Augean PLC

Specialist services focused on managing hazardous wastes

Preliminary results

Year ended 31 December 2017

March 2018

Presented by:

Jim Meredith, Executive Chairman

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Augean PLC Key messages

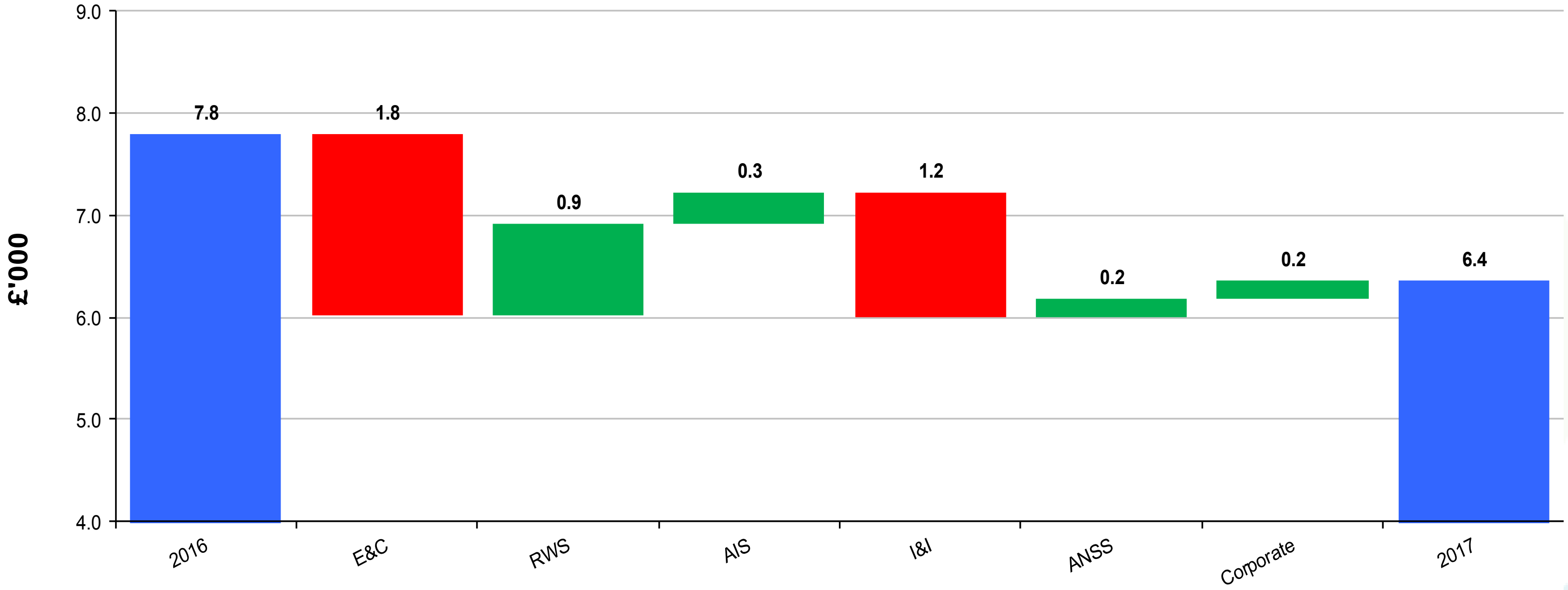
- Challenging conditions impact adversely on performance
- 10% growth in Air Pollution Control Residues (APCR) volumes
- Construction soil market significantly down
- Significant loss in Colt from legacy contract
- Augean Integrated Services business model not proven and now sold
- ANSS performance turnaround to trade strongly in the second half, with further progress on its diversification objective
- Revised structure and cost savings of £4m plus delivered

Financial headlines

- Total revenue **increased by 11%** to £84.7m
- Adjusted profit before taxation and share based payment charges **decreased 19%** to £6.0m (2016: £7.4m)
- Net operating cash flows **decreased by 21%** to £10.7m (2016: £13.5m)
- ROCE **reduced** from 11.8% to 9.4%
- Adjusted EPS reduced to 4.35p from 4.42p
- No proposed dividend per share (2016: 1.0 pence)
- Pre tax exceptional costs of £8.6m (2016: £5.7m)

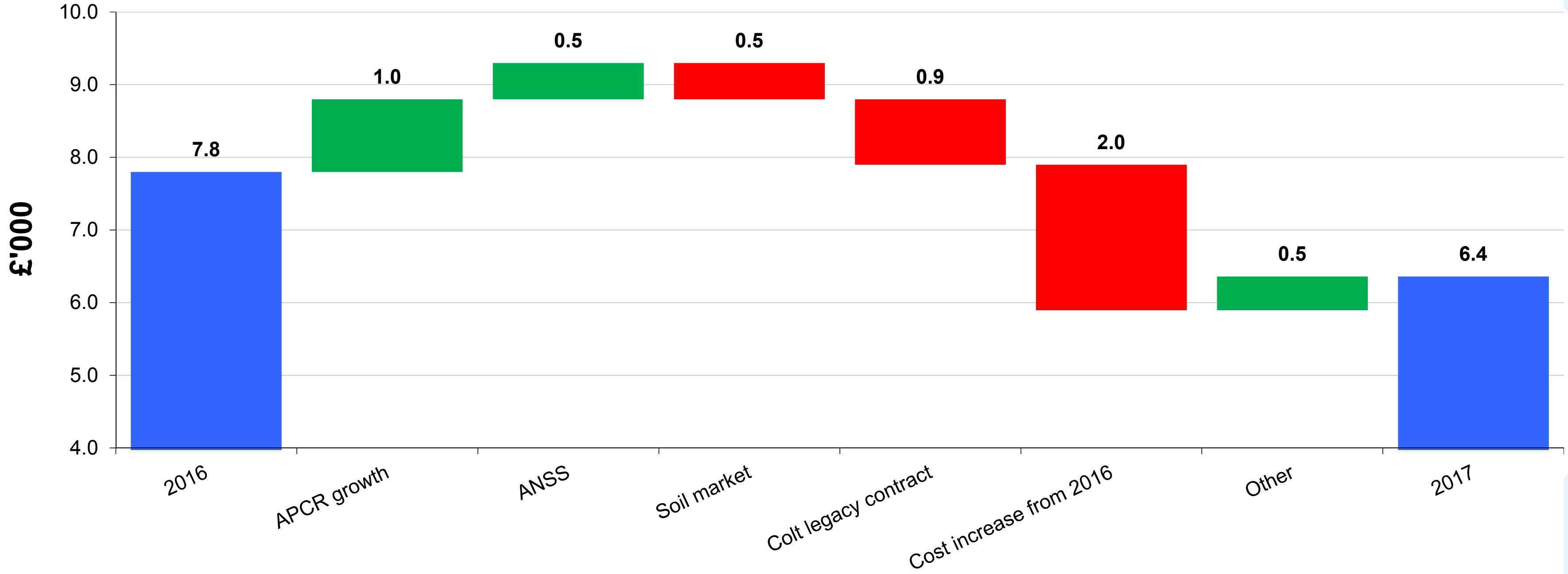
Results from continuing operations and excluding exceptional items. Normalised eps refers to eps calculated assuming the headline rate of corporation tax was applicable to all profits

2017 operating profit



Operating profit in £'000 from continuing operations, excluding exceptional items

2017 operating profit



Operating profit in £'000 from continuing operations, excluding exceptional items

Energy & Construction

- Revenue decreased 17% to £21.0m with 20% decline in volumes from 574k tonnes to 458k tonnes
- Operating profit decreased 20% to £6.6m
- 10% APCR volume growth under framework contracts with typical term of 3-5 years
- All non APCR volumes down 27% of which construction soils the main contributor at 25% down

Radioactive Waste Services

- Significant increase in revenue and operating profit in 2017
- New contracts wins under the Low Level Waste (LLW) framework of the Nuclear Decommissioning Authority but the release of materials remains unpredictable
- Expansion of permitting at sites to allow treatment of a wider range of waste
- Focus on medium term growth outside LLWR to justify continued investment
- NORM treatment from North Sea decom supports ANSS

Industry & Infrastructure (I&I)

- Revenue growth of 12% to £21.1m including Colt
- Operating loss of £0.8m (2016 £0.5m profit) all driven by loss on legacy contract at Colt
- Strong performance across all sites excluding Colt
- Improvement initiatives successfully completed at Avonmouth
- Focus on broadening Industrial Services (IS) capacity

Augean Integrated Services (AIS)

- Revenue and EBIT for 2017 were £8.0m and £0.5m respectively but the business model has not been proven and AIS has now been sold (excluding the East Kent HTI which will be retained)
- After central costs loss was £0.4m with cash outflow of £0.6m
- Initial consideration of £3.0m with a further £0.8m on agreement of completion accounts and further amounts expected for delivery of working capital over normalised levels
- The profit on sale is expected to be £1.4m after costs of sale and provisions. This will be reported as exceptional in 2018
- All AIS employees will be transferred. AIS has signed a three-year exclusive supply agreement to use Augean for its hazardous waste disposal and treatment.

Augean PLC

Augean North Sea Services (ANSS)

- Revenue growth of 41% to £18.2m. Operating profit of £0.7m (2016 £0.5m profit)
- Rig incumbency share maintained in line with market conditions
- Continued diversification – over 89% of total ANSS revenues were directly generated from Oil & Gas operators and top-tier customers customers during 2017 (84% in 2016)
- Growth in production / on shore waste management
  - Major TWM contract wins
  - Broadening of scope with existing customers
  - Port of Dundee and decommissioning opportunities onshore
  - Offshore decom contracts supporting Plug & Abandonment

Income statement

	2017 £m	2016 £m	Change %
Continuing and excluding exceptional items			
Revenue	84.7	76.0	11.4
Operating expenses	(78.3)	(68.2)	(14.8)
Operating profit	**6.4**	**7.8**	**(17.9)**
Finance charges	(0.9)	(0.8)	(12.5)
Profit before tax	**5.5**	**7.0**	**(21.4)**
Exceptional items	(8.6)	(5.7)	
PBT including exceptional items	**(3.1)**	**1.3**	

Operating cash flows

	2017 £'m	2016 £'m	Change £'m
EBITDA (continuing and before exceptional items)	12.8	14.1	(1.3)
Change in debtors	(1.1)	(4.1)	3.0
Change in creditors	(0.1)	4.8	(4.9)
Interest, taxation and other	(0.9)	(1.4)	0.5
Net operating cash flows (continuing and before exceptional items)	**10.7**	**13.4**	**(2.7)**
Exceptional and discontinued operating cash flows	(1.2)	(2.2)	1.0
Net operating cash flows	**9.5**	**11.2**	**(1.7)**

Total cash flows and net debt

	2017 £m	2016 £m	Change £m
Net operating cash flows	9.4	11.2	(1.8)
Maintenance capital expenditure	(4.5)	(3.9)	(0.6)
Post-maintenance free cash flow	**4.9**	**7.3**	**(2.4)**
Development capital expenditure	(4.3)	(4.3)	-
Acquisitions	-	(8.9)	8.9
Free cash flow	**0.6**	**(5.9)**	**6.5**
Dividends paid	(1.0)	(0.7)	(0.3)
Equity receipts	-	0.1	(0.1)
Net cash flow	**(0.4)**	**(6.5)**	**6.1**

Key financial measures

	2017	2016
Profit before tax	£5.5m	£7.0m
EBITDA	£12.8m	£14.1m
Adjusted earnings per share	4.35p	4.42p
Return on capital employed	9.4%	11.8%
Net underlying operating cash flows	£9.4m	£11.2m
Post-maintenance free cash flow	£4.9m	£7.3m
Cash conversion	84%	96%
Dividend per share	-	1.0p
Dividend cover	-	4.4x
Closing net debt	£10.8m	£10.8m
Gearing (net debt/equity)	22%	20%
Net debt/EBITDA (covenant < 2.5x)	1.0x	0.9x
EBIT/bank interest charge (covenant > 3.0x)	9.5x	11.6x

From continuing operations, excluding exceptional items

Augean PLC Our strategy

Response to LFT assessment

- Appeal assessments → No cash outflow → Every level possible
- Stakeholder communication → Shareholders / Bank → Customers/ suppliers / other
- Business resilience → Cost / capital saving → Group Optimisation

Holding our course

- Growth in profit → Growing profitable business → Improving margins
- Growth in asset base → Investments returning above WACC → Retained profit
- Growth in returns → Increasing trading cashflow → Appropriate funding model

Outlook

- Encouraging start to 2018 due to cost savings/leaner organisation
- Continue to grow sales organically, cut back excess, exit non-core activities and drive out unnecessary duplication/costs. Stick with what Augean is good at, and where we possesses real/sustainable competitive advantage
- Continued emphasis on moving Group revenues to long-term contracts and frameworks
- Fix the HMRC position as quickly as possible

Appendix 1: Revenue

£m	Revenue 2017	Revenue 2016
Energy & Construction	20.9	25.3
Radioactive Waste Services	3.1	1.2
Industry & Infrastructure	21.1	18.8
Augean Integrated Services	10.7	7.6
Augean North Sea Services	18.2	12.9
	74.0	**65.9**
Landfill tax	10.7	10.1
	84.7	**76.0**

Appendix 2: Operating profit

	EBIT 2017 £'m	EBIT 2016 £'m	EBIT Margin 2017	EBIT Margin 2016
Energy & Construction	6.6	8.4	31%	33%
Radioactive Waste Services	1.2	0.3	39%	26%
Industry & Infrastructure	(0.8)	0.5	(4)%	2%
Augean Integrated Services	(0.4)	(0.7)	(4)%	(9)%
Augean North Sea Services	0.7	0.5	4%	4%
Business units total	**7.3**	**8.9**		
Central	(1.0)	(1.1)		
	6.2	**7.8**	8%	10%

From continuing operations and excluding exceptional items

Appendix 3: Capital expenditure

£'m	2017 Maint	2017 Develop	2017 TOTAL
Energy & Construction	2.1	1.9	**4.0**
Radioactive Waste Services	-	-	**-**
Industry & Infrastructure	1.2	0.1	**1.3**
Augean Integrated Services	0.6	0.6	**1.2**
Augean North Sea Services	0.2	0.9	**1.1**
Other/corporate	0.4	0.8	**1.2**
Total	**4.5**	**4.3**	**8.8**

Appendix 4: Balance sheet

	2017 £m	2016 £m	Change £m
Goodwill and intangible assets	20.1	26.3	(6.2)
PPE and other non-current assets	47.9	45.6	2.3
Total non-current assets	**68.0**	**71.9**	**(3.9)**
Net current assets (excluding cash and debt)	1.1	1.0	0.1
Restoration and capping provisions	(8.2)	(7.5)	(0.7)
Capital employed	**60.9**	**65.4**	**(4.5)**
Net debt	(10.8)	(10.8)	-
Net assets	**50.1**	**54.6**	**(4.5)**
Gearing	**22%**	**20%**	
Net debt/EBITDA	**0.8x**	**0.8x**	