



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	10-12%
Management Fees	2% + performance-based 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

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
- Presence in Florida and/or neighboring states
- Strong experience in waste management value chain
- Experienced management profile

INVESTMENT RETURN ANALYSIS



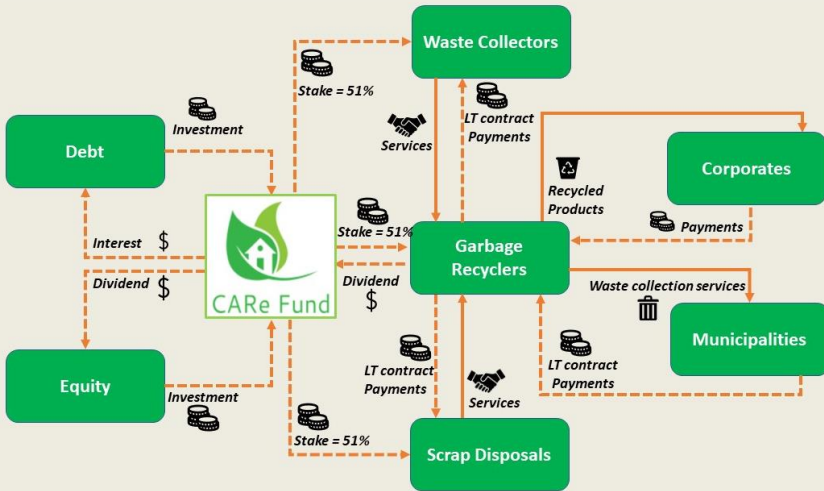
237-419K reduction in CO₂ emissions

0.45-0.79 million cubic yards of landfill space saved

KEY ASSUMPTIONS

- Initial market share in Broward County: 20% (2.5% annual increase)
- Rate/ton charged from customers: \$50 (no rate hikes in next 5 years)
- Average D/E ratio in portfolio companies in next 5 years: 0.6 times
- 8% debentures with 15-year tenure issued to portfolio companies along with preference and equity shares

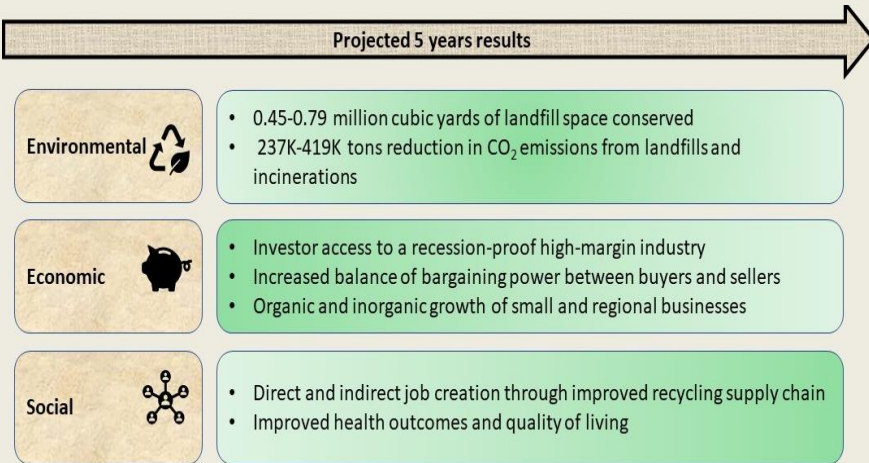
FUND STRUCTURE



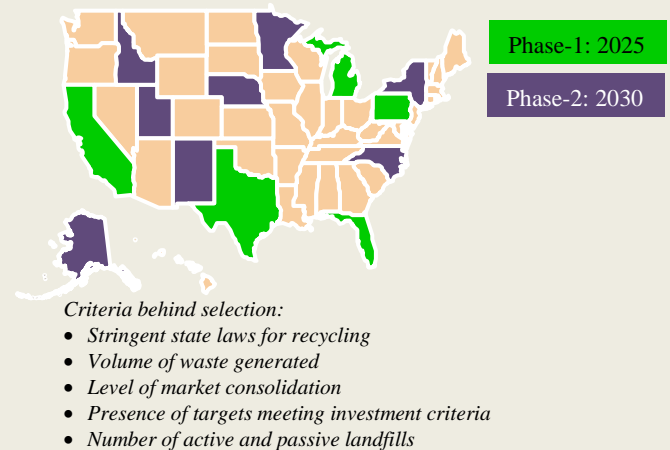
RISK FACTORS AND MITIGATION STRATEGIES

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

IMPACT METRICS



HIGH POTENTIAL FOR SCALABILITY



DUE DILIGENCE

Operational: <i>Ready Markets, Viable Target Companies, Steady Revenue Streams</i>	<ul style="list-style-type: none"> 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 We have identified around 10 waste collection, 6 waste recycling and 8 waste disposal companies in the area, which fit our investment criteria Most contracts with municipalities are awarded for 5-15 years, ensuring long-term business availability Increasing regulatory focus on use of recycled products offers a market for our recycled products
Financial: <i>Industry ripe for vertical integration, History of profitable investments and exits, High demand for sustainable investing opportunities</i>	<ul style="list-style-type: none"> Private Equity firms are making sizable profits through investments in waste management companies (E.g. In 2015, PE firm Ambienta exited Envirogen Group with a 20% IRR after a 4-year holding period during which Envirogen had carried out several strategic integrations) The China trash ban has fueled integration and consolidation in the US waste management industry with 75 M&A deals in H1 2019 (vis-à-vis 43 deals in H1 2018) High demand for impact investing opportunities with sustainable funds attracting \$8.9bn in H1 2019 alone, as against \$5.5bn for all of 2018 Average EBITDA of Top 4 vertically integrated players was 30% in 2018
Regulatory: <i>Favorable regulations in Florida, International agreements in place to arrest climate change</i>	<ul style="list-style-type: none"> Florida is falling short of meeting its recycling goal of 75% by 2020 and is actively pursuing recycling opportunities Florida has a stringent 80% greenhouse gas emission reduction target by 2050 (from 1990 levels) and is working to reduce CO₂ from landfills and incineration South-Florida lawmakers have been taking the lead in combating climate change through moves like the creation of Climate Solutions Caucus Global agreements by USA like the Copenhagen Accords and Kyoto Protocol support our cause