



# Consolidate-And-Recycle (CARE) Fund

A fund to invest in the growth and expansion of small companies across the waste management value-chain and create integrated players who can capture a portion of the high-margin business from existing near-monopolies while creating a competitive market for recycling services in the USA and providing affordable recycling opportunities to communities

## THE CHALLENGE

China's ban on importing waste has stalled global recycling and has shaken up the \$76 billion US waste management industry. The present landscape is highly monopolistic in nature, with top 4 companies controlling ~50% of an industry with over 25,000 players. Most smaller companies offer either any one or a combination of collection, recycling and disposal services. However, market leaders have vertically integrated operations allowing substantial cost savings as well as the ability to offer bundled long-term services to municipalities. Lack of integration makes it virtually impossible for smaller companies to compete in tenders and offer the range of services currently being provided by the giants. With China's ban in place, these small players have been priced out of the market and consequently, near monopolies are leveraging their bargaining power to significantly hike waste recycling rates (sometimes by 4x). This has forced many US cities/municipalities to considerably limit or completely discard their recycling plans and resort to landfilling or burning their trash.

## SOLUTION

We propose an investment fund which will acquire majority (51%) equity stake in small to mid-sized recycling, waste collection and disposal companies while also infusing further funds into them for expansion. The recycling companies will enter into long-term contracts with its collection and disposal counterparts for exchange of services. With a portfolio of waste management companies operating at each level of the value chain, we can now replicate the vertical integration of current dominant players and offer similar bundled services to municipalities. We propose to offer a rate considerably lower than what is being charged presently and assure a minimum recycling volume (while maintaining viable margins) to secure the 5-15-year municipal trash contracts.

Through this we aim to:

- Provide a cost-effective and environmentally sustainable solution to communities presently forced to choose an unsustainable alternative
- Create a dent in the near-monopoly status of current players at the regional level and establish a competitive market for waste management businesses, inevitably moderating rates from their inflated level
- Assure our portfolio companies of long-term contracts and continued operations, thus encouraging innovation and expansion
- Reduce the high barriers to entry, promoting entry and competition from other small players in this high-margin industry
- Develop recycling as an economically sustainable alternative to the traditional industry focus on landfills
- Promote sustainable household waste disposal through shift from single stream disposal to multi-stream recycling



## FUND PROFILE

Addressable market size	\$ 76 billion
Fund Size	\$ 30 million
Target IRR	16-23%
Management Fees	2% + deferred incentives
Asset Class	Bonds and Equity
Investment Time Horizon	10-15 years
Target Fund Leverage	1:1
Target Geography	Florida (focus on Broward County)
Target Investors	Institutional Investors, Family Offices, Impact-Oriented Investors, HNIs

## INVESTMENT CRITERIA

The fund focuses on South-Florida where several counties have been terminating/diluting contracts with industry giants who have been demanding significantly higher prices (e.g. hike from \$51/ton to \$96/ton). We focus particularly on the Broward County where cities like Sunrise and Deerfield Beach, because of lack of cost-effective alternatives have resorted to suspending contracts and burning/landfilling their trash. The fund aims to acquire companies with:

- Revenues ranging from \$ 2 million - \$ 15 million
- Adequate asset base
- Growing or stable revenues (at least before 2018 ban)
- Presence in Florida and/or neighboring states
- Long track record of operations
- Experienced management profile

## INVESTMENT RETURN ANALYSIS



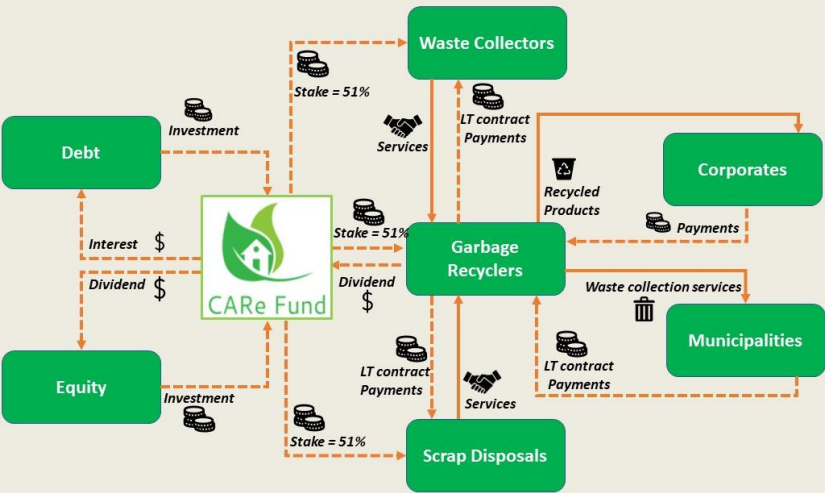
120K-219K reduction in CO<sub>2</sub> emissions

0.23-0.55 million cubic yards of landfill space saved

## KEY ASSUMPTIONS

- Initial market share in Broward County: 20% (2% annual increase)
- Rate/ton charged from customers: \$50 (annual 5% rate hike)
- 328k-718k tons Annual Plant Input Capacity over 10 years
- 70% Portion of collected waste recycled
- \$148/unit Avg. SP of Recycled Products

## FUND STRUCTURE



## RISK FACTORS AND MITIGATION STRATEGIES

Risks	Mitigation
<b>Economic</b> <ul style="list-style-type: none"> <li>Failure to acquire companies</li> <li>Failure to secure contracts</li> <li>Competitor response</li> </ul>	<ul style="list-style-type: none"> <li>Hire external advisors during the negotiation process</li> <li>Target companies with demonstrated capabilities of securing waste management contracts</li> <li>Long-term contracts with municipalities containing high compensatory damages and minimum supply clauses</li> </ul>
<b>Operational/Technological</b> <ul style="list-style-type: none"> <li>Failure to run integrated operations</li> <li>Poor recycling technology</li> </ul>	<ul style="list-style-type: none"> <li>Each company managed independently with experienced teams and managers overseeing them</li> <li>Target companies with proven cost-effective and scalable recycling technology; regular capex upgradation</li> </ul>
<b>Socio-Political</b> <ul style="list-style-type: none"> <li>Resistance to change</li> <li>Unfavorable regulatory changes</li> </ul>	<ul style="list-style-type: none"> <li>Target cities with high awareness towards recycling</li> <li>Management teams maintain ongoing relations with authorities to highlight benefits of CARE</li> </ul>

## IMPACT METRICS

Impact Metrics- Projected 10 years results

<b>Environmental</b>	<ul style="list-style-type: none"> <li>0.23-0.55 million cubic yards of landfill space conserved</li> <li>120K-219K tons reduction in CO<sub>2</sub> emissions from landfills and incinerations</li> </ul>
<b>Economic</b>	<ul style="list-style-type: none"> <li>Investor access to a recession-proof high-margin industry</li> <li>Increased balance of bargaining power between buyers and sellers</li> <li>Organic and inorganic growth of small and regional businesses</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>Direct and Indirect job creation through improved recycling supply chain</li> <li>Improved health outcomes and quality of living</li> </ul>

## HIGH POTENTIAL FOR SCALABILITY

States	Cities	Opportunity
Alabama	Enterprise, Phenix, Opelika, Birmingham	<ul style="list-style-type: none"> <li>Waste processing fees more than doubled</li> <li>Recycling facilities hours reduced</li> <li>Presence of suitable acquisition targets</li> </ul>
California	San Diego, San Jose, Alameda, Bakersfield	<ul style="list-style-type: none"> <li>Aggressive waste reduction targets</li> <li>Closure of recycling centers</li> <li>High awareness of recycling</li> </ul>
Colorado	Boulder, Denver, Fort Collins	<ul style="list-style-type: none"> <li>High stakeholder participation</li> <li>Increased dominance of Big4 companies</li> <li>Concerted waste diversion plans</li> </ul>
Washington	Seattle, Spokane, Tacoma, Skagit	<ul style="list-style-type: none"> <li>Efficient existing recycling programs</li> <li>Aggressive waste reduction targets</li> <li>Many recycling programs facing uncertainties</li> </ul>
Connecticut	Stamford, New Canaan, Beacon Falls	<ul style="list-style-type: none"> <li>Increasing awareness for waste recycling</li> <li>Development of recycling plans</li> <li>Increased dominance of Big4 companies</li> </ul>

## DUE DILIGENCE

<b>Operational:</b> Ready Markets, Viable Target Companies, Steady Revenue Streams	<ul style="list-style-type: none"> <li>Several cities in Broward County, Florida have suspended contracts with industry giants and are presently burning/landfilling their trash, thus providing ready markets to launch our services</li> <li>There are numerous small waste collection, recycling and disposal companies in the area, which provide a basket of targets</li> <li>Most contracts with municipalities are awarded for 5-15 years, ensuring long-term business availability</li> <li>Increasing regulatory focus on use of recycled products offers a market for our recycled products</li> </ul>
<b>Financial:</b> Industry ripe for vertical integration, History of profitable investments and exits, High demand for sustainable investing opportunities	<ul style="list-style-type: none"> <li>Private Equity firms are making sizable profits through investments in waste management companies (E.g. In 2020, PE firm Clairvest exited County Waste LLC with a 30% IRR after a 7-year holding period during which County Waste had carried out 60 strategic integrations)</li> <li>The China trash ban has fueled integration and consolidation in the US waste management and environmental industry with \$8.1bn M&amp;A deals in 2019 (vis-à-vis \$1.8bn deals in 2018)</li> <li>High demand for impact investing opportunities with sustainable funds seeing record high investments of \$20.6bn in 2019, nearly 4x the inflow for 2018</li> <li>Average EBITDA of Top 4 vertically integrated players was 30% in 2018</li> </ul>
<b>Regulatory:</b> Favorable regulations in Florida, International agreements in place to arrest climate change	<ul style="list-style-type: none"> <li>Florida is falling short of meeting its recycling goal of 75% by 2020 and is actively pursuing recycling opportunities</li> <li>Florida has a stringent 80% greenhouse gas emission reduction target by 2050 (from 1990 levels) and is working to reduce CO<sub>2</sub> from landfills and incineration</li> <li>South-Florida lawmakers have been taking the lead in combating climate change through moves like the creation of Climate Solutions Caucus</li> <li>Global agreements by USA like the Copenhagen Accords and Kyoto Protocol support our cause</li> </ul>