



ASX & MEDIA RELEASE

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SIMS LIMITED ANNOUNCES FISCAL 2020 HALF YEAR RESULTS

Results at a glance

STATUTORY	1H FY20	1H FY19	Change (%)
Sales revenue	2,709.6	3,334.1	-18.7%
EBITDA	30.5	173.1	-82.4%
EBIT	(95.2)	108.9	NMF
NPAT	(91.1)	76.5	NMF
EPS (cents) – diluted	(44.9)	37.1	NMF
UNDERLYING	1H FY20	1H FY19	Change (%)
Sales revenue	2,709.6	3,334.1	-18.7%
EBITDA	74.9	173.8	-56.9%
EBIT	(23.2)	109.6	NMF
NPAT	(34.7)	76.7	NMF
EPS (cents) – diluted	(17.1)	37.2	NMF
DPS (cents) – total	6.0	23.0	-73.9%

Key Points

- Sales revenue of \$2,709.6 million, a decrease of \$624.5 million
- Statutory EBIT loss of \$95.2 million, down from \$108.9 million profit in the prior corresponding period
- Underlying EBIT loss of \$23.2 million, down from \$109.6 million profit in the prior corresponding period
- Interim dividend of 6.0 cents per share, fully franked
- Net cash position of \$151.2 million as at 31 December 2019

Commentary

Group CEO & Managing Director, Alistair Field, on the 1H FY20 results said, “This period has been challenging for all recycling companies globally. Management has responded to the challenging first half conditions with an extensive restructuring and cost reduction programme that will achieve its full run rate of A\$30 million in FY21. Our investment in sophisticated material processing facilities coincides with customers requiring higher specification products, and we are well-placed to capture an increasing share of this demand.”

Furthermore, and on the progress of strategic initiatives, Mr Field said, “I’m pleased with the progress made in advancing our growth strategy during first half FY20. This provides a strong foundation to make further headway in FY20 and in future years.”

Group Results

Sims Limited (the “Company”) today announced an underlying EBIT loss of \$23.2 million in 1H FY20 compared to an underlying EBIT of \$109.6 million in 1H FY19. The rapid collapse in ferrous scrap prices in September 2019, combined with historically low zorba prices, severely compressed margins.

Sales revenue of \$2,709.6 million in 1H FY20 was 18.7% lower compared to 1H FY19 due to lower volumes and pricing but benefited from weakness in the Australian dollar. Non-ferrous sales volumes were stable and ferrous volumes declined 11% contributing to a total sales volume of 4.5 million tonnes.

An underlying NPAT loss of \$34.7 million, resulted in an underlying diluted loss per share of 17.1 cents for 1H FY20. The statutory NPAT loss of \$91.1 million represented a diluted loss per share of 44.9 cents.

Regional Performance

Underlying EBIT for North America Metals was break-even in 1H FY20 compared to \$55.3 million in the prior corresponding period. Metal margin declined due to intense competition for lower ferrous scrap inflow following a fall in ferrous prices and weak zorba pricing, which was partially offset by higher material recovery rates and disciplined cost management.

Underlying EBIT for Australia New Zealand Metals was \$22.3 million in 1H FY20 compared to \$51.8 million in the prior corresponding period. Proprietary sales volume declined 7.9% over prior corresponding period driven by lower ferrous prices limiting the attractiveness of material collection and sale across various supplier segments partially offset by continued healthy demand from Australian steel mills. Positive EBIT margins were supported by internal initiatives and swift cost reduction response to market conditions.

Underlying EBIT for UK Metals was a loss of \$28.4 million in 1H FY20 compared to \$6.8 million profit in the prior corresponding period. Proprietary sales volumes were down 16.4% mainly due to low pricing environment reducing ferrous scrap inflow. Negative EBIT margins were a result of unsold inventory in Q1 FY20 which was then sold at a loss, combined with low ferrous and zorba-related pricing leading to intense competition for reduced volumes. Following the challenging management conditions in Q1 FY20, management undertook a strategic restructure that provides a lower operating cost base going forward by closing 11 sites and aggregating to four larger sites that can process volumes at FY19 levels.

Underlying EBIT for Sims Lifecycle Services was \$14.8 million in 1H FY20 compared to \$10.0 million in the prior corresponding period. The results reflect the preliminary accounting for the sale of European compliance scheme operations as at 30 September 2019, which is subject to European Commission approval. The increase in EBIT was attributed to improved volumes from recycling the cloud, more selective purchasing and a higher gold price.

The Company's underlying share of results from SA Recycling was nil in 1H FY20, a \$16.8 million decline compared to prior corresponding period primarily related to the fall in zorba and twitch prices and ferrous margin compression.

Interim Dividend

The Company has declared an interim dividend for 1H FY20 of 6.0 cents per share, 100% franked. The interim dividend will be paid on 24 March 2020 to shareholders on the Company's register at the record date of 10 March 2020.

Strategic Developments

In April 2019, the Company announced a significant growth strategy for its current lines of business and an expansion into new environmental adjacencies. New regulation in China classifying high quality non-ferrous scrap as a “renewable metal” rather than “waste” from 1 July 2020 validates the strategic push into increasing non-ferrous volumes.

Good progress was made across three of the growth areas:

- Sims Resource Renewal tested Sims auto shredder residue (ASR) with two technologies which supported previous IRRs and showed emissions better than regulatory requirements;
- Sims Lifecycle Services cloud volumes achieved 8.9k tonnes in 1H FY20 and is on track to reach the FY20 target of 20k tonnes; and
- Sims Municipal Recycling won an additional contract in Florida with contract terms mitigating commodity risk.

The Company is in a strong position to further advance the strategy in the remainder of FY20 and going forward.

Capital Allocation

The Company's capital allocation strategy will continue to balance the ongoing requirement for distributions to shareholders with the need for business reinvestment to support the Company's strategy.

Market Conditions and Outlook

Providing market conditions do not deteriorate further, 2H FY20 Underlying EBIT is still expected to be within the previously guided range of \$40 million to \$60 million, adjusting for the sale of the European compliance scheme operations. Risks to this outcome include:

- Impact of the Coronavirus on both ferrous and non-ferrous demand and prices;
- Continued aggressive competitor buy side pricing (that has recently indicated some softening); and
- Change to initial signs of positive sentiment in gradual recovery of the Turkish economy.

Appendix – Reconciliation of Statutory Results to Underlying Results

\$m	EBITDA ¹		EBIT		NPAT	
	HY20	HY19	HY20	HY19	HY20	HY19
Reported earnings	30.5	173.1	(95.2)	108.9	(91.1)	76.5
Significant items:						
Legacy brand write offs	N/A ²	N/A ²	14.6	-	11.0	-
Other intangible asset impairments	N/A ²	N/A ²	13.0	-	9.4	-
Restructuring and redundancies	33.6	0.1	33.6	0.1	26.9	0.1
Loss on sale of European Compliance Scheme Operations assets, net of associated professional fees	3.2	-	3.2	-	2.9	-
Environmental provisions	11.0	-	11.0	-	8.2	-
Non-qualified hedges	1.9	(0.5)	1.9	(0.5)	1.9	(0.4)
Impact of fires, net of insurance recoveries to date	(5.3)	6.2	(5.3)	6.2	(3.9)	4.3
Non-recurring gain on asset disposition by joint venture	-	(5.1)	-	(5.1)	-	(3.8)
Underlying results³	74.9	173.8	(23.2)	109.6	(34.7)	76.7

¹ EBITDA is a measurement of non-conforming financial information.

² N/A indicates that statutory EBITDA is calculated to exclude impairment of goodwill and other identified intangible assets in the presentation of both the statutory and underlying results.

³ Underlying result is a non-IFRS measure that is presented to provide an understanding of the underlying performance of the Group. The measure excludes the impacts of impairments and disposals, as well as items that are subject to significant variability from one period to the next. The reconciling items above (before tax) have been extracted from the unaudited interim financial statements.

Authorised for release by: The Board of Sims Limited.

About Sims Limited

Founded in 1917, Sims Limited is a global leader in metal and electronics recycling, and an emerging leader in the municipal recycling and the renewable energy industries. Our nearly 4,500 employees operate from almost 250 facilities across 15 countries. The Company's ordinary shares are listed on the Australian Securities Exchange (ASX: SGM) and its American Depositary Shares are quoted on the Over-the-Counter market in the United States (USOTC: SMSMY). Our purpose, create a world without waste to preserve our planet, is what drives us to constantly innovate and offer new solutions in the circular economy for consumers, businesses, governments and communities around the world. For more information, visit www.simsmm.com.

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