

# Enviro: Fantastic and long-awaited news

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Redeye is positively surprised by the fact that Enviro will establish a JV with Antin Infrastructure Partners (one of Europe's largest private equity firms within infrastructure investments) and, in the future, Michelin (the top 2 largest tyre manufacturer in the world). This means Antin will bring capital and its expertise in scaling infrastructure platforms, while Michelin has signed multi-year supply agreements for both recovered carbon black (rCB) and tyre pyrolysis oil (TPO) – which will all be combined with Enviro's patented technology. This is the news we have been waiting for since 2020, and we believe this structure gives Enviro a solid foundation to execute its growth strategy of deploying plants capable of handling 1m tons of end-of-life tyres per annum by the end of 2030. We provide a summary of the press release in this research note while sharing our thoughts on the announcement.



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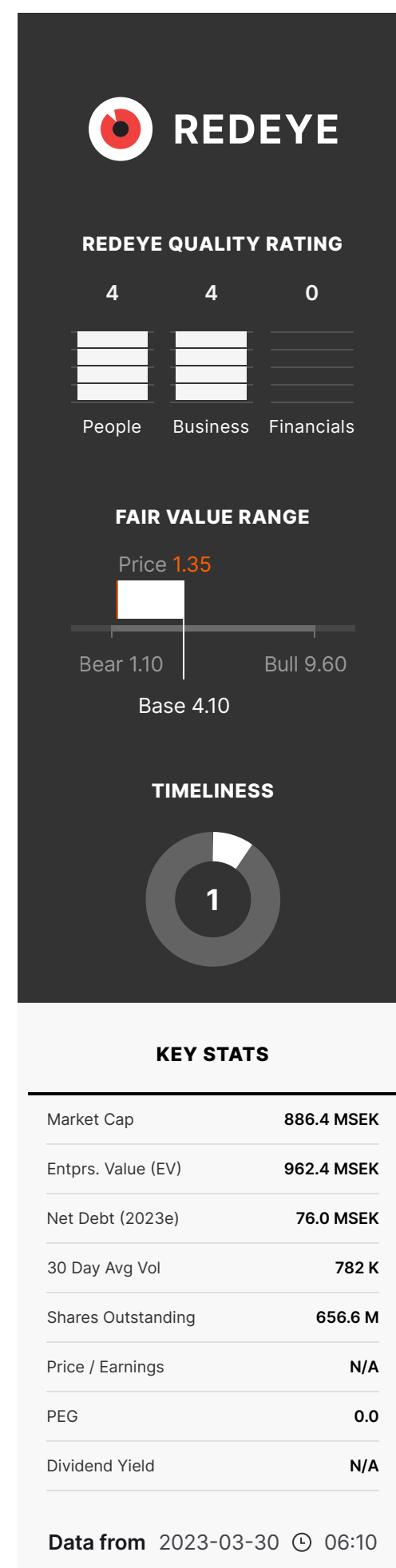
Yesterday, at 17.45 Swedish time, Enviro press released it is forming a joint venture (JV) with Antin Infrastructure partners to create the world's first large-scale tyre recycling group, supported by Michelin. We summarize the press release as follows:

- Antin, a European-based private equity infrastructure firm with an AUM of EUR30bn, will secure initial investments in the JV.
- Enviro intends to review Enviro's long-term capital needs to fund the ownership of the JV as soon as possible over the coming 24 months.
- Enviro will have no initial ownership in the JV but has the option to acquire ownership corresponding to 30%.
- Enviro will receive revenue through service fees and an "asset fee" (based on the profitability of each plant). And in the future as a minority owner in the JV.
- The first commercial plant will be in Uddevalla, capable of handling 34.5ktons or 40% of Sweden's total ELT supply. Construction start is expected H1 2023, and it is expected to be fully operational in 2025.
- Site selection in other European countries has been initiated, with an aim to build capacity for up to 1m tons of ELT by 2030- or 1/3 of all ELT in Europe.
- Enviro's patented technology will be licensed to the JV exclusively throughout Europe.
- Michelin is planning to join the JV as a partner as the future plants are built. The JV has also secured a multi-year supply agreement with Michelin for the first plants to be established. This agreement includes delivery of both recovered carbon black (rCB) and tyre pyrolysis oil (TPO).

## Redeye's thoughts on this announcement:

This is the news we have been waiting for since Enviro signed its first partnership deal with Michelin in 2020. We have been awaiting offtake agreements and funding for Enviro to be able to kick start its long-term growth journey and to capitalize on the untapped value potential end-of-life tyres offers.

Through a JV with Antin Partners, Enviro gets a financial partner with EUR30bn in AUM that has experience of scaling infrastructure platforms – which is exactly what Enviro needs at this point.



## IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

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Antin has a long track record of successful investments and a team of 200+ employees and is one of Europe's largest private equity firms within infrastructure investments.

Furthermore, it grants Enviro the opportunity to receive royalties from the first plants without having to invest heavily. Still, it does not mean Enviro will give away its technology for free or without any investment, as it has the opportunity to acquire 30% of the JV in the coming years.

Furthermore, Michelin supports the JV by having signed multi-year supply agreements for both rCB and TPO, which de-risks the business case significantly while it provides significant predictability in revenues. Michelin is also planning to join the JV as a partner as future plants are built.

We find it positive that a JV will be formed between Enviro, Antin, and also Michelin in the future. This structure should allow for a smooth roll-out relative to if every single plant would have different types of investors and off-takers for rCB and TPO. It also offers all parties to participate on relatively equal terms – given that they bring different know-how and expertise to the table. We also think it signals that all parties have “verified” each other, wish to form a long-term partnership, and have identified this business opportunity.

We also find it very interesting that an infrastructure fund decides to invest in this type of venture, as it signals that Enviro offers a long-term and “green” infrastructure investment rather than just being an industrial company. Given the massive amounts of pension capital ready to be deployed in infrastructure investments, we argue that this could open up additional attractive business opportunities in the future. For instance, Private equity firms are known for having a 5-7 year horizon on their investments before making an exit. Should the JV have a portfolio of recycling plants corresponding to 1m tons ELT, with long offtake agreements, could it make an attractive investment for pension capital while still generating royalties to Enviro.

The press release does not state what the 30% investment in the JV will amount to, how it will be financed, nor what service fees and royalties will look like. Neither does it say at what price or volumes Michelin has undertaken.

Either way, we believe the terms for offtake agreements will be largely in line with what Enviro has previously communicated; otherwise, we think it should have been modified. We also believe the financial details regarding service fees and royalties will likely be of sound terms for Enviro and its shareholders, even if it is not stated in the press release. We also think Enviro has 24 months to come up with financing, which could open up various forms of funding.

We think investors should focus on the fact that a financial partner like Antin is choosing to invest in/with a company like Enviro, and a technology that is yet to prove its commercial viability on a large scale, at this point in time. This should put Enviro in a very good position to execute its strategy to deploy recycling plants capable of handling 1m tons ELT per year by 2030. This figure can be put in relation to our previous estimate of 1m tons by 2036.

To put these numbers in perspective, using Enviro's own P&L assumptions from its latest presentation in 2022, where a single 30kton plant is expected to generate roughly SEK150-200m in EBITDA, this could imply an annual EBITDA for the JV of SEK5bn-6.5bn by 2030.

Enviro will hold a webcast hosted by Alf Blomqvist (Chairman of the board) this morning, 30 March 09.00 Swedish time, where viewers can ask written questions (See link below)

<https://ir.financialhearings.com/press-conference-march-2023>

It is hard to assess what a fair share price reaction will be, given that there are many numbers missing at this point (even if it will crystalize in time). However, given the wide range of our fair value range, we expect the Enviro shares to surge today following this announcement. We will review our long-term assumptions in the coming week and get back with updated estimates and fair value range.

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