Augean PLC

Specialist services focused on managing hazardous wastes

Preliminary results
Year ended 31 December 2018

February 2019

Presented by:
Jim Meredith, Executive Chairman
Mark Fryer, Group Finance Director

Highlights *

- Total revenue increased by 22% to £68.8m (2017: £56.3m)
- Adjusted EBITDA increased by 30% to £18.9m (2017: £14.5m)
- Adjusted profit before taxation increased by 69% to £11.4m (2017: £6.8m)
- Adjusted basic earnings per share increased by 56% to 8.52 pence (2017: 5.47p)
- Free cash flow of £12.6m, with net assets sold of £6.2m giving total cash generation of £18.8m in 2018 (excluding financing costs)
- Net cash position of £8.2m at year end (2017: net debt of £10.8m)
- Final assessments from HMRC and hardship granted for Augean North

* From continuing operations excluding landfill tax, exceptional items and share based payments

Financial Highlights

- PBT growth in Treatment and Disposal 19%, North Sea 58% with a £1.0m reduction in central costs to £5.5m
- Colt and Colt Property sold for £2.2m and AIS for £4.0m in 2018
- East Kent sale completed in January 2019 for £3.35m
- Net Cash further improved to £12.6m at 15th February with additional £2.3m due from sale of East Kent – therefore c£15m net cash

Outlook

- Strong start to initial trading in the first months of 2019 with results well ahead of prior year
- The Board is confident in the Group's prospects for full year

Operational Highlights

- Excellent progress on business optimisation programme with cost savings exceeding target
- Sales growth in all sites with Landfill up 14%, Radioactive 15% Treatment 39% and North Sea 19%. All sites showed profit growth year-on-year
- Double digit growth from residues from Energy from Waste (EfW) plants despite no new municipal EfW opening in 2018
- Recovery in the market position for soils reflecting a more focused team from the end of H1 - overall volumes up by around a third in the full year after being down one third in H1

Operational Highlights

- Contracts renewed in January 2019 representing one third of 2018 Group profit and new contract awards with EfW plants expected to start late 2019 with full impact by 2021

- Continued diversification in North Sea into industrial services, decommissioning and waste management more than offsetting reduced drilling volumes resulting in profit more than doubling. The forward contract base is secured with a major contract renewal and new significant decommissioning contract out of Dundee

Business Optimisation

- New leadership group and revised organisation along sites not business units
- Self help programme of short interval control including weekly review, weekly forecasts and daily cash reporting. Focus on customer profitability and price optimisation
- Accident injury rate reduced 41% year on year
- Cost savings with an annual impact of in excess of £4m achieved involving a headcount reduction of almost 20%

Landfill tax

- Augean North final LFT assessments of £10.5m
- Hardship application granted for Augean North therefore no immediate requirement to deposit cash with HMRC
- Augean South final assessment of £16.2m
- Application for hardship for Augean South submitted
- Lower Tier Tax Tribunal expected early in 2020
- If necessary we can consider appeals and potential to litigate
- The business has taken specialist legal and tax advice over several years to ensure actions are consistent with the law and official guidance at the time. Based on this advice, we remain confident in our position

Strategy

- For the restructured Group
  - Maintain focus on margin and ROCE optimisation
  - Drive cash
  - Resolve HMRC
- Drive growth in specialist defensible areas and support the current asset base with targeted forward investment
  - North Sea, particularly decommissioning
  - Support for Nuclear decommissioning
  - Contaminated spoil
  - EfW growth – support
  - Invest in waste stream specific treatments to develop existing key assets and enhance

Adjusted Income statement

	FY 2018 £m	FY 2017 £m	Change %
Excluding exceptional items			
Revenue	68.8	56.3	22%
Operating expenses	(56.6)	(48.7)	(16)%
Operating profit	**12.2**	**7.6**	**61%**
Finance charges	(0.8)	(0.8)	
Profit before tax	**11.4**	**6.8**	**68%**
Discontinued / Exceptional items	1.1	(9.5)	
PBT including exceptional items	**12.8**	**(2.7)**	

Excluding discontinued operations, share option payments and landfill tax

Exceptional Items

Exceptional items in 2018 of £3.3m including:

- £0.3m exceptional expense related to continuing operations, being £0.2m of net landfill tax legal costs and £0.1m of other costs and
- £3.6m exceptional profit related to discontinued operations including:
  - £0.7m profit on the sale of AIS
  - £0.2m profit on disposal of Colt assets and
  - £2.6m reversal of impairment in relation to the held for sale incinerator assets

Balance sheet

	31/12/18 £m	31/12/17 £m	Change £m
Goodwill and intangible assets	19.8	19.8	-
PPE and other non-current assets	42.2	48.2	(6.0)
Total non-current assets	**62.0**	**68.0**	**(6.0)**
Net current assets (excluding cash and debt)	(1.2)	1.1	(2.3)
Restoration and capping provisions	(8.7)	(8.2)	(0.5)
Capital employed	52.1	60.9	(8.8)
Net cash / (debt)	8.2	(10.8)	19.0
Net assets	**60.3**	**50.1**	**10.2**
Gearing	**n/a**	**22%**	
ROCE % on average capital employed	**22%**	**12%**	

Total cash flows and net debt

	2018 £m	2017 £m	Change £m
EBITDA (continuing and before exceptional items)	19.5	10.5	9.0
Net working capital	(2.1)	0.1	(2.2)
Interest, taxation and other	(1.4)	(1.1)	(0.3)
Net operating cash flows	16.0	9.4	6.6
Maintenance capital expenditure	(2.0)	(4.5)	(2.5)
Post-maintenance free cash flow	**14.0**	**4.9**	9.1
Development capital expenditure	(1.4)	(4.3)	2.2
Free cash flow	**12.6**	**0.6**	**5.8**
Dividends paid	-	(1.0)	1.0
Net cash flow from continuing operations	**12.6**	**(0.4)**	13.0
Sale of business and assets	6.2	-	6.2
Net cash generation	**18.8**	**(0.4)**	19.2

Bank facilities

	2018	2017
Closing net cash / (debt)	£8.2m	(£10.8m)
Closing headroom (not including £10m M&A accordion)	£25.2m	£9.2m
Gearing (net debt/equity)	n/a	22%
Net debt/EBITDA (covenant < 2.5x)	n/a	1.0x

Excluding exceptional items

Outlook

- Maximise cash held to further strengthen company resilience
- Continue to challenge the HMRC LFT claims and mitigate related interest expense
- Continue the business optimisation programme and not allow cost creep with a plan to deliver full year financial results that continue the strong growth being experienced in January and February
- Maximise the opportunity in the key growth markets of Energy from Waste, Treatment, and Decommissioning projects both nuclear and North Sea
- The Board is confident in the Group's prospects for the full year.