Biffa


# Half year results FY17

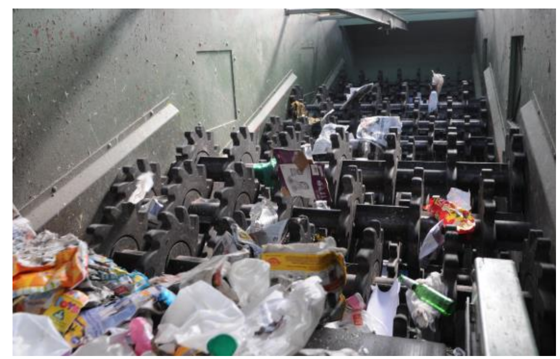
30 November 2016

# Agenda

1. Introduction & Overview: Ian Wakelin, CEO
2. Financial Results: Michael Topham, CFO
3. Business Review: Ian Wakelin, CEO
4. Summary & Outlook
5. Q & A

# Strong first set of results

- Strong first half performance driven by organic and acquisitive growth; all four divisions performed in line with expectations
- Significant momentum year on year
  - Net Revenue up 8.6% to £446.7m (H1 2016: £411.4m)
  - Underlying EBITDA up 14.9% to £71.0m (H1 2016: £61.8m)
  - Underlying Operating Profit up 22.9% to £39.7m (H1 2016: £32.3m)
  - Cash flow in line with expectations
- Two acquisitions completed during the period and a third post period end
- Admission to LSE (20 October 2016) has been well received by all stakeholder groups
- Prudent capital structure in place following IPO
- Strong platform to grow both organically and by acquisition
- Full year expectations unchanged

# Leading UK integrated waste management platform

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## Industrial & Commercial

**Waste collection and related services to industrial and commercial customers**

- Net Revenue: £261.3m (+8.9%)
- Underlying Operating Profit: £21.3m (+47.9%)

- c. 2,800 employees
- 75,000 customers
- Over 95% UK postcode coverage

## Municipal

**Household waste and recycling collections, street cleansing and other services**

- Net Revenue: £89.7m (+16.5%)
- Underlying Operating Profit: £5.2m (+15.6%)

- c. 3,700 employees
- 36 municipal contracts
- 2.4m households served

## Resource Recovery & Treatment

**Waste processing and disposal**

- Net Revenue: £53.7m (+5.1%)
- Underlying Operating Profit: £7.3m (+630%)


- c. 600 employees
- 2.7m tonnes landfilled annually (FY16)
- 2 fully automated MRFs

## Energy

**Infrastructure including Landfill Gas, AD and MBT technology**

- Net Revenue: £42.0m (-3.2%)
- Underlying Operating Profit: £14.8m (-2.6%)

- c. 150 employees
- 34 landfill gas locations
- 91.2 MW installed capacity

**AD** = Anaerobic Digestion **MBT** = Mechanical and Biological Treatment **MRF** = Material Recovery Facilities **UOP**= Underlying Operating Profit



**Notes:** Figures as at 23 September 2016, unless otherwise indicated.

# Summary of group strategy

## Group strategy for the future built on three key pillars

1 **Grow market presence**

- Drive organic growth through leveraging Biffa's established brand, reputation and breadth of service offering
- Pursue synergistic acquisitions to enhance platform and maximise returns

2 **Develop services & infrastructure**

- Expand service offering to meet increasingly complex needs of customers
- Leverage control of waste streams and expertise to invest in waste processing and energy recovery assets

3 **Optimise systems & processes**

- Drive value from existing operations through revenue growth and margin expansion
- Further investment to improve efficiency of operations and enhance customer experience

# Financial performance

# Group highlights

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## Key trends

| £m (unless stated) | 1H17 | 1H16 |
|---|---|---|
| Revenue | 497.5 | 464.3 |
| Net Revenue | 446.7 | 411.4 |
| *Net Revenue growth %* | *8.6%* | |
| Underlying EBITDA | 71.0 | 61.8 |
| *% margin* | *14.3%* | *13.3%* |
| Underlying Operating Profit | 39.7 | 32.3 |
| *% margin* | *8.0%* | *7.0%* |
| Return on Capital Employed (‘ROCE’) | 9.7% | 8.2% |
| Return on Operating Assets (‘ROOA’) | 26.2% | 23.5% |

| Operational KPIs | 1H17 | 1H16 |
|---|---|---|
| Tonnes Collected (mt) | 1.9 | 1.8 |
| Tonnes Processed (mt) | 1.6 | 1.5 |
| Tonnes Landfilled (mt) | 1.5 | 1.4 |
| Energy Generation (GWh) | 251.5 | 267.4 |
| Energy Price (£/MWh) | 36.1 | 44.7 |

## Commentary

- Net Revenue growth 8.6%: organic 3.7%, acquisition 4.9%
- Underlying EBITDA and underlying operating profit margin expansion:
  - Acquisition synergies; I&C pricing; Operational measures (I&C and RR&T); and Recycling commodity prices and gate fees (RR&T)
- ROCE and ROOA higher due to improved profitability and continued capital discipline
- Growth in tonnages collected, processed and landfilled
- Energy production and prices in line with expectations



**Notes:** definitions on slide 23.

# Group P&L

| £m unless stated | 1H17 | 1H16 |
|---|---|---|
| Revenue | 497.5 | 464.3 |
| Underlying EBITDA | 71.0 | 61.8 |
| **Underlying Operating Profit** | **39.7** | **32.3** |
| Exceptional items | 0.2 | (0.6) |
| Impact of changes in the real discount on landfill provisions | (20.3) | 4.9 |
| Amortisation of acquisition intangibles | (7.4) | (7.4) |
| **Statutory Operating Profit** | **12.2** | **29.2** |
| Finance income | 2.9 | 4.5 |
| Finance charges | (18.7) | (25.1) |
| **Underlying Profit / (loss) before Taxation** | **23.9** | **11.7** |
| Taxation (on underlying activities) | (6.8) | (9.7) |
| **Underlying Profit / (loss) for the period** | **17.1** | **2.0** |
| **Underlying Earnings per share (pence)** | **171.0** | **20.0** |

- Items excluded from underlying measures of profits:
  - Exceptional items
  - Landfill provision real discount rate changes – no cash impact
  - Amortisation of acquisition intangibles: predominantly 2008 LBO related
- Finance charges relate to pre-IPO capital structure. Prior year included fair value adjustment on shareholder loan
- Significant deferred tax position. No tax payable. Effective tax rates in both periods affected by prior period deferred tax adjustments
- No dividend payable for H1 17. Progressive dividend policy adopted going forwards (35% underlying PAT):
  - First dividend for period from IPO to year end payable in July 2017
  - Approximate one-third (interim), two-thirds (final split)
- EPS based on pre-IPO capital structure

# Group cash flow

| £m | 1H17 | 1H16 |
|---|---|---|
| Underlying EBITDA | 71.0 | 61.8 |
| Working Capital | (17.2) | 6.3 |
| Capex | (19.6) | (18.9) |
| Property sales | 0.4 | 6.4 |
| Finance lease payments | (14.9) | (13.7) |
| Net interest paid | (14.9) | (11.9) |
| Other | (0.8) | (2.5) |
| **Underlying free cash flow** | **4.0** | **27.5** |
| Restructuring & exceptionals | (2.9) | (2.7) |
| Acquisitions | (11.9) | - |
| **Net cash flow** | **(10.8)** | **24.8** |

| *Less one-off and temporary items:* | | |
|---|---|---|
| *West Sussex funding* | - | *(15.0)* |
| *Property sales* | *(0.4)* | *(6.4)* |
| *Cory working capital requirements* | 3.7 | - |
| ***Adjusted underlying free cash flow*** | ***7.3*** | ***6.1*** |

## Key commentary

- Underlying free cash flow (net cash flow excluding acquisitions and restructuring & exceptionals) in line with expectations; reduced due to one-off items in current and prior period
  - West Sussex funding – amounts received in prior period upon successful completion of MBT facility (£12m in working capital and £3m in interest income)
  - Property sales – sale of significant property interest in prior year (£6m higher than current year)
  - Cory working capital requirements – £3.7m required as bond and financing collateral which we expect to reverse over time
- After adjusting for these items underlying free cash flow was £7.3m
- Capex and finance lease payments modestly increased
- Net interest paid reflects pre-IPO capital structure



**Notes:** definitions on slide 23

# Net debt and financing costs

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| Net debt (£m) | 1H17 | | March 16 |
|---|---|---|---|
| | Actual | Proforma* | |
| Cash | 95.2 | 29.6 | 106.0 |
| Loans | (409.2) | (200.0) | (409.1) |
| Finance leases | (99.8) | (99.8) | (82.8) |
| Junior shareholder loan | (120.0) | - | (120.0) |
| | (533.8) | (270.2) | (505.9) |

| Estimated Proforma* Financing Costs (£m) | |
|---|---|
| Loans (inc. RCF) | 11.0 |
| Finance leases | 7.0 |
| Performance bonds | 2.0 |
| Landfill discount unwind | 2.0 |
| Underlying finance charges | 22.0 |

## Key commentary

- Net debt increased by £28m primarily due to the Cory acquisition (c.£24m total impact)
- Upon IPO net debt reduced:
  - Junior shareholder loan converted into equity prior to IPO
  - Pre-IPO loan facilities fully repaid
  - New £200m five-year facility drawn
  - Liquidity provided through cash and undrawn £100m RCF
- Estimated pro forma underlying annual financing costs reduced to c.£22m

* Based on September balance sheet as adjusted for IPO-related funds flows as set out in the Prospectus. Excludes fair value discount unwind on EVP instrument (to be included in ‘other items’)

# Industrial & Commercial (59% Net Revenue)

| £m | 1H17 | 1H16 |
|---|---|---|
| Revenue | 261.3 | 239.9 |
| *% growth, of which*<br>*- organic*<br>*- acquisition* | *8.9%*<br>*5.8%*<br>*3.1%* | |
| Underlying EBITDA | 33.6 | 25.3 |
| *% margin* | *12.9%* | *10.5%* |
| Underlying Operating Profit | 21.3 | 14.4 |
| *% margin* | *8.2%* | *6.0%* |

**Key commentary**

- Organic revenue growth of 5.8% due to customer wins and ongoing focus on pricing discipline
- Acquisitions added 3.1% revenue growth
- Significant margin improvement, from 6.0% up to 8.2%, from synergistic acquisitions and operational efficiencies
- Full year margin on track to grow year on year in line with expectations
- As anticipated, some softening of margin from H1 to H2 due to currency impacts, increased depreciation and modest seasonality

# Municipal (20% Net Revenue)

| £m | 1H17 | 1H16 |
|---|---|---|
| Revenue | 89.7 | 78.7 |
| Net Revenue | 89.7 | 77.0 |
| *% growth, of which*<br>- *organic*<br>- *acquisition* | *16.5%*<br>*6.3%*<br>*10.2%* | |
| Underlying EBITDA | 11.6 | 10.7 |
| *% margin* | *12.9%* | *13.6%* |
| Underlying Operating Profit | 5.2 | 4.5 |
| *% margin* | *5.8%* | *5.7%* |

**Key commentary**

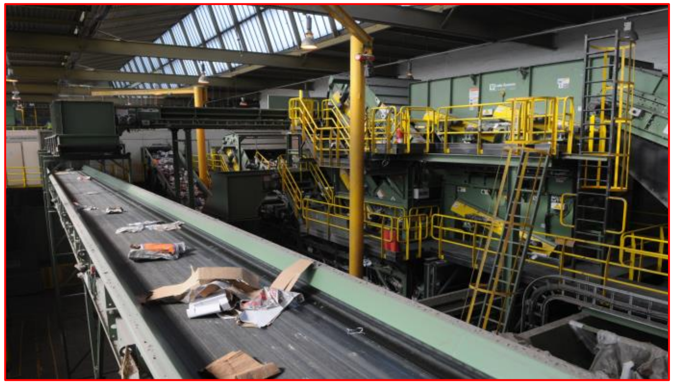
- Solid performance in a competitive market
- Net Revenue growth of £12.7m (16.5%) to £89.7m driven by Manchester City Council contract and acquired Cory contracts
  - 6.3% organic and 10.2% acquired
- Underlying Operating Profit increased 15.6% to £5.2m with margin stable at 5.8%

# Resource Recovery & Treatment (12% Net Revenue)

| £m | 1H17 | 1H16 |
|---|---:|---:|
| Revenue | 104.5 | 102.3 |
| Net Revenue | 53.7 | 51.1 |
| *% growth, of which*<br>*- organic*<br>*- acquisition* | *5.1%*<br>*(4.1%)*<br>*9.2%* | |
| Underlying EBITDA | 16.3 | 9.1 |
| *% margin* | *15.6%* | *8.9%* |
| Underlying Operating Profit | 7.3 | 1.0 |
| *% margin* | *7.0%* | *1.0%* |

**Key commentary**

- Net Revenue up 5.1% to £53.7m
- Underlying Operating Profit margin expansion to 7.0%
- Acquired revenue growth of 9.2% from two Hazardous Waste acquisitions in prior year
- 4.1% decline in organic revenue due to a one-off contractual settlement in H1 FY16 of £3.1m. Excluding this, modest growth in organic revenue
- All sub-divisions, including landfill, have seen growth in Underlying Operating Profit



# Energy (9% Net Revenue)

| £m | 1H17 | 1H16 |
|---|---|---|
| Revenue | 42.0 | 43.4 |
| *% growth, of which*<br>*- organic* | *(3.2%)*<br>*(3.2%)* | |
| Underlying EBITDA | 17.9 | 18.5 |
| *% margin* | *42.6%* | *42.6%* |
| Underlying Operating Profit | 14.8 | 15.2 |
| *% margin* | *35.2%* | *35.0%* |

**Key commentary**

- Net Revenue declined in line with expectations due to reducing landfill gas yields and power export price (19.1% lower versus H1 FY16), offset by increased revenues from West Sussex contract
- 94% of energy output has been forward sold for FY17
- Underlying Operating Profit margin increased slightly to 35.2% (35.0% for H1 FY16)

# Business Review

# Market dynamics

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**Current market dynamics are supportive of Biffa's positioning**

- **Volumes:** modest growth in key markets
- **Competition:** key markets remain competitive but stable
- **Market consolidation:** I&C market remains fragmented with limited evidence of wider consolidation
- **Landfill:** Continued shift in focus to inactive wastes. Sites continue to close as they fill but tonnages are not currently declining, putting upward pressure on prices
- **Recycling:** gate fees and commodity prices have risen and customers increasingly share commodity price risk
- **Energy from Waste:** significant deficit of UK capacity set to remain. RDF exports growth slowing
- **Anaerobic digestion:** market still over-served with capacity
- **Currency:** weak Sterling has caused some cost pressures (especially RDF export)
- **Energy prices:** some evidence of upwards pricing pressure following recent lows

# Continued progress against strategy

| Group strategy for the future built on three key pillars… | | …with good progress in H1 |
|---|---|---|
| **Grow market presence** | ▪ Drive organic growth<br>▪ Pursue synergistic acquisitions | – Major new contract wins and a healthy pipeline<br>– Acquisitions: Cory (June 2016), McGrath (London) (June 2016), Blakeley's (November 2016) |
| **Develop services & infrastructure** | ▪ Expand service offering<br>▪ Invest in waste processing assets to leverage control of waste streams | – I&C: additional RDF capacity and food transfer stations<br>– RR&T: MRFs (glass processing), Soil Treatment, Polymers (rHDPE)<br>– Energy: discussions continue with potential partners regarding opportunities for minority investment in Energy from Waste ('EfW') |
| **Optimise systems & processes** | ▪ Drive value from economies of scale<br>▪ Further investment in efficiency and customer experience | – Acquisition synergies<br>– Actions to improve I&C margins (pricing discipline, disposal costs, operating cost initiatives)<br>– Back office synergies and process improvement initiatives (Project Fusion) |

# Summary and outlook

# Summary and outlook

- Strong first half performance in line with expectations
- Market remains favourable to our business model
- Listing has been well received by all stakeholders
- Continued organic growth
- Continuing to develop infrastructure and services
- Actively progressing our healthy acquisition pipeline
- Full year expectations unchanged

# Q&A

# Appendix

# Summary balance sheet

| £m, as at | 23 September 2016 | 25 March 2016 |
|---|---|---|
| Goodwill and intangibles | 293 | 289 |
| Property, Plant & Equipment | 313 | 293 |
| Deferred tax assets | 25 | 17 |
| Funds on long term deposit | 10 | 8 |
| Pension surplus | - | 30 |
| **Non-current assets** | **641** | **637** |
| Financial Assets | 16 | 18 |
| Working capital and other | (34) | (48) |
| Provisions | (114) | (98) |
| Pension obligations | (18) | - |
| Net debt | (534) | (506) |
| **Net assets/(liabilities)** | **(43)** | **3** |

**Key commentary**

- Goodwill and intangibles includes legacy balances originally arising from Biffa's LBO in 2008 (landfill gas rights and brand)
- Increase in P,P&E relates to acquisitions during the period and ongoing fleet replacement
- Pension IAS19 valuation moved from £30m surplus in March to £18m liability in September
- Financial assets are collateral for insurance provisions (Malta based captive)
- Net negative working capital position – tightly managed
- Provisions comprise:
  - Landfill restoration and aftercare (£84m) – increased by £20m due to reduced real discount rates
  - Insurance (£12m) – collateralised by financial asset
  - Other (£18m) – onerous contracts and dilapidations – minimal associated cash outflows expected over medium term

# Financial information: basis of preparation and definitions

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| | |
|---|---|
| **Accounting Basis** | ▪ Prepared in accordance with IFRS<br>▪ H117 represents the 26 weeks ended 23 September 2016; H116 represents the 26 weeks ended 25 September 2015; FY16 represents the 52 weeks ended 25 March 2016; |
| **Net Revenue** | ▪ Statutory revenue excluding landfill tax, unless stated otherwise, 'revenue' refers to statutory revenue |
| **Organic Net Revenue Growth** | ▪ The increase/(decrease) in net revenue in the period excluding net revenue from acquisitions completed in the period and net revenue from acquisitions completed in the prior period up to the anniversary of the relevant acquisition date, to the extent such net revenue falls in the current period<br>▪ Organic net revenue growth can be expressed both as an absolute financial value and as a percentage of prior period revenue |
| **Acquisition Net Revenue Growth** | ▪ Acquisition Net Revenue Growth in any period represents the Net Revenue Growth in the relevant period from (i) acquisitions completed in the relevant period and (ii) acquisitions completed in the twelve months ended to the start of the relevant period up to the twelve-month anniversary of the relevant acquisition date (to the extent such Net Revenue falls in the current period). Acquisition Revenue Growth is calculated on the same basis, using revenue in place of Net Revenue. |
| **Acquisition Net Revenue Growth Rate** | ▪ Acquisition Net Revenue Growth Rate in any period represents the Acquisition Net Revenue Growth for the period expressed as a percentage of the prior period's Net Revenue. Acquisition Revenue Growth Rate is calculated on the same basis, using revenue in place of Net Revenue |
| **Underlying EBITDA** | ▪ Profit before depreciation and amortisation, exceptional items, impact of real discount rate changes to landfill provisions, finance costs and taxation<br>▪ Divisional underlying EBITDA is stated after allocation of shared services costs |
| **Underlying Operating Profit** | ▪ Profit before exceptional items, amortisation of acquisition intangibles, impact of real discount rate changes to landfill provisions, finance costs and taxation<br>▪ Divisional underlying operating profit is stated after allocation of shared service costs |
| **Return On Capital Employed (ROCE)** | ▪ Operating Profit excluding exceptional items and impact of real discount rate changes to landfill provisions divided by average of opening and closing shareholder's equity plus net debt (including finance leases), pensions and environmental provisions |
| **Return On Operating Assets (ROOA)** | ▪ Underlying Operating Profit divided by average of opening and closing Tangible Fixed Assets plus net working capital |
| **Underlying Free Cash Flow** | ▪ Net increase/(decrease) in cash and cash equivalents excluding dividends, restructuring and exceptional items and acquisitions |

# Pension and EVP[1] update

## Pensions

- Biffa has a defined benefit pension scheme which was closed to further accrual for almost all members in November 2013, with only workers with contractual protections continuing to accrue benefits (i.e. certain ex-local authority workers)
- Biffa has contributed £3.5m p.a. in deficit repair payments since closure to accrual, in addition to administration costs and ongoing service costs for remaining active members
- 2015 actuarial valuation agreed. Key terms:
  - Actuarial deficit (measured on unchanged assumptions from 2012) is £66m, down from £69m in 2012
  - Annual deficit reduction payment of £3.85m from March 2017, RPI-linked
  - Additional contributions to be made in the event Biffa makes shareholder distributions other than ordinary dividends between IPO and 2021
- IAS19 valuation has moved from a surplus of £29.5m in March 2016 to a deficit of £17.9m in September 2016

## EVP

- Biffa is in dispute with HMRC over £62m of Landfill Tax dating from Sept 2009 to May 2012
- The tax was unpaid pursuant to a 'hardship' arrangement with HMRC and a tax tribunal heard the case in November 2016
- Final determination of the case is likely to be some time away
- Biffa has allocated IPO proceeds to prepay the disputed tax and interest accrued following IPO. Instruments were put in place that will:
  - Pay any funds recovered from the dispute to the pre-IPO shareholders (less an entitlement to 10% of proceeds to be retained by Biffa)
  - In the event the case is lost, subject to and in consideration of a Corporation Tax benefit of at least £10m arising to Biffa on an adverse outcome, pay £10m to the pre-IPO shareholders
- The accounting treatment of these instruments is explained in Note 16 of the interim financials
- Biffa's only other Landfill Tax disputes concern previously paid Landfill Tax and the outcome of these is not considered likely to be material (favourable or adverse) to the Group



**Note:** 1. EVP is an internal Biffa term standing for "Engineered into the Void Permanently".