

RENEWI PLC: COVID-19 UPDATE

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Renewi plc (RWI)
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29 May 2020

Renewi plc

("Renewi", the "Company" or, together with its subsidiaries, the "Group")

Covid-19 update

Renewi plc provides an update on the expected impact of Covid-19; the decisive actions it has taken during the first quarter; the consequences for earnings and cash; and announces that it has agreed prudent amendments to the Group's bank covenants.

As previously announced, Renewi will issue Full Year results on 4 June which are expected to be in line with its expectations.

Highlights

- Unaffected service maintained to our nearly 200,000 customers
- €252m of liquidity as at 31 March 2020, including €195m in cash
- Volumes down in Q1, differing by region, and slightly better than our original scenario planning
- Swift and decisive action taken to reduce operating costs and preserve cash-flows, saving €60m during FY21 with expected net cash outflow of €20m during Q1
- Net debt to EBITDA covenant amended to increase progressively to 6.0x in H2 FY21, decreasing back to new long-term test level of 3.5x in September 2021
- Executive Directors and Board elected to take a voluntary 20% cut in remuneration during the period of lockdown and the Executive Committee has taken a voluntary 10% cut, executive bonuses for last year will be paid in shares, preserving cash and the bonus scheme for the current year is suspended
- Long-term business model and growth opportunities unchanged

An essential service

Renewi delivers an essential service to communities, companies and to the medical sector. We are proud that we have been able to maintain an unaffected service to all our 200,000 customers, thanks to the dedication of our 7,000 employees who have been determined to continue working in the communities. The Dutch Prime Minister, Mark Rutte, and the Dutch Minister of State for Infrastructure and Water Management, Stientje van Veldhoven, both visited our sites in April and May respectively to meet our staff and to thank them, and this has been supplemented by much appreciated notes and gestures of thanks by customers and householders.

This service has been possible as a result of our focus on safety. We have put in place measures to enable social distancing from colleagues, customers and members of the public. Intensive leafleting to customers about where to position bins, new processes for issuing digital delivery notes and high visibility vests asking people to keep their distance are just three initiatives to help our drivers and loaders to operate safely. We have amended our operational procedures so that all our production lines have been able to operate with social distancing, resulting in no loss of capacity. We have also enabled our other colleagues to work from home, with digital solutions allowing productivity almost at normal levels.

We were also delighted to create a rapid circular solution for the reuse of personal protection equipment (PPE) for healthcare workers. Renewi is the number one collector of medical waste in the Netherlands. With PPE supplies running low, we worked with partners to put in place a project to collect used masks from hospitals, clinically sterilise them and return them for safe re-use. This project was in place and effective within 3 weeks of inception and up to 48,000 masks per day can be recycled.

Well prepared and resourced

Renewi entered the crisis with well-established risk processes and crisis plans in place. When the potential scale of the crisis became clear in February, we constituted a Virus Response Team (VRT), drawing on cross-functional experts from across Renewi. Many actions were taken to keep servicing our customers throughout the lockdown whilst keeping our employees safe.

Renewi has additionally been focused on strengthening the balance sheet, including strategic disposals and a new bond issuance last year. As a result, we had €252m of liquidity as at 31 March 2020, higher than previously announced, of which €195m was in cash.

Impact of Covid-19

The impact on Renewi since the second half of March has varied with the different lockdown restrictions in each region and sector.

- In Belgium the lockdown has resulted in a fall in waste volumes of around 35% in April, improving slowly in May;
- In the Netherlands waste volumes have fallen by around 15% in April, with resilience in construction and bulky waste reducing the greater impact in roller bin collection;
- Recyclate income generally weakened in April, through lower prices and/or reduced materials available;
- In the UK municipal segment, the closure of household waste recycling centres has reduced revenue, partially offset by increased residual volumes; and
- ATM and Mineralz have been relatively unaffected but Maltha has seen significantly reduced demand for glass cullet in France and two of Coolrec's three fridge recycling facilities were temporarily closed.

Financial measures taken

Swift and decisive action has been taken by Renewi to reduce operating costs and preserve cash-flows, saving €60m during FY21. These have included:

- Implementing operating cost plans to save around €15m in FY21. These include a hiring freeze, overtime ban, reductions in temporary labour and tight controls on discretionary spend. In Belgium we have made selective use of longstanding economic unemployment legislation;
- Reducing capex budgets for FY21 by around €35m;
- Making use of government measures to delay wage and other tax payments. These were worth around €6m in March and will benefit Renewi by a further €35m in the first quarter, unwinding thereafter within this fiscal year;
- Strong focus on working capital, in particular on accounts receivable, as we expect increased financial distress for some of our customers; and
- Cancellation of the final dividend payment for the year just ended, saving €10m.

Directors' remuneration

Renewi is well positioned to navigate through Covid-19 with uninterrupted service to our customers. Less than 5% of our workforce has been placed on economic unemployment, entirely in Belgium during the weeks of lockdown. The Executive Directors and the Board have been keen to set an example in this difficult period and at the beginning of April they elected to take a voluntary 20% cut in remuneration during the period of lockdown and the Executive Committee has taken a voluntary 10% cut. Bonuses for the year just ended will be paid in shares, preserving cash. The bonus scheme for this financial year is suspended until further notice. LTIP awards in 2020 will be adjusted to reflect any reduced share price as a result of Covid-19 at the point of grant.

Consequences for earnings and cash

The impact of Covid-19 on the second half of March was estimated at €4m, including a €1m doubtful debt provision. Looking forward, we have built detailed models by Division and by waste stream to assess a range of potential scenarios. We assumed as a base case that lockdowns will extend into June and that there will be ongoing significant disruption through the whole of this financial year compared to our original expectations. Our severe scenario includes a further full lockdown in the autumn.

Given the expected short-term impact on earnings, the Group has agreed amendments to the Group's leverage and interest covenants with its lending banks that provide appropriate headroom for the next five quarters, even in a pessimistic scenario with a second full lockdown in the second half. Our net debt to EBITDA covenant has been increased progressively to 6.0x in the second half of FY21, decreasing back to 3.5x in September 2021.

Based on our experience since the second half of March, we expect Covid-19 to result in a potential reduction in EBIT and cash of up to €20m in the first quarter compared with our previous expectations. This outflow is comfortably contained within our €252m of liquidity as at 31 March 2020. The outlook for the remainder of the year will be dependent on the nature and timing of the lifting of lockdown restrictions and the speed of economic recovery.

Long-term business model and growth opportunities unchanged

Covid-19 may slow the progress of some customer initiatives and hence our deployment of capital in the short term, and it is likely to have some medium-term impact on the economy. However, the global climate crisis remains of an altogether larger scale and we are confident that government and society recognise that the need to address climate change and the goal to transition Europe towards a circular economy is urgent, with consistent targets for improved recycling/circularity and the measures to achieve them. Indeed, the Dutch government on 28 April revealed its plans for the introduction of significant and increasing carbon taxes in the Netherlands in the coming years, which will be important incentives for recycling and the use of secondary materials.

For further information:

FTI Consulting
+44 20 3727 1340
Richard Mountain

Renewi plc
www.renewiplc.com

Renewi is a leading waste to product company that gives new life to used materials every day. We have around 7,000 employees working at 174 operating sites across Europe. Our extensive operational network means we are always close to our customers.

For Renewi, waste is a state of mind, and an opportunity. Our many years of knowledge and experience, combined with a broad range of services, allow us to offer sustainable, practical recycling solutions. We use innovation and the latest technology to turn waste into useful materials such as paper, metal, plastic, glass, wood, building materials, compost and energy. In other words, we turn today's waste into tomorrow's raw materials. The result of our work is less waste and contamination, a smarter use of scarce raw materials, and a reduction in carbon emissions. This means that we are contributing towards a cleaner, circular world in which we "waste no more".

Visit our website for more information: www.renewiplc.com.

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