

# Analyst Breakfast Briefing

17 September 2020



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## **Agenda**

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**Disposal of Viridor – 8 July 2020**

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**Profit on Disposal**

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**Earnings Per Share**

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**Net Debt**

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**Technical Guidance – FY 2020/21**



Realisation of  
significant  
strategic value

Pennon is  
focused on its  
sector leading  
water and  
wastewater  
businesses

Further  
update to  
shareholders  
at Half Year  
Results in  
November  
2020

## Disposal of Viridor

- Completion of Viridor sale to KKR announced on 8 July 2020
  - Viridor enterprise value of **£4.2 billion**
  - Net cash proceeds of **£3.7 billion** after taking into account debt and debt-like items<sup>(1)</sup> along with customary transaction costs
  - Of the £1.2 billion Pennon company borrowings (including the £300 million hybrid repaid in May 2020), Pennon announced the **retirement of up to £900 million** and a **£36 million contribution** to the Pennon Group pension scheme
  - Pennon continues to review the most **efficient and effective** method of returning value to shareholders, alongside considering **market accretive opportunities**.

(1) Net debt and debt like items included lease instruments of £0.3 billion and liabilities including provisions primarily relating to landfill operations of £0.2 billion.

## Profit on Disposal

**Accounting  
values at  
31 March  
2020**

**Profit on  
disposal will  
reflect the fair  
value of  
Viridor net  
assets at 8  
July 2020**

- **£3.7 billion proceeds on Viridor sale, including:**
  - Fair value of deferred consideration of c.£50 million
  - Customary sale costs of c.£60 million
- **Profit at a Pennon company level:**
  - Increases retained earnings and dividend capacity
  - £3.7 billion proceeds compared to the carrying value of investments which include equity and debt totaling £2.3 billion
  - Pennon assumed responsibility for Viridor's defined benefit obligations
- **Profit at a Group level:**
  - £3.7 billion proceeds is compared to the net assets at Viridor of £1.9 billion.

## Earnings Per Share – FY2020/21

**FY2020/21  
contribution  
from  
discontinued  
operations:  
1 April –  
8 July 2020**

	Underlying		Statutory EPS
	Continuing Group EPS	Continuing & Discontinued Operations EPS	
<b>Profit After Tax (underlying)</b>			
South West Water	✓	✓	✓
Pennon Water Services	✓	✓	✓
Pennon Group plc	✓	✓	✓
Viridor (discontinued operations <sup>(1)</sup> )		✓	✓
<b>Non Underlying Items</b>			
Profit on sale of Viridor			✓
Retirement of plc debt			✓

- Significant profit on the sale of Viridor considered a non-underlying item and will therefore only impact statutory EPS
- Non-recurring finance costs related to the retiring plc debt post 8 July 2020 will only impact statutory EPS.

## Net Debt

**Swift repayment of Pennon debt reduces the cost of carry of plc's debt book**

	Pennon Group Net (Debt)/Cash	South West Water Net (Debt)	Implied Pennon/Viridor Net (Debt)/Cash
<b>Full Year 2019/20</b>	(£3.3 bn)	(£2.2 bn)	(£1.1 bn)
Hybrid repayment	(0.3 bn)	-	(£0.3 bn)
<b>Viridor disposal</b>			
Transfer of Viridor debt to KKR	£0.2 bn	-	£0.2 bn
Net cash proceeds received	£3.7 bn	-	£3.7 bn
Payment of 2019/20 dividend in H1	(£0.2 bn)	-	(£0.2 bn)
<b>Total</b>	<b>£0.1 bn</b>	<b>(£2.2 bn)</b>	<b>£2.3 bn</b>

- South West Water sits within a regulatory ringfence – no impact from the sale of Viridor on net debt or gearing
- Pennon seeks to maintain a lower level of net debt to provide efficient flexibility at a Group level – slightly increasing gearing above South West Water on an RCV basis
- Net debt also impacted by announced £36 million contribution to the Pennon Group pension schemes
- Good progress being made on the retirement of Pennon company debt (which was originally drawn to fund Viridor growth) – of the up to £900 million announced in July, around two thirds has been repaid.

# Continuing Group Technical Guidance – FY 2020/21

## FY2019/20 Recap

March 31 2020	South West Water	Pennon Water Services (PWS)			Pennon Group
		Pennon Water Services	PWS (less SWW wholesale)	PWS (out of area)	
Revenue	£570m	£174m	£106m	£67m	£637m
Operating costs	(£206m)	(£172m)	(£106m)	(£65m)	(£271m)
EBITDA	£364m	£2m	£0m	£2m <sup>(1)</sup>	£365m

## Pennon Group

- **Revenue:**
  - COVID-19 net revenue impact of c.£10m for FY2020/21 is in line with initial assumptions - reduced non household demand (c.£15m including impact from customers outside of the SWW region) partially offset by increased household demand (c.£5m)



## South West Water

- **Revenue:**
  - Impact of lower tariffs based on K7 Final Determination (c.£20m)
  - Non-underlying sharing of outperformance with customers through WaterShare+ of c.£20m
- **Operating costs:**
  - Increased costs reflecting inflation, expansion to the Isles of Scilly, net of continued efficiency



## Pennon Water Services

- **Operating costs:**
  - Reduction in operating costs due to lower wholesale charges due to COVID-19
- **EBITDA:**
  - Focus on continued cost efficiency with strong collections offsetting potential bad debt impact of COVID-19.





# Q & A

