FY24 HALF-YEAR RESULTS

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Speaker notes to accompany briefing

Good morning and thank you for joining us for Cleanaway's financial results briefing for the first half of the FY24 financial year.

My name is Mark Schubert, CEO and Managing Director of Cleanaway. I am joined by Paul Binfield, Cleanaway's CFO, and Josie Ashton, our new Head of Investor Relations.

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.

I will start with an overview of the financials and the progress we've made strengthening our foundations.

Paul will then go through the financials in detail before handing back to me to walk you through the performance of our operating segments. I will then provide an update on our strategy and our priorities for the rest of FY24, before opening up for questions.

Taking the disclaimer as read, please turn to slide 4.

Slide 4 – Highlights

On behalf of the entire Cleanaway team, I am proud to report that we delivered a strong set of financials for the 6 months ended December 2023. We improved operating discipline and made we significant strategic progress towards delivering Blueprint 2030.

Across the group we saw new business wins and growth from existing customers supported by operational discipline. This was complemented with the recovery in our QLD Solids business and the emerging recovery in Health Services.

We delivered a 160 basis point increase in EBIT margin as the benefit of our branch-led productivity and efficiency initiatives improved performance.

During the half we launched our VIC CDS operations, mobilised the IWS Santos contract and accelerated our plan to transition the GRL FOGO plant (now renamed Eastern Creek Organics) in order to meet our customer's needs.

Our landfill gas capture and monetisation program is reducing our emissions, and our methane reduction is tracking 15% ahead of the planned FY24 target emissions trajectory.

Our operating and strategic momentum continues to build. And, we are on track to deliver our FY24 EBIT guidance of approximately $350 million as well as deliver our mid-term financial ambition and scorecard, which Paul and I will talk you through today.

Slide 5 - Financial Highlights

Turning to our financials on slide 5.

All of our key financial measures showed pleasing growth vs the prior corresponding period reflecting the improving performance of our underlying business, driven by our strategy and actions taken to resolve recent headwinds.

Continuing on from the strong EBIT growth of last half, underlying EBIT was $173.9m, up 25.7% on pcp as a result of growth in our NSW/ACT Solids, CDS, Liquids, and IWS businesses and the recovery in commodity prices, particularly the OCC price. Our operational excellence initiatives and our recovery plans are working as evidenced with the turnaround in QLD Solids and our Health Services business returning to profitability.

Particularly pleasing was the expansion of our EBIT margin by 160 basis points, and the 90-basis point increase in our Return on Invested Capital. The increase in these measures highlights the benefit of our efforts to systematically empower, enable and equip our frontline team, to make thousands of great decisions every single day, and in doing so drive and deliver broad based improvement.

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

Slide 6 - Foundations: Safety and Environment

Two years ago, we made safety and the environment foundations rather than priorities for the simple reason that we never wanted our frontline teams to have to choose, because the foundations always come first.

As discussed at the Strategy Day at Perry Road in June last year, we are committed to the execution of our five-year HSE Strategy and plan to drive progressive and sustainable change in this area. Our goal remains ensuring all Cleanaway team members keep each other safe, and even though our TRIFR for the period of 4.0 showed some improvement compared to the same time last year we continue to focus on implementing our improvement roadmap.

We started our critical risk program in August 2023, to redefine high-consequence risks including personal safety, process safety, psychosocial risks, and the environment. In October 2023, we implemented a new HSE Culture Framework to further embed expected behaviours. We developed a five module HSE Leadership Program for all leaders called Stronger Together. To manage the increasing fire risk, we are progressively upgrading our facilities with rapid detection and response equipment and invested $6.3m in the half installing 78 fire monitors at 40 higher-risk sites.

As you can see on the chart in the bottom right corner, we have seeing an improvement in the number of environmental notices issued – although it's worth noting, we do self-report, as was the case with 5 of the 14 notices for the period. We are working hard to improve our environmental controls and compliance – and this is translating into improving and stronger working relationships with local communities as well as regulators.

Slide 7 - Foundations: People

Moving to slide 7, and an update on our People foundation.

During the half, we saw the benefit of a stabilised workforce translating into initial financial benefits. The strategies we have discussed with you to reduce vacancies and turnover are working. Replacement vacancies levels have returned to slightly above historical levels of 300-400 roles and voluntary turnover has reduced significantly. Voluntary turnover for the seven months ended 31 January 2024, was 17.6% which is in line with our plan for the year.

That said we are now focusing on reducing our first-year voluntary turnover rate which remains high. So, in addition to having 'stay conversations', improving our onboarding processes, and we will increase our support to those relatively new to their role to help them grow in proficiency and confidence.

We have reached our target of at least 40% female leaders reporting to me (CEO+1), and we are getting close to our 40% target for female leaders reporting to the executives that report to me (CEO+2). However, we are behind target for female participation across the Group. In addition to the successful Women's Driver Academy, we are also looking at how we can make our shifts more flexible.

In a step we see as supporting both increased female participation as well as our cultural refresh, we rolled out our Respect@Cleanaway program to all Cleanaway employees and this will provide a foundation for the 'safe, inclusive, high-performing culture' we are building. With that in place, excitingly we will launch our new values during the 2nd half of FY24 where our focus will be on the self-reinforcing mechanics that will bring them to life every day.

For example, as part of our new values we want our teams to pursue opportunities, to improve and to deliver outstanding results with real ownership. To reinforce this ownership much deeper in the organisation we are introducing a leadership incentive plan for approximately 650 leaders who don't currently receive LTI's and will align them with the delivery of the stretch LTI achievement of $500m EBIT in FY26.

I will now hand over to Paul for a deep dive into the financials.

Slide 8 - [Divider Slide: Financial Performance]

Slide 9 - Financial Performance Summary

Turning to slide 9 where I will unpack the P&L from a group perspective. Unless otherwise specified all the comparisons that I refer to are against the prior corresponding period.

As Mark has outlined, this is a really pleasing result driven by strong underlying performance across all segments of the business, there is clear evidence of strategy delivering and the headwinds from prior periods resolving.

Net Revenue of almost $1.6 billion was 7.9% higher, with higher revenue across all segments primarily driven by contractual price increases and underlying organic growth.

Underlying EBIT of almost $174 million was 25.7% or $35.6 million higher. EBIT margin was 11.0%, up 160 basis points. This reflected organic growth across most of the business and the realisation of branch-led productivity and efficiency initiatives across the Group, including initial, modest gains, from the stabilisation of labour. Furthermore, we have benefitted from the restoration of earnings in the QLD solids business and a strong performance from both NSW/ACT solids and the Liquids businesses. With the market for cardboard (known as OCC) stabilising we also benefitted from a recovery in the contribution from commodities.

Depreciation and amortisation expense, D&A, is $1.3 million lower, driven by the landfull amortisation expense being $5.9million lower. The landfill airspace asset is amortised based on a fixed $ amount per cubic metre, hence fewer cubic metres consumed in a period due to lower volumes and improved compaction results in a lower amortisation expense. Mark will discuss this in greater detail under the Solids segment.

Underlying net finance costs increased by $11.5 million or 25.3% to $56.9 million largely attributable to higher interest rates, and in line with prior guidance. Despite the higher net finance expense underlying NPAT for the period of $82.7 million was almost 24% higher.

Underlying EPS was 23.3% higher at 3.7 cents and Return on Invested Capital increased by 90 basis points to 5.3%.

The Group remains comfortably within its banking covenants and had a leverage ratio of 1.98x at 31 December.

Moving on to slide 10 and net operating cash flow.

Slide 10 - Net Operating Cash Flow

Pleasingly, net operating cash flow was $229.6 million, up $26.2 million from prior corresponding period. The cash conversion ratio of 88.2% remains solid.

The cash outflows associated with underlying adjustments relate largely to payments made for the New Chum rectification which was fully provided for last year and also Customer Connect project costs related to customisation and configuration of cloud-based software and therefore these costs cannot be capitalised.

Directors declared an interim unfranked dividend of 2.45 cents per share. Dividend franking will recommence with the final dividend payable in October, as the Group resumes tax payments in the first half of FY25.

Moving on to capex and capital allocation.

Slide 11 - Capital Expenditure

Our first half capex is just over $230 million, and we remain on track for FY24 capex to be in the range of $430 million to $450 million.

The split of capex for the period is broadly in line with the guidance that we have provided, with maintenance capex run rate being approximately 75% of D&A and our target of growth capex for the year of approximately $150 million.

Whilst the focus of HS&E capital is maintaining regulatory and environmental compliance, in the first half we spent capital on landfill gas infrastructure and fire suppression projects both of which generate a financial return; landfill gas infrastructure in the form of improved gas capture and the generation of ACCU's or carbon credits which can be monetised, and fire suppression equipment in the form of less disruption caused by major fires and ultimately lower insurance premiums.

Since the start of our Blueprint 2030 landfill gas program in July 22, we have drilled and reconnected approximately 500 wells and our monthly capture rate has increased by 66%. As Mark has mentioned, our methane reduction is currently tracking 15% ahead of out FY24 target trajectory.

Stay-in-business capital is that capital required to maintain existing revenue streams, for example new trucks required on the roll-over or renewal of existing customer contracts. The incremental return on this capital is typically modest. Whilst there is often no incremental revenue, a new truck will be more efficient, cheaper to run and more reliable and we benefit from improved customer service. The investment in our fleet is significant and we are in the early stages of further developing strategies to optimise returns from this important asset.

An important stay-in-business project that we have undertaken this half was the insourcing of the landfill operations at Kemps Creek; replacing an external contractor with our own team and our own yellow gear. The financial driver behind this decision was the improvement in compaction at the site and hence optimising the use of the precious airspace. As you can start to see in the amortisation expense, that efficiency benefit is being delivered.

Turning now to growth capex. We continue to take a disciplined approach to making our investment decisions and seek ways to identify how we can improve our capital allocation process with the aim of optimising returns. Our investments are diversified across a large number of projects, removing any significant concentrated project delivery risk, and in the last half we:

- Lifted the hurdle rate used to assess capital projects to reflect the higher interest rate environment and reflective of the fact that we have more opportunities than capital
- Prioritised capital light solutions to meet our customers' needs
- We have strengthened the resourcing in our project delivery team to support the increase in the number of organic growth projects
- We are increasing the cadence of our post investment review process to strengthen our learning culture

During the period we have deployed almost $84m of growth capital into the business. This is a key source of earnings growth and one of the building blocks in meeting our mid-term financial ambition.

On this slide we have detailed for you the major growth capital projects for the year that form part of the delivery of Blueprint 2030. So talking to a selection of these:

- The roll-out Victorian CDS network has been completed and went into operation on 1 November
- The IWS-led Santos total waste management contract has been mobilised
- Both of these projects will deliver modest earnings in the current year with a full run rate next year
- Our CustomerConnect project is also progressing well and is on budget and timetable. The first element of Release 1 is going live this weekend. As we have previously explained, there is both a capex and opex element to the overall $100 million project cost, the opex component we have taken as an underlying adjustment given the scale and transformational nature of this project
- Our Western Sydney MRF is a major project and is progressing well. It is due to start the commissioning phase this time next year

There will be no material contribution from these projects until FY26

- As previously discussed, we are progressing three Energy-from-Waste projects in a capital light manner to create optionality. The primary focus of the current investment is on design and approvals for the projects.

So, passing back to Mark to take you through the segment results.

Slide 12 - [Divider Slide: Segment Review]

Thanks Paul.

Slide 13 - Solid Waste Services

Solid Waste Segment net revenue was up 5.2% on the pcp, with EBIT up 27.7%.

Looking at our Solids EBIT drivers, growth was driven by NSW/ACT Solids and the turnaround in QLD Solids – which is tracking ahead of plan and growth in our CDS business. Price discipline was supported with cost discipline. The contribution from commodities is up when compared to this time last year, as prices recovered and the OCC market stabilised. Landfill EBIT was higher than the pcp, despite lower volumes and I will talk to landfills more detail on the next slide.

Pleasingly, we saw the initial benefits of fewer job vacancies and improving voluntary turnover emerging in the form of improving efficiency metrics and customer service stats. However, we acknowledge we still have work to do here, and I will talk more about this shortly.

EBIT growth for the period was tempered due to higher repair and maintenance costs driven by mechanic shortages and increased use of more expensive third-party mechanics and reduced activity in the construction industry impacting C&D collection volumes.

I do want to talk a little more about the NSW/ACT Solids performance. This is a great example of the combination of the strength in our underlying vertically integrated business - where we saw growth in Transfer Station, Collections and Organics volumes – and the benefit of our branch-led operational excellence initiatives, which at the same time delivered increases in labour and network productivity.

Our CDS business had a great half. In the existing business, outside the COVID period, December 23 and January 24 have been record months for the NSW CDS scheme, and QLD volumes are benefiting from the program expanding into wine and spirit bottles. We also successfully launched our VIC CDS operations. Commencing on 1 November 2023, it's pleasing to report that we are already seeing VIC volumes tracking in line with expectations.

In relation to our FOGO Blueprint, our customers are asking for this service to be available as soon as possible as they seek to meet the demands of their ratepayers and State

Government legislation requirements. In response to their increasing demand, we have accelerated the transition of our Eastern Creek Organics site (which is the new name for our GRL acquisition) to get this capability in place during FY25.

Turning now to spend some time on our QLD recovery and our Landfill performance on slide 14.

Slide 14 - Solid Waste Services (con't)

The QLD Solids team have done a great job turning this business around following the weather driven challenges of 2022. As mentioned, the restoration of the QLD Solids business has come through earlier than expected, and the business which is now set up to operate without the New Chum landfill.

The new QLD Solids management team were amongst the first to roll out Visual Management Boards to their branches – which have proven a great success, and of course are now used across the Group. The VMB's were instrumental in supporting the effectiveness of the branch-led data driven operational efficiency initiatives which have driven increased productivity, particularly in relation to labour, lower operating costs and increased customer service - as evidenced by their Service-In-Full-On-Time measure increasing to 99.3% up from 97.6% in the previous half.

Moving on to a few insights on our landfill result.

At a Group level, while landfill volumes were down on pcp, EBIT was up, as the respective management teams focused on balancing price and volume to optimise returns as well as delivering efficiency initiatives. Lower volumes but a higher EBIT contribution from landfills is indicative of a more efficient use of our precious airspace through improved compaction and efficiency measures. This leads to a lower depreciation and amortisation expense and ultimately to lower capex on cell development in the future.

Continued competition, particularly in VIC at MRL, was met through a combination of site-specific strategies to optimise each sites' performance and returns for the period and overtime. These included pricing discipline, mix shift to higher margin waste codes, and improved efficiency measures around compaction, and customer turnaround times.

Moving on to our Liquid Waste & Health Services segment on slide 15.

Slide 15 - Liquid Waste & Health Services

Liquid Waste & Health Services revenue increased 13.8% to $348.2 million while underlying EBIT increased 8.6% to $28.9 million. Underlying EBIT margin was 8.3%, down 40 bps from 8.7% on the pcp, but up from 7.3% from H2 FY23. This margin variation reflects the performance of the Health Services business that did not return to profitability until Q2 FY24.

The Liquid and Technical Services (LTS) business revenue grew 18% on pcp. The business benefitted from a number of high value projects secured during the period including the ongoing delivery of its large-scale nickel site rehabilitation project for BHP and continued work with government agencies including recycling of expired hand sanitizer.

On 21 August 2023, LTS completed the acquisition of Australian Eco Oils (which trades under the Scanline brand) and which is delivering in line with its business case.

LTS continues to build on its market-leading capabilities and growing reputation of being able to treat, reuse and dispose of complex, hard to treat waste streams. During the half, LTS re-signed two key state-wide, household recycling community contracts and was awarded stewardship of the national paint recycling program, Paintback for the next four years.

Health Services returned to profitability in Q2 and is on track to deliver its targeted annualised run-rate of $15 million EBIT in Q4 of this financial year. The commissioning of our two new autoclaves at the end of FY23 was an important milestone in the turnaround story but only a part of it. The Health Services business has implemented a broad range of initiatives covering sales, pricing, customer service, route efficiency and production efficiency in all States, and it is their impact, combined with the new autoclaves that we expect to return this business to its pre-COVID profitability levels in the next financial year.

Hydrocarbons revenue was up 5% on pcp while EBIT was marginally down. This was a good performance given the lower average oil price in the period. This was achieved by deliberately focusing on selling higher margin, higher quality base oil to domestic customers that offset the impact of the lower average oil price. Growth in Cleanaway Equipment Services revenue was driven by new customers and price increases. During the half, we continued to investigate options to further leverage the circular nature of this business.

Moving on to our third operating segment, Industrial & Waste Services.

Slide 16 - Industrial & Waste Services

IWS revenue increased 15.3% to $210.5 million and Underlying EBIT increased to $15.6 million, driven by increased activity with recently acquired customers. Cost escalation clauses and rate card increases offset rising input costs, and a Project Management Office was established to optimise project delivery and returns.

This business has gone from strength to strength over the past two years and delivered on its strategy to increase the portion of its services to Tier 1 Oil & Gas and Resources companies. During the half, it mobilised the national Santos contract and continued to have an impressive re-sign rate for existing customers and win rate with new ones. As they have grown and been focused on larger, higher-margin, higher value tenders and renewals, they have been managing their customer tail for the benefit of returns.

Slide 17 – Divider

Moving on to the strategy progress and outlook and turning to slide 18.

Slide 18 – Blueprint 2030 growth strategy

You have seen our strategic value creation staircase before which shows how our strategic pillars come together to create value for shareholders.

We start with our existing footprint of prized infrastructure assets which are naturally exposed to GDP + growth.

We then apply our operational excellence initiatives like VMB’s, value drivers, data and analytics and cultural improvements which are aimed at margin expansion.

We then add accretive infrastructure growth with recent examples being Eastern Creek Organics, Western Sydney MRF , Vic CDS or new contract win related infrastructure.

And then we integrate it together for customers presenting our services and infrastructure in a high circularity low carbon way with great customer service. This will in part be enabled by the investments we are making through Customer Connect.

We believe that done well, this will be increasingly hard to replicate at scale and therefore over time, as customers seek high circularity and low carbon solutions our market share will grow.

To bring this to life even further, our FY26 EBIT growth ambition and improvement in ROIC comes from the same three sources. Versus a baseline of FY23 EBIT of $302.2m, approximately $50m will come from restoring performance of QLD Solids, Health and Labour, at least $50m from operational excellence improvements and approximately $50m from the incremental returns from growth projects between FY24 and FY26. And it's the operational excellence bucket where we see more opportunity and where we are aiming internally to deliver more than $50m EBIT.

Turning now to our progress.

Slide 19 – Operational excellence: restoration of performance

On this slide, we’ve summarised the three key restoration areas, which also form part of our FY26 financial ambition and scorecard.

We’ve walked through the turnaround in QLD Solids and how its tracking ahead of expectations and updated you on the Health Services restoration – which is tracking inline with expectations and forecast to deliver an annualised run rate of $15m EBIT in Q4 of this financial year.

Where we are tracking behind plan, is in relation to Labour.

Like I said earlier, we have reduced our vacancy levels and are seeing reduced overall turnover levels. We have also made good progress on closing out our backlog of enterprise agreements.

However, we are still seeing higher first year voluntary turnover and, not surprisingly, in some areas lower productivity from less experienced team members. Given this comes after a period of rapid recruitment, we are increasing our support to those relatively new to their role to help them grow in proficiency; we are improving onboarding as well as conducting targeted stay conversations, and site culture reviews.

So, whilst we are seeing productivity improvement in the first half coming thru in the results and thru our value drivers on visual management boards at site level, the level of historical turnover of our workforce means this is lagging behind where we would like it to be. The strength of our VMBs however means that our leaders can target the improvement activity and support where it is most needed.

Moving on to operational excellence initiatives.

Slide 20 – Operational excellence: operational efficiency

The development and deployment of our Data and Analytics tools are an important part of enabling our frontline leaders to manage and improve their operational performance in real time.

I won't spend too much time on this slide as we dived into the detail of this Blueprint initiative at our Perry Road Strategy Day in June last year, but as those of you who were there might recall, these tools are all about the actions they enable in our frontline.

Listed on the slide are a sample of those tools that we are using in our branches today.

Whether it's helping drive a conversation to manage customer profitability, or supporting the management of overtime at any one our 330 plus branches, providing leads to the sales team or managing our owner-drivers better – these four tools are indicative of how we are using data and analytics to improve our margins by equipping leaders at all levels with easy access to the real time value drivers key for their business.

Turning now to slide 21.

Slide 21 – Delivering low carbon, high circularity solutions

Our mission is making a sustainable future possible together. And when we talk to our customers about sustainability it boils down to circularity and carbon. What we have on this slide is five examples of how we are bringing high circularity and low carbon to life.

On landfill gas we have been focussed on increasing landfill gas capture by drilling new wells and installing increased flare capacity. At the same time, we are investing in landfill gas monetisation firstly thru increasing our generation of renewable electricity and exploring options to sell renewable gas to our customers with hard to abate operations.

We recently demonstrated the use of HVO100 as a diesel substitute to decarbonise our fleet. Based on Australian used cooking oil as the feedstock, HVO100 offers 91% fewer greenhouse gas emissions with no infrastructure modifications needed and minimal capital investment. It is a scalable option for fleet decarbonisation and maintains both vehicle performance and payload.

On EfW, we continue to progress the capital light long lead time activities so that we are ready when the market, regulatory and approvals settings support Energy from Waste facilities on the East Coast.

We have been and continue to be cost disciplined in our approach to capex in relation to EfW and will only deploy capital with a clear path to an appropriate rate of return.

Turning to the right-hand side of the slide, together with our JV partners PACT Group, Asahi Beverages and Coca Cola Europacific Partners we recently opened a new $50m facility in gf Victoria capable of recycling the equivalent of one billion 600ml PET plastic beverage bottles a year.

And as discussed earlier today our CDS business continues to grow and plays an important role in the resource recovery supply chain.

Slide 22 – FY26 financial ambition and scorecard

Bringing it all together, let's look at how we are performing against our FY26 financial ambition and scorecard – which lists our 'must-achieves' by the end of FY26.

Throughout this presentation, Paul and I have touched on how we are progressing on each of these elements and provided the insights underpinning the status of each initiative.

For most of them, it was easy to score these initiatives as on track.

Where we had the greatest discussion and debate internally, ended up being the two areas we have marked ourselves behind target, and you've heard me talk to….

The first being on our Safety performance – because while we are on track with the delivery of our transformation plan, our lagging indicators in this case TRIFR is behind plan. We have cross checked the plan to the types of injuries and near misses we are seeing and we believe the plan is the right plan.

The second, being, labour productivity – because while we saw productivity improvements in the first half, the level of historical turnover of our workforce means this is behind where we would like it to be. We have a plan to address this and expect further improvements in coming periods.

Moving to the final slide.

Slide 23 – Outlook and priorities

Momentum continues to be the right description for FY24 and underscores our confidence in delivering our EBIT guidance of approximately $350 million for the year.

In terms of priorities for the second half, we will stay the course on executing our 5 year HSE plan and on labour, the focus is on first year retention and productivity improvements.

It's encouraging to see the system wide benefits as we continue to embed site level value drivers and connect those to the front line via the use of visual management boards. Data and analytics continues to enable and equip our leaders with real time information to drive performance. Our business teams in Solids are up and running and if you recall this aims to ensure that our state-based solids teams get the benefits of learning from each other and that we bring the best of the best from around Australia. For example we have business teams covering C&I collections, landfills, MRFs and muni collections. Clear financial targets for Business Teams have been set and are being tracked.

We have a fantastic runway of short term, mid-term and long-term opportunities to grow. Therefore, it's important that we continue to improve how we allocate capital, including capital lite options, how we then we execute projects and then really embed a learning culture where we learn from every project we do. And with improved capability and clear plans we expect improvement across all these areas.

And to conclude, I am proud of the work our 7,500 plus strong Cleanaway team do every day together to serve our customers and communities around Australia. As well as delivering today we have clear improvement plans to sustainably improve and strategically grow our business tomorrow. Our Blueprint 2030 strategy has been translated into execution through our mid-term financial ambitions where we remain on track to deliver an FY26 EBIT of more than $450m while improving ROIC.

Slide 24 – Questions