and our team has rapidly developed a HS&E strategy and intensive improvement roadmap.

Our lagging safety indicators are not where we want them to be with our TRIFR at 31 December 2022 at 4.7 compared to 4.2 six months earlier. Our improved reporting now provides a richer data set for deeper learning, which in turn enables a less reactive approach and an ability to tune our strategies and processes and improve our controls.

We have also worked hard to mitigate the risks to HS&E performance from increased vacancies and turnover. We have focussed on bridging critical vacancies and prioritising hiring into those roles.

Our core process development is also progressing well with our first two pilots almost complete on Management of Change and Manage Contractors – these are two key safety-related core processes, which will be rolled out Cleanaway-wide over the next 6 months. These processes are important because they provide a consistent approach to manage these risks, assure the controls and deliver a platform for continuous improvement across Cleanaway.

With the proliferation of lithium-ion batteries and other non-compatible waste ending up in waste streams, fires are a key and increasing risk across the waste and recycling industry. To keep our people, the environment and assets safe we are progressively upgrading our facilities with rapid detection and response equipment. In the interim we have implemented controls including the provision of portable fire monitors at 36 higher risk sites and trained our teams in their deployment.

Like on HSE we have installed new capability to ensure we evolve our culture and grow our capability to deliver Blueprint 2030. Our people strategy is designed to embed the reinforcing mechanics that will support a Cleanaway culture where our 300 branches are at the centre of our company with capable leaders, local ownership, care, connection and a view well beyond today. At the same time, we are now focused on ensuring we build a strong talent pipeline with successors identified for all business-critical roles to support the growth embedded within Blueprint 2030.

Pleasingly our female participation at all levels of the company has steadily improved over the last 18 months ensuring that our teams and our leaders are representative of the communities we serve. I look forward to continuing this trend and also extending this focus to ensure that every single person in Cleanaway can be themselves and bring their best each day.

Before I pass over to Paul, I am saddened to report that earlier this month we had a tragic incident at one of our Sydney landfills. As a team we are struggling to reconcile safety as our foundation and this tragic incident. We are supporting the relevant authorities with their investigation and supporting our people that have been affected and working every day to keep each other safe. Our thoughts are with the family and friends of the deceased at this very difficult time.

I'll pass over to **Paul** now.

Financial Performance

Unless otherwise specified all the comparisons that I refer to are against the prior corresponding period.

Net Revenue of $1.47 billion was 19.6% higher, with higher revenue across all segments primarily driven by our recent acquisitions, contractual price increases and a general recovery in economic conditions partially offset by lower commodity related revenue, primarily cardboard or OCC.

Underlying EBITDA of $322.2 million was 17.7% higher reflecting the full period contribution from SRN and an initial contribution from GRL, together with a stronger contribution from most landfills. This was partially offset by lower OCC prices, the residual effect of the Queensland floods, higher labour, energy and fuel costs and the network inefficiencies in the Health Services business resulting from the loss of the hammer mill.

Underlying EBIT of $138.3 million was 6.5% higher with the higher EBITDA being partially offset by the increased amortisation from the full period contribution of SRN.

EBITDA and EBIT margin compressed by 40 and 120 basis points respectively reflecting the impact of lower OCC prices the previously flagged higher corporate costs and insurance.

On the next two slides we have bridged EBIT versus the prior corresponding period and EBIT versus the immediate prior half - the second half of FY22.

Financial Performance – H1FY23 v H1FY22

On this slide we are bridging first half performance 22 with first half 23. Here we can see the improved or initial contributions from most businesses being partially offset by the headwinds from the Queensland and Health Services business units and lower OCC prices.

Underlying EBIT increased 6.5% or $8.4 million to $138.3 million.

SRN delivered a full period contribution versus two weeks, while GRL made an initial four-month contribution. OCC prices were significantly lower in this half. New Chum was operating in the first half of last year so the direct impact of its closure together with lingering impacts to the QLD Network affected the performance in the half. The balance of the solid waste services business benefited from higher collections and landfill volumes and contractual price increases partially eroded by persistent inflation and labour availability and efficiency.

Back in August, we covered in detail network inefficiencies in the Health Services business resulting from the hammer mill loss and you can see that reflected in the bridge.

The remaining SBUs being LTS, Hydro and IWS, performed well in the context of ongoing inflationary pressures.

As previously disclosed, we added capability to stabilise the core and deliver our blueprints, which has added to corporate costs.

Financial Performance – H1FY23 v H2FY22

Moving to slide 8 where we are bridging from second half 22 to the first half 23.

This is a key slide because we can see for the most part the business performing well and building good momentum and as inflation and labour availability normalise we should start to see margins expand.

Half on half we can see a $11.1m or a 8.7% EBIT improvement.

The initial four-month GRL contribution is in line with expectations.

We can also see here the significant impact of the lower cardboard prices in the first half of this year. Prices troughed in November and we have seen a steady increase since.

Together with labour availability and inflationary pressures, the Queensland Network has been challenged by the temporary closure of New Chum and operating with a makeshift fleet because of the floods last year.

The solid waste services segment has benefited from contractual price increases, a growing customer base and favourable landfill volumes across most sites.

The Health Services business unit still has some significant challenges, but we are starting to see it recover as COVID related volumes ease. Network inefficiencies will remain whilst we bed in the new autoclaves in this half.

The LTS, Hydro and IWS businesses showed continued progress as market conditions improved.

So, you can see that we enter the second half of this year with good momentum.

I'll now unpack the key performance headwinds to give you a deeper understanding of the issues and how we are addressing them.

I'll start with commodities on slide 9.

Commodities – Old Corrugated Containers

We aim to mitigate risk associated with commodity price through rebates paid to customers that are tied to indices.

Most of our commodity volume comprises cardboard or OCC with only approximately 100ktpa or around 25% of the total cardboard volume not linked to a rebate mechanism. For that volume we typically sell it into the market at the prevailing market price.

Due to the timing difference between when we sell commodities and when we set the rebate rate for the customer, typically with a quarterly lag, the margin can expand and contract in discrete periods if the index moves dramatically between quarters. However, through the cycle, the rebate mechanism does a good job of mitigating price risk.

In the first half, high European energy prices contributed to a more than 40% decline in the Asian OCC index due to European volumes being diverted to Asia for processing. This gave rise to significant price decline in the first half.

However, we expect some margin recovery in the second half from higher pricing plus a lower rebate.

Labour Availability

During the period we incurred more overtime and more expensive labour hire to supplement our general workforce leading to higher costs and hence lower margins.

Back in August we talked to you about an elevated level of vacancies Since then, we have been making good progress filling these roles. Regrettably the higher vacancy levels and associated sub-optimal operating environment also make employee retention more challenging.

We have implemented several near-term and short-term strategies to address the challenges. These include having supervisors backfilling labour gaps, the commencement of the Recruitment Process Outsourcing (RPO) program, the continued success of the Women's driver academy through which we have already recruited and trained 92 new women drivers.

We are also in the process of establishing a runner to driver academy and establishing branch-level labour value drivers to track and improve daily performance, particularly as vacancy rates decline.

More broadly our culture and values reimagination is underway.

We see a substantial opportunity whereby improving employee retention will reduce vacancies, lowers recruitment effort and costs and improves engagement and productivity. By tackling this issue, we can deliver significant operational and financial improvements.

Queensland Solids and Health Services

As you are aware, both business units endured ongoing challenges from FY22 –. However, we have performance restoration plans in place and we are making good progress.

We undertook substantial rectification works at New Chum in preparation for the current wet season. That cell will act as a stormwater retention basin during this time. We will continue the necessary rectification works with the potential reopening subject to an ongoing process with the Queensland Department of Environment and Science. Separately we are awaiting a decision in relation to the height rise approval.

The fleet replacement program for the approximately 40 trucks that we lost is almost complete. This should resolve some of the availability and repair and maintenance challenges associated with operating a makeshift fleet.

The loss of internalisation resulting from the New Chum closure meant operating a changed business model, and this together with the fleet challenges led to network inefficiency.

There is focused work underway to stabilise the business unit with additional resources in place. We have also made significant leadership changes, including appointing a new GM to set the business up for ongoing success.

In the Health Services business, we have continued to experience network and labour efficiency challenges from the hammer mill loss, and we are continuing to incur around a net $3 million per month in incremental alternative treatment and disposal cost. As we've previously flagged, we have taken these costs below the line and will continue to do so until the autoclaves come online in Q4 FY23.

With COVID volumes reducing we can see a clearer pathway forward for the business unit and in particular an ability to tackle the cost inefficiencies and return to better servicing our higher margin customers, and ultimately returning the business to profitability.

Cash Flow

Excluding the impact of cash flows associated with underlying adjustments, net operating cash flow would have been $257.9 million, up $22.7 million from prior period. The cash conversion ratio of 92.4% remains strong with the decrease a reflection of the higher debtors associated with significantly higher revenue in this half.

Directors declared an interim dividend of 2.45 cents per share. and Cleanaway's participation in the Commonwealth Government's Instant Asset Write-Off Scheme will impact the Company's ability to frank dividends in FY23 and FY24.

Capital Expenditure

We continue to take a disciplined approach to making our investment decisions. The split between stay-in-business and growth capex helps us to make more focused allocations of capital.

Total growth capex includes several key initiatives which form part of the delivery of BluePrint 2030 and include capital related to the two Victorian plastic pelletising facilities, our Energy-from-Waste developments in Queensland and Victoria, delivering the CustomerConnect project and construction of the Western Sydney materials recovery facility.

The step up in cell development capex is consistent with our prior indications as a confluence of factors has resulted in a requirement to develop further airspace at most of our landfills.

We expect that FY23 D&A will be approximately $370 million including the GRL acquisition. The primary driver of the increase in D&A relates to the full year contribution from SRN, with the majority relating to the amortisation of airspace valued as part of the acquisition accounting.

Balance Sheet and Liquidity

Moving now to slide 14 and the key point here is that the balance sheet is strong and well positioned for growth. At period end, the Group had $555 million of headroom under committed debt facilities and our leverage ratio was 1.94 times net debt to EBITDA, in part reflecting the equity raising in August.

The Group remains comfortably within its banking covenant limits and our next refinancing is not due until July 2024.

From a finance cost perspective, we are impacted by higher interest rates due to the floating rate component of our debt. First half total net finance costs increased $22.5 million to $45.4 million and with further interest rate rises expected we now expect FY23 total net finance costs to be approximately $95 million, which includes about $28 million in non-cash finance costs.

The step up in non-cash finance costs is due to unwinding of a higher remediation provision at a higher interest rates.

I will now pass you back to Mark for the review of the segments.

Segment Review

Solid Waste Services

Solid Waste Services net revenue increased 24.4% or $203.6 million to $1,038 million. Underlying EBITDA increased 28.1% or $58.8 million to $267.9 million, and underlying EBIT increased 16.4% or $17.5 million to $124.5 million.

The key positive drivers as previously discussed were SRN, GRL, organic growth and contractual price increases. This was partially offset by lower OCC prices, higher labour costs and continued upward pressure on fuel prices together with the challenges in the Queensland business that Paul discussed.

Labour costs were higher due to greater use of overtime and sub-contractors resulting from the tight labour market, absenteeism and elevated job vacancies.

We commenced ground works on the Western Sydney MRF with the facility expected to be

Global Renewables

We completed the acquisition of GRL for $167.0 million on 31 August 2022 and it was immediately accretive to earnings.

GRL operates a facility that processes approximately 220kt p.a of Sydney's 'red bin' putrescible waste. The asset is strategically located and is currently delivering a high-circularity, low-carbon solution that diverts more than 30% of the tonnes that it processes from landfill.

GRL contributed $6.8 million EBIT during the initial four-month period of ownership.

During the period, the operational team undertook Food Organics and Garden Organics, or FOGO, 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 FOGO opportunity.

Liquid Waste & Health Services

Liquid Waste & Health Services revenue increased 10.1% to $306.1 million, underlying EBITDA decreased 9.6% to $48.3 million and underlying EBIT decreased 15.6% to $26.6 million.

Underlying EBITDA and EBIT margins decreased 340 and 260 basis points respectively to 15.8% and 8.7% compared to the prior corresponding period. Importantly, they improved by 10 and 80 basis points respectively compared with the immediate prior half.

The Liquids and Technical Services (LTS) business realised strong revenue growth with positive momentum across the business particularly in Victoria and Queensland. Price increases were implemented to reflect increasing input costs. The return of cruise lines and hospitality has resulted in growth across oily water and grease trap volumes.

Higher costs due to poor labour availability and higher equipment repair and maintenance costs together with less infrastructure related project work resulted in slightly lower EBITDA.

From an underlying EBITDA perspective, the Hydrocarbons business performed broadly in line with the prior corresponding period. Strong revenue growth resulted from higher post collections volumes and prices, and growth in equipment servicing. This was offset by higher natural gas and diesel input costs and higher freight and labour costs.

As expected, the Health Services business revenue was lower than the prior corresponding period due to lower COVID-related clinical waste from hotel quarantine, hospital and vaccination clinics and aged care centres. This was partially offset by higher revenue from biosecurity and cruise ships as the travel sector rebounded.

Network inefficiencies resulting from the loss of the hammer mill waste processing facility in Victoria due to a fire in June 2022, together with higher gas, labour and diesel costs resulted in significantly lower EBITDA.

We recently received draft EPA approval for our Victorian autoclaves, a replacement solution for the hammermill, and they are expected to be operational by Q4.

By the end of the period there was a significant reduction in the volume of COVID related waste, which will reduce the impact on the network and allow for improved operational efficiency.

Industrial & Waste Services

Industrial & Waste Services increased revenue, underlying EBITDA and underlying EBIT by 11.8%, 7.6% and 17.0% respectively.
Revenue was $182.6 million with strong performances across all regions driven by increased activity with existing customers and new contract wins.

EBITDA of $25.4 million reflected strong contract management, increased activity at existing sites, new contracts and negotiated price increases to somewhat offset cost pressures. Persistent cost inflation compressed EBITDA margins.

Compared with H1FY22 underlying EBIT increased by $1.8 million to $12.4 million and underlying EBIT margin expanded 20 basis points to 6.7% reflecting broadly steady depreciation and amortisation expenses.

The IWS segment continued to deliver a strong customer re-sign and win rate. Our strategy to increase presence in the Oil & Gas sector is proving to be successful with significant contracts with Santos and ExxonMobil secured during the period.

We also extended a contract with BHP at Olympic Dam and successfully tendered for a Snowy 2.0 contract with a further opportunity to extend the contract in the future.

Divider

Moving on to Blueprint 2030 progress.

We are conscious that it's a busy reporting day, so I am only going to briefly comment on the next few slides given some of the content was covered in our strategy sessions last year, so I'll refer you back to those comments for further detail.

I'm sure you'll agree that we have made significant progress over the last 12 months on multiple strategic fronts.

We have refreshed our strategy and developed detailed plans for each blueprint. We have installed new capability to deliver blueprints and embedded strategy execution operating reviews into our existing performance cadence.

We have been laying the foundations and improving the business under each of our strategic pillars.

Sustainable Customer Solutions

On this slide we present our concept of Circularity.

We have taken the well-known concept of waste hierarchy and re-imagined it to become the Cleanaway circularity hierarchy. This recognises that different recycling solutions can have different circularity and carbon outcomes.

When looking at Circularity we set ourselves three tasks:

- Firstly, we need to be able to give meaning to 'high-circularity' in the context of offering solutions to our customers;

- Secondly, we need to develop a *simple approach* that can be used to assess our business, customer solutions and investment opportunities against an expanded waste hierarchy, which recognises degrees of circularity, and
- Finally, we need to reflect the desirability of supporting domestic, then international, circular economies over downcycling.

Strategic Infrastructure Growth

Next to Strategic Infrastructure Growth where we are developing platform businesses for the future.

Our Energy-from-Waste developments are progressing well. In Victoria we have commenced the planning approval process and in this half we plan to apply for both our Planning Permit (Minister issued) and Development Licence (EPA issued).

In Queensland, we acquired a site in Bromelton at the end of 2022. The site has a good corridor to the Brisbane and Gold Coast markets, while being in an area dedicated to industrial developments.

From a construction and demolition business perspective we remain confident of being able to carve out a value proposition that is appealing to customers.

From an Organics perspective we have been leveraging the GRL platform. It allows us to give partners and customers in other regions direct exposure to an operating asset, thereby creating momentum and instilling them with confidence in the technology.

Landfill optimisation is a key blueprint with several initiatives underway including landfill gas capture, which was real success story over the period, where we delivered 15% capture efficiency improvement.

Strategic Infrastructure Growth

Moving to slide 23, which really showcases what circularity means to us and how we have strategically partnered to deliver best in class and innovative solutions while effectively managing risk.

Through our joint venture with Pact, Asahi and Coca-Cola we are delivering a second leading domestic bottle-to-bottle PET plastic solution in Melbourne. In a separate joint venture with Pact on HDPE (think milk bottles) and PP plastic (think ice-cream containers) will deliver a similar solution for those polymers. Together these projects will mechanically recycle 76,000 tonnes of plastic each year.

From a soft plastics perspective, our cross-value chain partnership with Qenos brings together the unique capabilities of Australia’s only domestic manufacturer of polyethylene plastics and Australia’s leading collections and recycling business. Cleanaway will look to partner with councils and commercial customers to collect the plastics and invest in new infrastructure to process these materials into a form that is suitable for advanced processing.

Qenos and Cleanaway propose to jointly invest in the advanced recycling technology that will convert the plastic into feedstock and produce new plastic via pyrolysis. To fully close the loop within Australia, Qenos would also invest in further upgrades to its existing plants to convert this recycled feedstock into a fully circular polyethylene that can be used to remanufacture the very same packaging. This technology is already operating at commercial scale overseas.

Operational Excellence

In our November deep dive on Operational Excellence, we told you that it was going to drive margin improvement and that we expected more than $30 million incremental EBIT to come from it by FY25/26. We are continuing to make good progress on these blueprints in pursuit of that goal, with recent progress milestones outlined in this slide.

Outlook

Consistent with our prior expectations, FY23 underlying EBITDA including GRL is expected to be approximately $670 million.

To get there, compared with the first half, the second half assumes similar post collections volumes, a partial recovery in OCC margin - both through recovering the rebate-lag and price recovery.

We expect a general margin improvement through contractual prices increases, that the Victorian autoclaves are successfully commissioned in Q4, and expect further improvement in labour availability and efficiency.

We also assume no material change to prevailing market and economic conditions.

We expect depreciation and amortisation to be approximately $370 million, which should result in EBIT of approximately $300 million.

In terms of near-term operational priorities our focus will be on executing our HSE strategy and improvement roadmap, managing labour in terms of vacancies, retention and efficiency and executing our performance restoration plans in the Queensland and Health Services businesses.

We will also be focused on recovering margin through contractual price increases that reflect the increasing costs that we have been absorbing.

And we continue to focus on near term margin expansion opportunities available through landfill optimisation and data & analytics tools.