

**Proposed Sale of Viridor for £4.2 billion to KKR**

**Realising significant strategic value for shareholders**

Pennon Group Plc (“Pennon”, or the “Group”) is pleased to announce that it has entered into an agreement for the sale of Viridor Limited (“Viridor”), one of the UK’s leading recycling and residual waste businesses, to Planets UK Bidco Limited (“Bidco”), a newly formed company established by funds advised by Kohlberg Kravis Roberts & Co. L.P. (“KKR”), for an Enterprise Value of £4.2 billion (the “Transaction”).

**Transaction Highlights**

- Sale of Viridor for an Enterprise Value (“EV”) of £4.2 billion on a cash-free, debt-free basis representing an EV/EBITDA multiple of 18.5x<sup>1</sup>
- Recognises the strategic value of Viridor’s strong, diversified and complementary UK recycling and residual waste management platform and expected growth opportunities
- Net cash proceeds expected to be approximately £3.7<sup>2</sup> billion at completion, after taking into account debt and debt-like items that will remain with Viridor, and customary costs. There is also the potential for additional consideration of up to £0.2 billion contingent on future events and outcomes
- The Pennon Board intends to use the net cash proceeds to reduce Pennon’s company borrowings and make a return to shareholders, whilst retaining some funds for future opportunities
- The Transaction is conditional on approval from Pennon shareholders, merger control clearance from the European Commission and certain other conditions, and is expected to complete in summer 2020
- The Transaction was unanimously agreed by the Pennon Board to be in the best interests of shareholders
- Pennon will continue to pursue operational excellence and growth within the UK water industry.

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<sup>1</sup> Based on Viridor’s 2018/19 Adjusted EBITDA of £225.4 million.

<sup>2</sup> Net cash proceeds shown assuming completion takes place on 31 May 2020.

## **Commenting on the Transaction, Chris Loughlin, Pennon Chief Executive said:**

*“Following a detailed review of the Group’s strategic options, we are pleased to announce the proposed sale of Viridor for an Enterprise Value of £4.2 billion. The transaction is great news for shareholders as it recognises the strategic value that Pennon has developed and nurtured in Viridor over many years and accelerates the realisation of that value for shareholders. On completion of the transaction, Pennon will continue to focus on its sector-leading water and wastewater businesses and will consider further growth opportunities that create value for customers, employees and shareholders.”*

## **Dividend Policy**

Pennon’s dividend policy of 4% growth above RPI inflation will remain unchanged for this financial year (2019/20). Pennon intends to announce its new dividend policy for the K7 (2020-25) period at the Full Year Results on 4 June 2020.

## **Analyst & Investor Briefing**

Pennon will be hosting a briefing on 18 March 2020 commencing at 16:00 GMT to discuss this announcement. The webcast can be accessed directly at <http://view-w.tv/892-1187-23659/en>. A conference call facility is also available (Dial-in: +44 20 3936 2999 | PIN: 697537). The webcast can also be accessed via the Investor Relations section of Pennon’s website (<https://www.pennon-group.co.uk/investor-information>), with an on-demand replay available following the briefing.

This summary should be read in conjunction with the full text of this announcement. The Transaction constitutes a Class 1 transaction for the purposes of the Listing Rules. A circular containing details of the Transaction and a notice convening a general meeting will be posted to shareholders as soon as is practicable.

This announcement contains inside information. The individual responsible for releasing this announcement is Simon Pugsley, Group General Counsel and Company Secretary.

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## **ADDITIONAL INFORMATION**

### **Introduction**

Pennon is pleased to announce that it has entered into a conditional agreement to sell Viridor Limited (“Viridor”), its sector leading recycling and residual waste business, to Planets UK Bidco Limited (“Bidco”), a newly formed private limited company incorporated in England and Wales, established by funds advised by Kohlberg Kravis Roberts & Co. L.P. (“KKR”) for the purpose of undertaking the Transaction.

The Transaction realises an Enterprise Value of £4.2 billion on a cash-free, debt-free basis representing an EV/EBITDA multiple of 18.5x<sup>3</sup>. Debt and debt-like items remaining with Viridor amount to £0.5 billion. Accordingly, net cash proceeds on completion of the transaction (“Completion”) receivable by Pennon will be £3.7<sup>4</sup> billion.

An explanatory circular containing further details of the Transaction, the Pennon Board’s recommendation to vote in favour of the Transaction and the resolution to approve the Transaction will be sent to shareholders with a notice to convene a general meeting in due course.

### **Background to and reasons for the Transaction**

Given the strong financial performance and operational progress of the Group, coupled with the imminent start of the new K7 regulatory delivery period for South West Water and the near and medium-term growth opportunities for Viridor, the Pennon Board announced in September 2019 that it was conducting a review of the Group’s strategic focus, growth options and capital allocation (the “Review”).

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<sup>3</sup> Based on Viridor’s 2018/19 Adjusted EBITDA of £225.4 million.

<sup>4</sup> Net cash proceeds shown assuming completion takes place on 31 May 2020.

Over a number of years Pennon has supported the strategic development of Viridor with its operationally diversified and complementary portfolio across the waste hierarchy. Significant investment in the development of its Energy Recovery Facility (“ERF”) portfolio has positioned Viridor as a leader in the recycling and residual waste management sector.

It is from this strengthened position that the Board has, through the Review, considered a range of options for the Group and has unanimously agreed that the Transaction is in the best interests of shareholders and other stakeholders for the following reasons:

- Recognises the strategic value of Viridor’s strong diversified and complementary UK recycling and residual waste management platform and expected growth opportunities
- Provides an attractive value for Viridor with an Enterprise Value of £4.2 billion (representing an EV/EBITDA multiple of 18.5x<sup>5</sup>)
- Accelerates the realisation of value in cash.

### **Principal terms and conditions of the Transaction**

Pursuant to the terms of the sale agreement, Bidco has agreed to acquire Pennon’s 100% shareholding in Viridor for a cash consideration of £3.7<sup>6</sup> billion after taking into account debt and debt-like items that will remain with Viridor, and customary costs.

Net debt and debt-like items include lease instruments of £0.3 billion and liabilities including provisions primarily relating to the landfill operations of £0.2 billion.

Pennon may also receive additional consideration of up to £0.2 billion within the next six years in the event that amounts are received by Viridor in respect of certain contingent matters. The amount of any such additional consideration is dependent on future events and outcomes.

Completion of the Transaction is expected to occur in summer 2020 and is conditional on the satisfaction of the following conditions:

- Approval from Pennon’s shareholders (the Transaction is a Class 1 transaction for the purposes of the Listing Rules for which Pennon shareholder approval is required)
- Merger control clearance from the European Commission

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<sup>5</sup> Based on Viridor’s Adjusted 2018/19 EBITDA of £225.4 million.

<sup>6</sup> Net cash proceeds shown assuming completion takes place on 31 May 2020.

- The release of certain parent company guarantees and other similar commitments given by Pennon in respect of certain of Viridor's obligations to third parties (provided that this condition may be waived by Pennon at any time before completion).

As is usual in transactions of this nature, the sale agreement contains obligations on both sides to cooperate to obtain the required approvals, as well as certain warranties and indemnities<sup>7</sup>.

Pennon and Bidco have agreed in principle to enter into a transitional services arrangement under which Pennon will provide various services to Viridor.

The Board considers the Transaction to be in the best interests of shareholders. Accordingly, the Directors intend unanimously to recommend that Pennon shareholders vote in favour of the resolution at the general meeting to be convened to consider the Transaction.

Discussions with shareholders and other relevant stakeholders, including pension trustees, will be conducted in due course.

### **Use of Proceeds**

The Pennon Board intends to use the £3.7<sup>8</sup> billion net cash proceeds to reduce Pennon's Company borrowings and make a return to shareholders, whilst retaining some funds for future opportunities.

Given current market uncertainty, further details will be provided in due course and will take into account prevailing market conditions and the investment needs of the business in line with the appropriate capital allocation policy of the Group.

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<sup>7</sup> Bidco is entitled to a payment of £42 million if the sale agreement is terminated where the Pennon Board has withdrawn, modified, qualified or amended its recommendation to shareholders to vote in favour of the Transaction

<sup>8</sup> Net cash proceeds shown assuming completion takes place on 31 May 2020.

## Effects of the Transaction

As a result of the Transaction, Pennon will change the way it accounts for Viridor, including in the Group's Full Year Results to 31 March 2020, which will be announced on 4 June 2020. Until completion occurs, Viridor will be accounted for as an asset held for sale and presented in the Group's accounts as a discontinued operation.

During the current and following financial years, Pennon may incur restructuring and incremental costs relating to the separation of Viridor. Pennon will also benefit from cost efficiencies as it transitions over time to a simpler overall structure.

Following the Transaction, Pennon will focus on its sector-leading water and wastewater businesses and will continue to pursue growth within the UK water industry.

## Information on Viridor

Viridor is at the forefront of the resource sector in the UK, transforming waste into energy, high-quality recyclates and raw materials. It provides services to around 150 local authorities and major corporate clients as well as around 32,000 customers (by account) across the UK. Viridor has operated in the waste sector since the early 1990s and has developed complementary activities that deliver efficient and sustainable waste solutions with unique competitive advantages. Viridor is a partner of choice for waste management in the UK, with strong brand recognition and a reputation for operational excellence and innovation. Viridor's market-leading position ensures that it is given priority from suppliers across the entire waste value chain.

Viridor has operations across the waste value chain through ERFs, recycling, landfill and landfill gas, and a focused collections activity supporting the broader Viridor operations. Viridor operates across England, Wales and Scotland with a workforce of c.3,000 people and is headquartered in Taunton, Somerset.

### *Summary financial information of Viridor:*

<i>£ million</i>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Revenue	793.5	785.7	852.7
<b>Adjusted EBITDA</b>	<b>198.5</b>	<b>202.9</b>	<b>225.4</b>
Profit Before Tax	60.4	70.8	88.5
Gross Assets	2,117.6	2,246.7	2,502.6

### **Information on Bidco and KKR**

Bidco is a newly formed private limited company incorporated in England and Wales, established by funds advised by KKR for the purpose of undertaking the Transaction.

KKR is a leading global investment firm that manages multiple alternative asset classes, including private equity, energy, infrastructure, real estate and credit, with strategic partners that manage hedge funds. KKR aims to generate attractive investment returns for its fund investors by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation with KKR portfolio companies. KKR invests its own capital alongside the capital it manages for fund investors and provides financing solutions and investment opportunities through its capital markets business. References to KKR's investments may include the activities of its sponsored funds. As at 31 December 2019, KKR had \$218.4 billion in assets under management.

### **Information on Pennon**

Following Completion, Pennon will be a UK-focused water infrastructure group, comprising South West Water and Pennon Water Services.

South West Water is focused on providing services in the most efficient and sustainable way possible. Innovation, new technologies and a holistic approach underpins our commitment to delivering service improvement and long-term value.

South West Water (incorporating Bournemouth Water) provides water and wastewater services to a population of c.1.7 million in Cornwall, Devon and parts of Dorset and Somerset and water only services to c.0.5 million in parts of Dorset, Hampshire and Wiltshire.

Entering the new regulatory period (2020-25), South West Water is the only water and wastewater company to have achieved fast-track status for two consecutive price reviews. South West Water is focused on delivering for our customers and communities and continues to be committed to the highest standards of environmental performance. Work is already underway to deliver the commitments in the Business Plan focusing on cost base efficiency, operational performance, customer service and sustainable growth.

Pennon Water Services (an 80:20 venture with South Staffordshire Plc) provides retail water, wastewater and value-added services to over 160,000 non-household customer accounts across England and Scotland, and is focused on achieving long-term, sustainable growth.

The Pennon Board continues to progress the wider strategic review and will consider value-creating growth opportunities, in line with the appropriate capital allocation policy of the Group, as they arise. A further update will be provided at the Full Year Results on 4 June 2020.

## **IMPORTANT NOTICES**

### **Information regarding forward-looking statements**

This announcement includes statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms anticipates, believes, could, estimates, expects, intends, may, plans, projects, should or will, or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, statements regarding Pennon and its intentions, beliefs or current expectations concerning, among other things, the business, results of operations, prospects, growth and strategies of the Group and Viridor.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of operations of the Group or Viridor and the developments in the industries in which they operate, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the results of operations of the Group or Viridor and the developments in the industries in which they operate are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, changes in law and regulation, currency fluctuations, changes in business strategy and political and economic uncertainty.

Forward-looking statements may, and often do, differ materially from actual results. Any forward looking statements in this announcement reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group and its operations, results of operations and growth strategy.



Other than in accordance with its legal or regulatory obligations (including under the Listing Rules, the Disclosure Guidance and Transparency Rules and the Prospectus Rules), Pennon is not under any obligation and Pennon expressly disclaims any intention or obligation (to the maximum extent permitted by law) to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **No profit forecast or estimates**

No statement in this announcement is intended as a profit forecast or estimate for any period and no statement in this announcement should be interpreted to mean that earnings, earnings per share or income, cash flow from operations or free cash flow for the Group or Viridor for the current or future financial years would necessarily match or exceed the historical published earnings, earnings per share or income, cash flow from operations or free cash flow for the Group or Viridor.

### **Cautionary statement**

This announcement is not intended to, and does not constitute, or form part of, any offer to sell or an invitation to purchase or subscribe for any securities or a solicitation of any vote or approval in any jurisdiction. Shareholders are advised to read carefully the formal documentation in relation to the Transaction once it has been despatched. Any response to the Transaction should be made only on the basis of the information in the formal documentation to follow.

### **Important information relating to the joint financial advisers and joint sponsors**

Barclays Bank PLC, acting through its Investment Bank (“Barclays”), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for Pennon and no one else in connection with the Transaction and will not be responsible to anyone other than Pennon for providing the protections afforded to clients of Barclays nor for providing advice in relation to the Transactions or any other matter referred to in this announcement.

Morgan Stanley & Co. International plc (“Morgan Stanley”), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting exclusively as sponsor, financial adviser and corporate broker to Pennon and for no one else in connection with the Transaction and will not be responsible to anyone other than Pennon for providing the protections afforded to clients of Morgan Stanley or for providing advice in relation to the Transaction, the contents of this announcement or any transaction, arrangement or other matter referred to in this announcement.