

Renewi announces sale of UK Municipal business to Biffa

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30 May 2024

Renewi plc

Renewi announces sale of UK Municipal business to Biffa

Renewi plc ("Renewi" or the "Group") (LSE: RWI.L; Euronext Amsterdam: RWI.AS), a leading European waste-to-product company, is pleased to announce that, following the strategic review of its UK Municipal operations ("UK Municipal"), announced in September 2023, it has entered into a binding agreement to sell UK Municipal to Biffa Limited ("Biffa"), a leading UK-wide integrated waste management business (the "Divestment").

Renewi's CEO, Otto de Bont: *"The sale of UK Municipal to Biffa is a transformational milestone which marks the beginning of a new chapter for Renewi. The exit of UK Municipal will immediately improve our cashflow and profit margins, and enable us to drive sustainable growth.*

We will now fully focus on growing in Europe's most attractive and advanced recycling markets. Biffa's financial position, operational expertise, and presence in the UK municipal landscape make them the right new home for our UK Municipal business and we are confident this transaction benefits all stakeholders."

Biffa's CEO, Michael Topham: *"The addition of UK Municipal's five contracts to our existing contracts in West Sussex, Leicester and Somerset further establishes our reputation as a trusted provider of complex, long-term waste treatment contracts to local governments.*

Our combined expertise will position us well for the future as we seek to help local governments deliver their net zero targets. We look forward to welcoming the Renewi UK team to Biffa and to working with our new customers in due course."

Transaction Highlights

Supporting Renewi's transformation, the Divestment:

will immediately increase Renewi's free cash flow by €15-20m per annum and drive at least c.50bps of EBIT margin expansion;

significantly de-risks the Group's balance sheet as unpredictable UK Municipal liabilities, Onerous Contract Provisions (OCPs), will be replaced by conventional and competitively priced debt financing, enabling increased visibility on future capital outflows; and

focuses resources and management time on strategic initiatives for stronger growth and shareholder returns.

The transaction will be effectuated through a combination of a nominal cash consideration payable to Biffa and pre-completion capitalisation of UK Municipal (together, the "Capitalisation"). The Capitalisation ensures UK Municipal's ability to fulfil its future contractual obligations.

Capitalisation is expected to be approximately £125m¹ (€146m²) on completion which, when offset against the reduction of liabilities of €89m, equates to a net cost of c. €57m to Renewi and a total cash impact of €154m,

including transaction costs.

Core net debt / EBITDA immediately following the transaction is expected to be approximately 2.9x, falling to our target of 2.0x in the medium-term, with improved margins and cash generation driving accelerated deleveraging. The transaction will be funded through the existing revolving credit facility, supplemented by a €120m bridge facility.

The Divestment provides UK Municipal customers, employees and other stakeholders with strong strategic backing from a respected scale operator in the UK market. The transaction is expected to complete before 31 December 2024, subject to receipt of a limited suite of regulatory and other consents.

Rationale for the Divestment

Renewi's core strategy is focused on growth in commercial and industrial waste in the Benelux region and expanding its Specialities businesses, Maltha, Coolrec and Mineralz & Water. UK Municipal comprises five highly bespoke legacy contracts to process municipal waste for a geographically disparate group of local authorities across England and Scotland, the longest dated of which run until the 2040s. As the Group's only operations in the United Kingdom, it has limited operational or strategic synergy with the rest of the Group. The contracts were entered into more than 10 years ago, by a Renewi predecessor; they are break-even or structurally loss-making and, in the absence of a legislative shift or significant changes in market conditions, can be neither prematurely terminated nor renegotiated by Renewi. In this context, Renewi publicly announced the strategic review of UK Municipal in September 2023.

Biffa emerged as the most attractive buyer in a competitive process due to the terms of its offer, as well as its strong financial position, expertise in operations, and established presence in the UK municipal landscape. Renewi believes UK Municipal customers, employees and other stakeholders including councils, lenders and regulators will benefit from the transfer of ownership to Biffa.

Completion of the Divestment is anticipated before the end of the calendar year and is subject to receipt of a limited number of regulatory and other consents. Renewi will be working collaboratively with Biffa to secure these consents in a constructive manner. Following completion, Renewi will support the smooth transition of the business to Biffa through various transitional service arrangements.

Delivering on portfolio optimisation and shareholder returns

The Divestment concludes addressing legacy aspects of Renewi's portfolio and will allow the Group to prioritise resources towards the strategic initiatives where it anticipates the strongest growth, financial performance and shareholder returns.

The Group has a disciplined capital allocation policy backed by a flexible balance sheet. The significant undrawn capacity in its RCF (due 2028) provides an attractive option to finance the Capitalisation through existing financial facilities, whilst retaining significant covenant and liquidity headroom. The Group also agreed an 18-month standby facility to increase liquidity headroom by €120m, which is expected to be refinanced later this year.

Assuming completion of the Divestment prior to 31 December 2024 and inclusive of the previously announced intention to pay a modest full-year dividend, the Group expects core net debt / EBITDA leverage (for the purposes of its half-year covenant test) to be less than 3.0x EBITDA. With the free cash flow generation of the Group further enhanced by the Divestment, and cost and growth actions driving margin improvement, leverage is expected to drop back to 2.0x over the medium-term.

Financial effects of the Divestment

Performance of the UK Municipal's contractual obligations is guaranteed by the Group through various contractual protections benefiting local authorities. For several years, meeting contractual performance requirements has cost the Group more than the aggregate operator fees received, resulting in OCPs, being recognised in respect of various loss-making contracts. These annually reviewed OCPs have repeatedly required further upward revision as a result of both market conditions and operational factors, translating into greater levels of annual negative cash flow being absorbed by the UK Municipal portfolio.

In recent years, Renewi has stabilised and strengthened the UK Municipal operations, resulting in optimised operational performance. However, the portfolio remains a significant cash drag on the Group – with a total cash outflow of approximately €28m over the last 24 months. The Group expects its free cash flow generation to improve by c €15-20m per annum as a result of the Divestment.

The unpredictability and sensitivity of OCP revisions (size, timing and impact on overall cost of capital for the Group) has significantly contributed to risk in the Group's balance sheet. Through the Divestment, these unpredictable liabilities will be replaced by highly predictable conventional debt financing, enabling visibility on future capital outflows and derisking the Group's balance sheet.

The Capitalisation was derived and agreed through multiple approaches, including referencing the level of Onerous Contract Provisions (€130m on 31 March 2024), the Net Present Value of the cash flow impact of the operations for the remainder of the contracts, and cross-checked against the carrying values of UK Municipal assets and liabilities on the Renewi balance sheet. In utilising its existing debt financing capacity for the capitalisation, Renewi has chosen to maximise shareholders' ability to benefit from the value creation opportunities unlocked from completion of the Divestment.

As a result of the provisioning that has been necessary with respect to UK Municipal, the Divestment is not expected to materially impact the Group's statutory profitability metrics – however the deconsolidation of €180m of low margin revenue is expected to improve Group EBIT margins by c. 50bps. More detailed financial impacts can be found in the Group's FY24 financial results published today, in which UK Municipal will be classified as an asset held for sale.³

About Biffa

Biffa has been at the forefront of the UK waste industry for over 100 years. It is a leader in sustainable waste management in the UK, operating across the waste value chain from collection through sorting, processing, treatment, and disposal.

Biffa is an established operator in the Municipal landscape with over 65 years of expertise in Municipal operations. This is underpinned by a strong financial position and ongoing investment in its treatment facilities and new technology including carbon capture. The company is enabling the UK circular economy by expanding its low carbon collections network, building out its plastic recycling capacity and investing in energy recovery. Since 2002 they've cut their carbon emissions by 70%.

Biffa's ultimate owners are funds managed by Energy Capital Partners, who are leading infrastructure investors based in Summit, New Jersey, at the forefront of renewable energy investing since its inception in 2005.

For further information:

Renewi plc

Anne Metz, Director of Investor Relations
+31 6 4167 9233
investor.relations@renewi.com

FTI Consulting

Richard Mountain / Ben Fletcher
+44 203 727 1340
FTI_RWI@FTIconsulting.com

Notes:

1. Subject to customary closing adjustments; Capitalisation at completion will be net of any normal course capitalisation provided by Renewi to UK Municipal in the period between 31 March 2024 and completion of the Disposal.
2. Based on GBP/EUR exchange rate of €1:£0.855.
3. For the purposes of UK Listing Rule 10.4, as at 31 March 2024 the gross assets of UK Municipal (adjusted for the estimated pre-completion Capitalisation) are €348m; and in the financial year ending 31 March 2024, UK Municipal contributed €0.7m to the Group's statutory profit before tax.

Greenhill & Co. International LLP and Ashurst LLP are respectively acting as financial and legal advisers to Renewi in the context of the Divestment.

About Renewi

Renewi is a pure-play recycling company that focuses on extracting value from waste and used materials rather than disposing of them through incineration or landfill. The company plays an important role in combating resource scarcity by creating circular materials. In giving new life to used materials, Renewi addresses both social and regulatory trends, contributing to a cleaner and greener world.

Our vision is to be the leading waste-to-product company in the world's most advanced circular economies. With a recycling rate of 63.2%, one of the highest in Europe, Renewi puts 6.6 million tonnes of low-carbon circular materials back into use each year. This contributes to mitigating climate change and promotes the circular economy. Our

recycling efforts help to protect natural resources and prevent more than 2.5 million tonnes of CO2 emissions annually.

Renewi leverages innovation and the latest technology to turn waste into circular materials such as paper, metals, plastics, glass, wood, building materials, compost, and water. We employ over 6,000 people across 154 operational sites in five countries in Europe. Renewi is recognised as a leading waste-to-product company in the Benelux region and a European leader in advanced recycling.

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

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With Tony Cross



Wednesday, 29th May 2024

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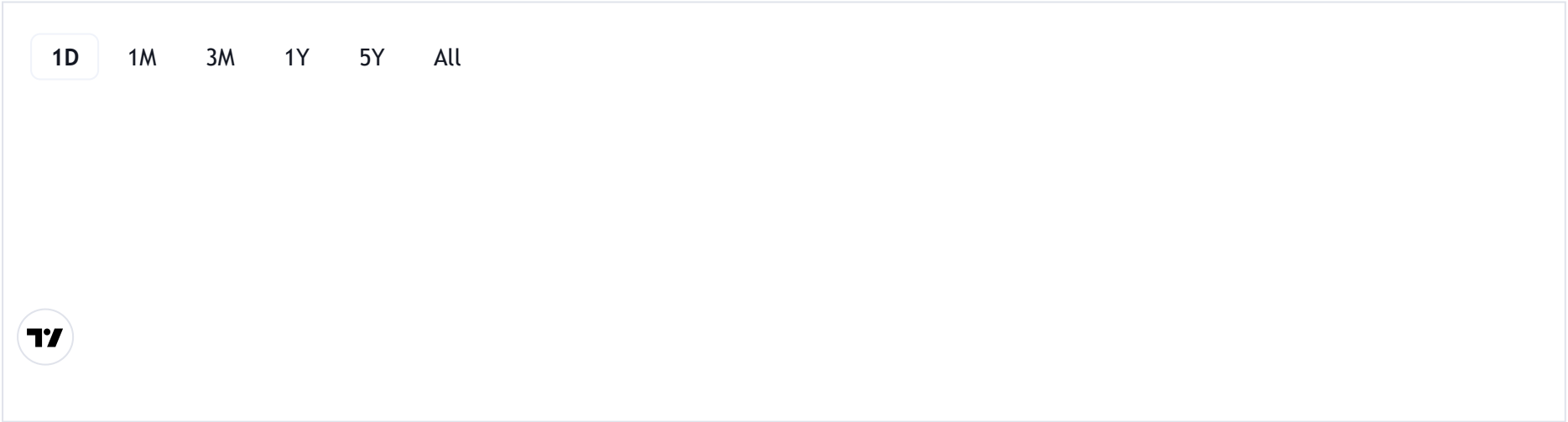
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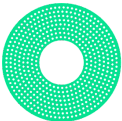
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