



VOLUME 2:
INVESTMENT INTO THE UK CIRCULAR ECONOMY

CIRCULAR ECONOMY SERIES

JULY 2022

BDO CIRCULAR ECONOMY SERIES

INTRODUCTION



TODD MILLS
CIRCULAR ECONOMY | M&A

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The Circular Economy financing market is taking off. Increasingly recognised as a crucial part of the solution to climate change and other ESG issues, the Circular Economy also offers significant opportunities for new and better growth. Now is the time for private investors to capitalise on this industrial transformation, and help scale the Circular Economy.

ELLEN MACARTHUR FOUNDATION

”

When thinking about the Circular Economy the first consideration for most people, quite rightly, is the environment. It is about tackling climate change by preserving the environment and eliminating waste. It's about a new way of thinking, transitioning away from traditional linear models that use finite resources to produce goods and services, towards regeneration and reuse. In recent years this has been accompanied by a growing acknowledgement that these Circular Economy principles also encourage economic innovation and growth.

The Circular Economy is, and will continue to be, a disrupter across all traditional sectors, and where there is disruption, there is the opportunity to create value. According to the World Economic Forum, the Circular Economy could yield up to \$4.5 trillion in economic benefits globally by 2030.

The transition to a circular economy is creating a unique opportunity for entrepreneurs and investors to collaborate. For entrepreneurs, it provides the opportunity to completely re-think practices and processes in the design of new products, services and business models.

For private equity investors, ESG considerations are moving with ever increasing pace towards the top of investment agendas. 88% of limited partners now consider ESG impact when making investment decisions.

Historically the focus of ESG related investments has also largely centred around renewable energy. Renewable energy is no doubt critically important in tackling climate change, yet with existing technologies this transition would only address 55% of global greenhouse gas emissions. The remaining 45% of global greenhouse gas emissions come from industry and agriculture, and these require circular thinking and circular business models to eliminate. With levels of available private equity capital in the UK at an all-time high, more and more investors are turning to the Circular Economy.

How is the Circular Economy driving returns, and what can investors offer circular business entrepreneurs?

WHY BDO ARE EXCITED ABOUT THE CIRCULAR ECONOMY?

THE TRANSITION AWAY FROM LINEAR BUSINESS MODELS BRINGS VALUE CREATION TO SUSTAINABILITY GOALS

01

SOCIO-ENVIRONMENTAL

Supporting the Circular Economy to grow and succeed will deliver multiple benefits across society and the environment. Reducing waste and inefficiencies is just the start.

02

MULTI-DIMENSIONAL

The Circular Economy touches all sectors. It provides a framework for all to challenge current linear processes and do things better and more efficiently, using less to deliver more.

03

CIRCULAR ENTREPRENEURS

Circular business models provide endless opportunities for the UK's talented entrepreneurs to do things differently; redesigning processes, developing new products and creating value add services.

04

PRIVATE EQUITY

The UK private equity market has more capital to deploy than ever before. ESG continues to move ever higher up the investor agenda, making circular businesses extremely attractive.

05

EXPERTISE ENABLING GROWTH

BDO's core expertise has been built in advising entrepreneurs and private equity backed businesses. Now, the Circular Economy is creating the perfect environment for both to thrive and grow hand in hand.

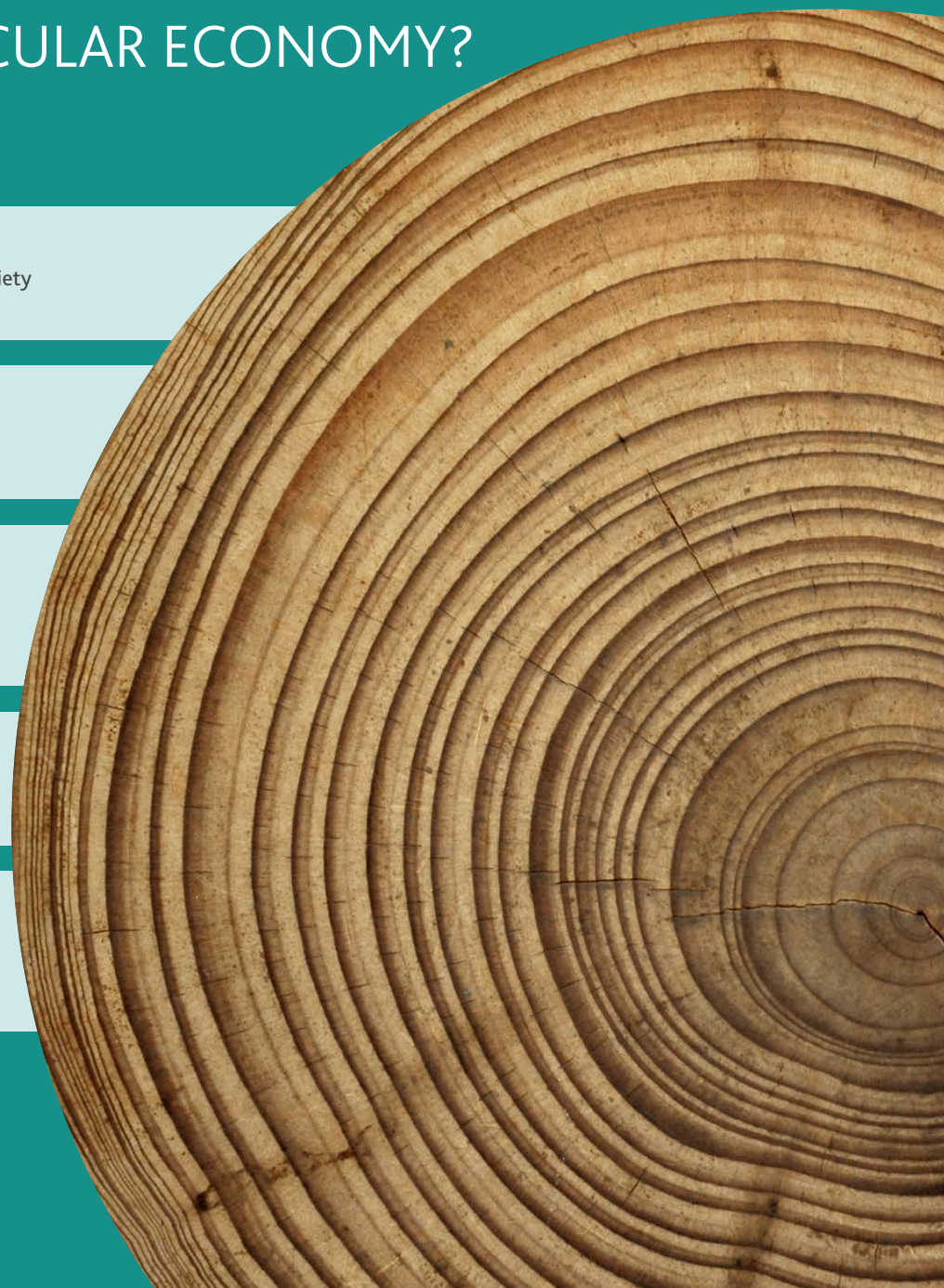
GET IN TOUCH WITH OUR CIRCULAR ECONOMY SPECIALISTS

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BDO CIRCULAR ECONOMY SERIES

INVESTMENT ON THE UP

In the second edition of the BDO Circular Economy Series we take a look at the changing attitude of private investors towards businesses leading the transition to a Circular Economy.

In the UK the number of Circular Economy businesses receiving external backing has increased from 42 in 2018 to 119 in 2021.

Sustainability has become more than just a tick box exercise and companies operating Circular business models are proving a compelling investment proposition.

Having reviewed all private UK Circular Economy investments from 1 January 2018 to 31 December 2021, we consider:

- 01** WHO IS INVESTING IN CIRCULAR ECONOMY BUSINESSES IN THE UK
- 02** THE KEY DRIVERS BEHIND INCREASED INVESTMENT ACTIVITY IN THE SPACE
- 03** WHICH SECTORS ARE BEING INFLUENCED BY CIRCULAR TRENDS
- 04** WHAT INVESTORS CAN OFFER BUSINESS OWNERS IN RETURN

INVESTMENT HEADLINES



ANNUAL INVESTMENT IN UK CIRCULAR ECONOMY COMPANIES HAS TRIPLED IN VOLUME FROM 2018 TO 2021



INVESTORS HAVE DEPLOYED OVER £1.5BN IN CIRCULAR ECONOMY COMPANIES OVER THE PAST FOUR YEARS, WITH £788M OF DISCLOSED INVESTMENT IN 2021



VENTURE CAPITAL INVESTORS ACCOUNTED FOR 50% OF 2021 UK CIRCULAR ECONOMY INVESTMENTS WITH A MEDIAN DISCLOSED CHEQUE SIZE OF £2.4M



MID-MARKET PRIVATE EQUITY INVESTORS ACCOUNTED FOR 22% OF 2021 UK CIRCULAR ECONOMY DEAL VOLUMES, UP FROM 6% IN 2020, INCREASING AS THE CIRCULAR ECONOMY MARKET MATURES



INDUSTRIALS AND MANUFACTURING IS THE MOST PROMINENT SECTOR FOR CIRCULAR ECONOMY INVESTMENT, ACCOUNTING FOR 37% OF DEAL VOLUMES IN 2021



TECHNOLOGY IS PLAYING A CRITICAL ROLE IN THE TRANSITION TO A CIRCULAR ECONOMY WITH 26% OF 2021 INVESTMENTS BEING MADE INTO TECHNOLOGY LED BUSINESSES

WHAT IS DRIVING INVESTMENT IN THE CIRCULAR ECONOMY?

CAPITALISING ON EVOLVING ATTITUDE OF SOCIETY TOWARDS SUSTAINABILITY

USING LESS TO DELIVER MORE

01

The drive towards circular waste management is a drive towards efficiency; cutting out waste cuts out cost. Using and re-using naturally sustainable raw materials is inevitably cheaper than having to source new raw materials for every product, but efficiencies aren't just limited to the supply side. One of the major economic benefits of the Circular Economy is that it promotes circular business models that extend the value generating potential of a product. How can items be maintained or refurbished to ensure they last longer? Can products traditionally owned by a single consumer be rented or sold multiple times for a combined value that exceeds a one-off sale? **The Circular Economy is about using less to deliver more; a simple concept, but one that is an obvious attraction for investors.**

PRESSURE FROM INSTITUTIONAL INVESTORS

02

Venture Capital, Private Equity and debt funds are increasingly under pressure from their investors to examine the environmental, social, and sustainable impact generated by their portfolios. Reputational damage from being associated with assets that have negative ESG impacts is a risk that institutional investors now cannot afford to take. **The Circular Economy is increasingly recognised as an essential part of the solution to the climate crisis, and the importance of investment in the circular economy continues to be impressed upon investors.**

SUPPORTIVE GOVERNMENT LEGISLATION

03

The UK Government doesn't just want the Circular Economy to succeed; it needs it to. In order to achieve its ambitious net zero targets, a whole raft of legislation was introduced that supports and promotes businesses leading the way on Circular innovation. In April 2022 the plastic packaging tax was introduced, and in 2024 the Government will roll out the Extended Producer Responsibility Scheme, which will require producers to bear the cost of post-consumer packaging waste disposal. **Government policy is only heading one way on this - the incentives for sustainable, circular businesses (and the penalties for those who don't act responsibly) will continue to increase.**

CONSUMER DRIVE TOWARDS SUSTAINABILITY

04

Societal demand for sustainable goods and services has never been higher, with the UK market valued at over £40bn. Sustainability is now actively driving buying behaviours, with a 71% rise in online searches for sustainable goods globally over the past five years. Consumers no longer need to own products outright with renting or re-using often preferred. Second hand is becoming fashionable, and awareness of the benefits of circular economy is rising. **Aligning with consumers' values by partnering with Circular Economy businesses is an attractive proposition for investors, allowing them to share in sustainable growth trends.**

ACCESS TO THE EXPANDING CIRCULAR ECONOMY TALENT POOL

05

The next generation of talented young entrepreneurs is gravitating towards the Circular Economy, with a purpose-driven career becoming just as important as take-home pay. 70% of millennials would prefer to work at an employer with strong sustainability credentials, with three quarters willing to take a pay cut to do so and by 2025, millennials will make up 70% of the UK workforce. 94% of Generation Z believe that companies should address urgent social and environmental issues and will consider the ethical merits of a company when assessing their employment options. **With access to talent a critical consideration for any investor, the increasing importance of sustainability issues to employees should build confidence that circular economy businesses will be able to attract and retain top talent.**

ATTRACTING THE ATTENTION OF GLOBAL CORPORATES

06

Sustainability is no longer a tick box exercise. Whether it's driven by reputational concerns, or being dictated to via government legislation, over 20% of the world's 2,000 largest public companies now have net-zero commitments. Corporates are beginning to rely on innovative, agile and entrepreneurial circular businesses to help meet targets quicker and more efficiently than they would be able to internally. Critically for Private Equity, this naturally shapes the M&A strategy of the same corporates. **Being confident of a successful exit is a key consideration when making an investment, and a growing pool of trade acquirers is helping Circular Economy businesses become an increasingly compelling investment proposition.**

PRIVATE EQUITY VIEW

CIRCULARITY CAPITAL'S DAVID MOWAT DISCUSSES THE IMPORTANCE OF CHOOSING THE RIGHT INVESTOR



DAVID MOWAT
CIRCULARITY CAPITAL

David Mowat is a Founding Partner of Circularity Capital. David is a member of Circularity's Investment Committee and has a principal focus on portfolio management across the firm as well as representing Circularity on a number of investee company boards.

ACCELERATING TOWARDS THE CIRCULAR ECONOMY

A growing number of businesses are adopting circular business models as an alternative to wasteful, traditional linear 'take-make-dispose' models of production and consumption. From the resulting increased resource productivity and growth potential, circular businesses are able to deliver enhanced financial returns and capture measurable non-financial impact.

We believe that there are several factors that are accelerating the transition towards the circular economy.

Firstly, circular business models make sound commercial sense – an example would be the Dutch healthcare giant, Philips, providing 'access over ownership' solutions in shifting from selling MRI machines to hospitals to selling the outcome of medical imaging.

This is resulting in a superior outcome for customers, as well as closing the loop on hardware and constituent input materials and components, driving higher margins.

The circular design inherent in these solutions acts to extend product useful lives and improve maintenance and repairability, thus enhancing returns.

Secondly, we are seeing increasing regulation as a new generation of consumers (and subsequently global brands) demand enhanced product sustainability (including the new EU Circular Economy Action Plan). We are also seeing technology accelerate circularity, with the prevalence of data and smart devices enhancing visibility of waste streams, asset and resource utilisation. Further, we are seeing clear evidence of a shift in investor appetite for investment opportunities that deliver collinear financial returns and positive non-financial impact.

CIRCULARITY CAPITAL LED A £16.75M GROWTH CAPITAL ROUND IN BIKE CLUB – MAY 22

Through its transformational access-over-ownership rental approach, Bike Club enables the use of children's bicycles across multiple lifecycles, through subscription and refurbishment. Alongside prolonging the average lifetime of each model, the subscription service keeps waste out of landfill and displaces virgin manufacturing.

BDO Corporate Finance were delighted to provide buy-side due diligence in relation to the acquisition.



PRIVATE EQUITY VIEW

CIRCULARITY CAPITAL CLOSED ITS SECOND FUND AT €215M IN EARLY 2022

CIRCULAR ECONOMY BUSINESSES DESERVE A SPECIALIST INVESTOR

We established Circularity Capital in 2015 with the clear conviction that businesses in the circular economy deserve a specialist investor with the right expertise, insight, and network to support them achieve their full potential. In doing so, we also believed that private equity can play an important role in helping circular entrepreneurs accelerate their growth. It's because of this that we're invested heavily in developing the circular-specific expertise and the right network to support circular entrepreneurs unlock their full potential and scale internationally. We can now see first-hand how this strategy is driving growth in our portfolio.

EXPERTS IN SCALING PAAS BUSINESS MODELS

Circularity portfolio company Grover enables individuals and businesses to rent technology monthly, removing the need for upfront purchase costs and providing more flexibility than a financing plan. The subscription service provides access to more than 5,000 products and offers control of the subscription length to maximise affordability.

At the end of the original subscription period, the customer can either buy the product, send it back or continue on a month-to-month basis.

Returned products are refurbished to an 'as new' condition and recirculated to make sure they stay in use and out of landfill. When the product reaches end of life, Grover's circular supply chain ensures the materials are reused or recycled.

When Circularity first backed Grover in 2018 the business was operating in Germany and had approximately 8,000 customers, the business now has more than 236,000 customers and has expanded into Austria, the Netherlands, Spain, Switzerland and, most recently, the United States.

CIRCULARITY CAPITAL HAS MADE ELEVEN CIRCULAR ECONOMY INVESTMENTS TO DATE

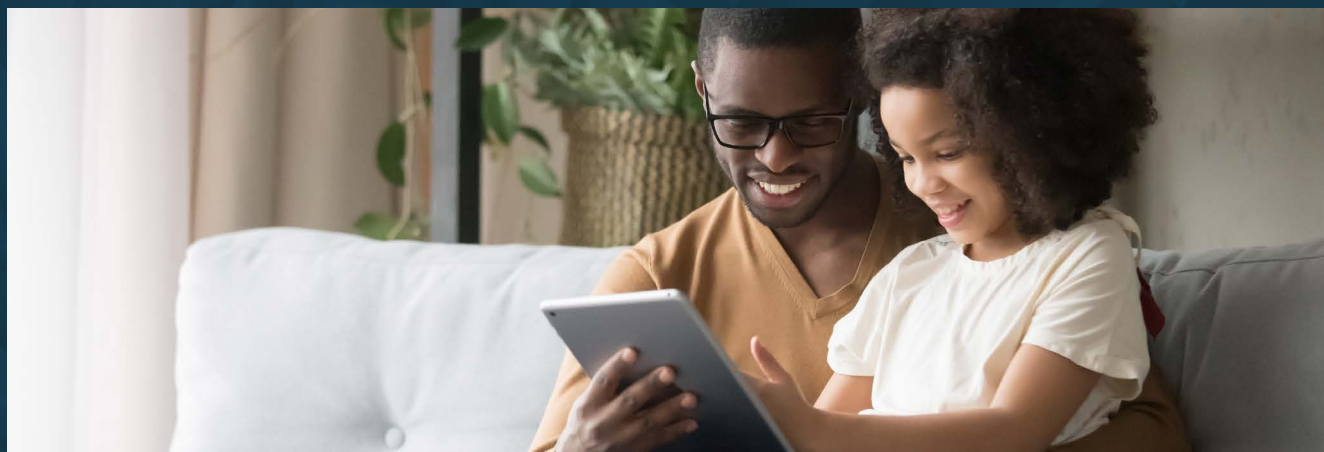
To date, Circularity Capital has made eight investments from its first fund and three investments from the second fund which closed its fundraising at €215m in early 2022.

Portfolio companies include ZigZag, a multi-award-winning SaaS platform for eliminating retail returns wastage; sold by Circularity to NYSE listed Global Blue in March 2021; Shark Solutions, a global leader in advanced recycled PVB products, nominated as one of Bloomberg's 50 Global Positive Change Leaders; and most recently in children's cycle subscription service Bike Club, a perfect example of a circular business model allowing a flexible access over ownership solution for every day products.

Circularity has the support of blue-chip institutional investors including pension funds, fund of funds, insurance companies and family offices across Europe, UK and North America.

ABOUT CIRCULARITY CAPITAL

Circularity Capital was founded as an independent investment manager in 2015, with a mission to deliver value for investors by supporting growth and innovation in the circular economy. Circularity believes that circular entrepreneurs deserve an investor with the right expertise, insight, and network to ensure they achieve their full potential. The firm manages the world's largest specialist circular economy private equity fund.



UK CIRCULAR ECONOMY INVESTMENTS

ANNUAL UK CIRCULAR ECONOMY DEAL VOLUMES HAVE TRIPLED FROM 2018 TO 2021

UK CIRCULAR ECONOMY INVESTMENTS 1 JANUARY 2018 – 31 DECEMBER 2021



296 INVESTMENTS AND OVER **£1.5BN CAPITAL DEPLOYED** ACROSS BOTH EQUITY AND DEBT



ANNUAL DEAL VOLUMES GROWN FROM 42 IN 2018 TO **119 IN 2021** AT A CAGR OF 41%



DISCLOSED **CAPITAL DEPLOYED** WHICH HAS INCREASED FROM £210M IN 2018 TO **£788M IN 2021**



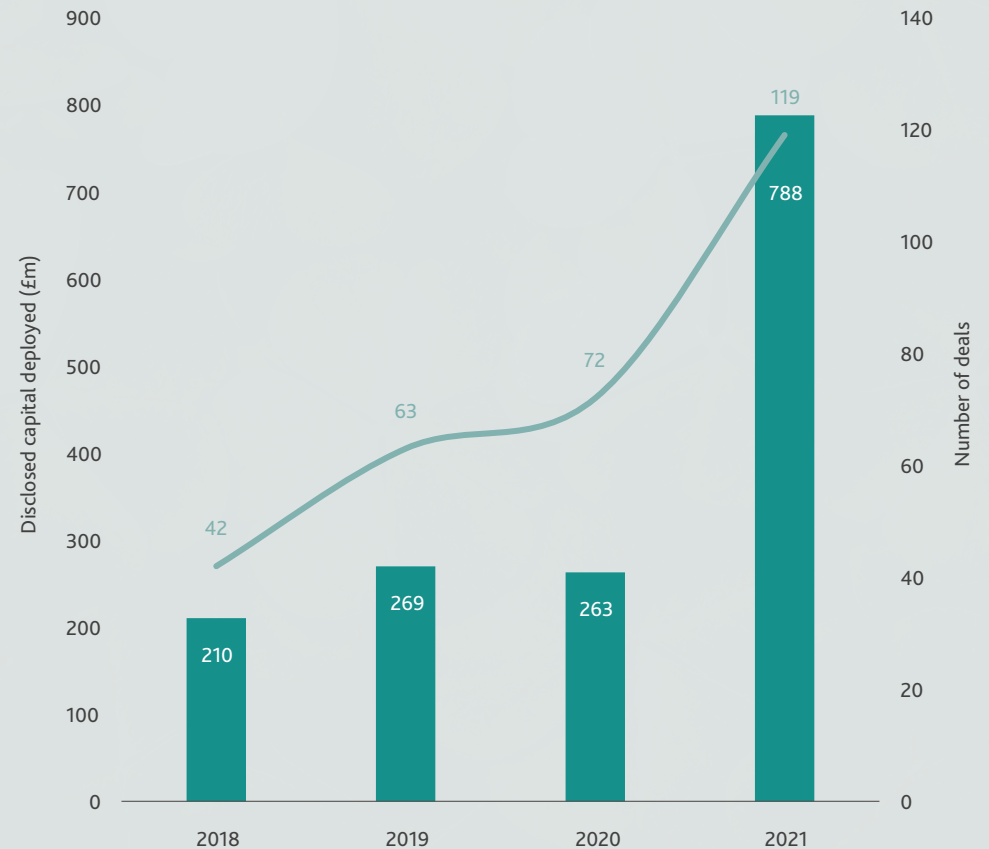
AVERAGE DISCLOSED CHEQUE SIZE INCREASING FROM £7.0M IN 2018 TO **£9.3M IN 2021**



BASED ON AN AVERAGE DISCLOSED INVESTMENT OF £9.3M WE ESTIMATE THAT THE TOTAL **CAPITAL INVESTED** INTO THE UK CIRCULAR ECONOMY **EXCEEDED £1.1BN IN 2021**



VENTURE CAPITAL ACCOUNTED FOR **50%** OF 2021 TRANSACTIONS, SUPPORTED BY MID-MARKET **PRIVATE EQUITY (22%)** AND **DEBT FUNDING (15%)**



UK CIRCULAR ECONOMY INVESTMENT DASHBOARD

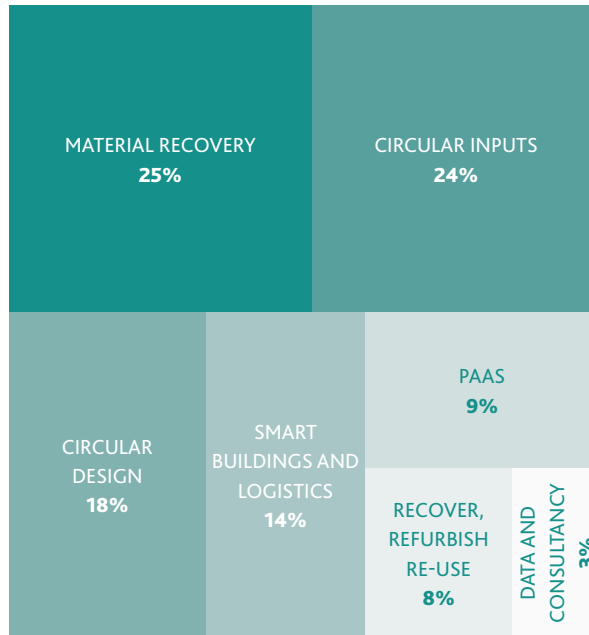
PRIVATE EQUITY AND VENTURE CAPITAL INVESTMENTS ACCOUNT FOR 72% OF 2021 UK CIRCULAR ECONOMY INVESTMENTS

30% OF UK CIRCULAR ECONOMY INVESTMENT IN 2021 ARE TECH ENABLED

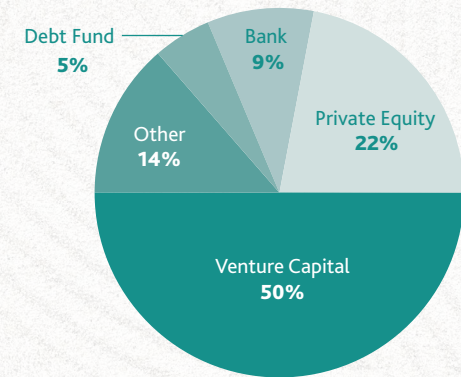
DEAL VOLUMES BY SECTOR
2018 TO 2021



DEAL VOLUMES BY CIRCULAR ECONOMY THEME
2018 TO 2021

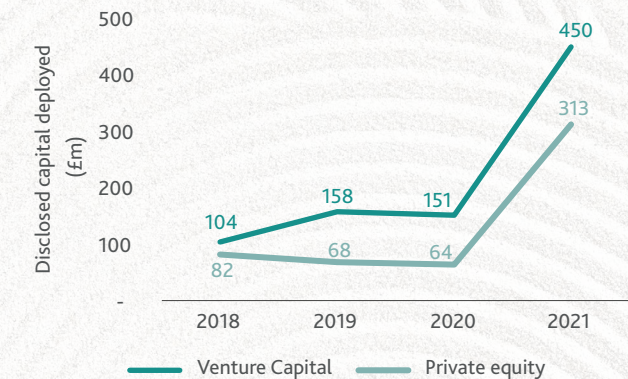


DEAL VOLUMES BY INVESTOR TYPE
2021



PE & VC ANNUAL DISCLOSED VALUE OF CIRCULAR ECONOMY INVESTMENTS

2018-2021



UK CIRCULAR ECONOMY INVESTOR LEAGUE TABLE

BGF HAS BEEN THE MOST ACTIVE UK CIRCULAR ECONOMY INVESTOR BETWEEN 2018 AND 2021, WITH CIRCULARITY CAPITAL THE LEADING SPECIALIST CIRCULAR ECONOMY INVESTOR

1 JANUARY 2018 – 31 DECEMBER 2021

INVESTORS	INVESTMENTS
BGF	12
HSBC	11
Maven Capital Partners	11
Mercia Asset Management	10
Circularity Capital	6
Development Bank of Wales	6
Octopus Ventures	6
Santander	5
Northstar Ventures	4
EW Capital	4

"It's now or never for the green transition. If the UK is to achieve net zero, we need vast investment into the clean growth businesses that are driving the circular economy and BGF is determined to play our part in this. Since 2011, BGF has invested £225 million in companies involved in this space, everything from fuel cells to sustainable battery solutions and energy-efficient buildings. There is set to be a huge amount of innovation in this area and we are committed to taking a lead in driving growth by leveraging our unique regional footprint of 16 local offices and our position as the UK's largest investor in growing businesses."

PATRICK GRAHAM
HEAD OF BGF IN SCOTLAND AND NORTHERN IRELAND

"At HSBC UK, our ambition is to support our customers, whatever their size, to transition to more sustainable business models. A switch to embed the principles of a circular economy provides a crucial opportunity to design out waste, repair, reuse and recycle. By embedding these principles, businesses can help achieve net zero ambitions, protect our environment and unlock sustainable economic development potential."

ROBERT KING
HEAD OF SUSTAINABLE FINANCE | HSBC UK BANK PLC

"At Maven, we believe that Circular Economy considerations should be an important factor in making and managing investments on behalf of our investors, and in the way that we interact with portfolio companies to ensure that they behave responsibly towards the environment and society as a whole.

In considering investment proposals, Maven ensures that any relevant Circular Economy issues are fully considered during the decision making process, including a detailed questionnaire being issued to each prospective investee company as a standard element of the due diligence process. This approach ensures that Maven can help deliver long term, responsible and sustainable growth, and also allows the sharing of best practice across Maven's wider portfolio."

MARTIN MCLAREN
PARTNER | MAVEN CAPITAL PARTNERS

"Circular business models are some of the most attractive in the wider ESG space. Through our investments in Oddbox and Handbag Clinic we've seen how these businesses can make a positive impact whilst offering the customer a top class experience and Entertainment Magpie shows you can deliver value for customers, environmental impact and shareholders alike."

HUGO LOUGH
INVESTMENT MANAGER | MERCIA ASSET MANAGEMENT

CIRCULAR ECONOMY TRENDS BY SECTOR

INDUSTRIALS & MANUFACTURING SECTOR REPRESENTS 37% OF 2021 CIRCULAR ECONOMY INVESTMENTS, DRIVEN BY THE DESIRE FOR SUSTAINABLE INPUTS

INDUSTRIALS & MANUFACTURING - CIRCULAR TRENDS

Industrials & Manufacturing is the sector that has attracted the most investment for businesses facilitating the Circular Economy. In 2021, 44 of the 118 Circular Economy UK transactions we have reviewed fall into the sector, attracting disclosed investment of £249m at an average of £3.6m* per disclosed transaction.

Circular innovation in the sector is focused on the supply side with 66% (Material recovery 43%, Circular inputs 23%) of 2021 investments made into businesses focusing on producing or manufacturing with sustainable materials.

The Waste Management & Recycling sub-sector alone accounted for 43% of 2021 investments, with sector participants finding innovative ways to recover material, delivering product or energy from waste.

A great example of this was the PAR Equity led investment (£2.4m) in Nova Pangaea Technologies which develops a process to convert non-food biomass into liquid fuels and a range of useful chemicals. Another was a £1.2m investment made into Bio-Bean led by Turquoise, through its Low Carbon Innovation Fund II. Bio-Bean manufactures a range of biofuels and biochemicals from recycled spent coffee grounds.

Manufacturers of products with Circular inputs attracted 23% of 2021 investments with a continued trend towards manufacturers actively seeking sustainable raw materials and packaging to replace legacy linear raw materials. For example in August, the Scottish National Investment Bank invested £3m into IndiNature, a provider of natural fibre construction insulation products.

Despite the concentration of investment towards the supply side there were still a number of notable investments made into manufacturing Circular Products with functionality designed to positively contribute towards a Circular Economy. The most interesting of these investments are technology led, like Circularity Capital's investment into P2i, whose liquid repellent nanotechnology increases the life span of electronic devices by enabling them to survive liquid exposure from everyday accidents and conditions.

SELECTION OF UK INDUSTRIALS AND MANUFACTURING CIRCULAR ECONOMY INVESTMENTS IN 2021





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* Excluding outliers



INDUSTRIALS & MANUFACTURING

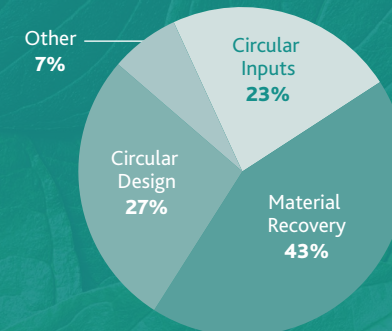
CIRCULAR ECONOMY INVESTMENTS BY VOLUME AND VALUE

2018 - 2021



CIRCULAR ECONOMY INVESTMENT TRENDS BY DEAL VOLUME

2021



CIRCULAR ECONOMY TRENDS BY SECTOR

TECHNOLOGY IS CRITICAL TO DEVELOPING SMARTER CITIES, BUILDINGS AND LOGISTICS

TECHNOLOGY, MEDIA & TELECOM (TMT) – CIRCULAR TRENDS

In 2021, a quarter of Circular Economy related investments in the UK were into the TMT sector, with this number increasing to 31% when including tech-enabled businesses in other sectors. After a Covid-19 induced stagnation of deal activity in 2020, the total disclosed capital deployed in 2021 increased four-fold to £100m in 2021.

39% of TMT Circular Economy deals in 2021 were into businesses whose technology is contributing to smarter buildings and logistics. A key theme is the use of IoT to optimise the energy profile of large buildings with investments made in EcoSync and Grid Edge, which both use AI in smart heating control and energy consumption technologies.

On the logistics side there were five investments in 2021 made into UK businesses using technology to help create smarter transport and delivery systems in our cities. Vivacity Labs obtained £5m development capital from Mobeus who's AI driven technology helps local authorities and transport organisations optimise the performance of transport networks within our cities.

29% of 2021 deals in the TMT sector were into businesses that enable the Circular Economy through data or software driven consultancy services.

Stark Software, a provider of energy data services to help organisations reduce energy waste received development capital from BGF, and The Westly Group, who led a \$14m Series A funding round into Circular, a leading provider of Supply Chain Traceability solutions using AI and blockchain technology.

The final trend of note is investment into businesses that extend the life of technology products. E-waste is becoming one of the world's fastest-growing waste streams with 40 million tonnes ending up in landfill each year. The demand for specialists who can recycle IT products and consumer electronics while adhering to strict WEEE and GDPR regulations saw four investments made in 2021, including Rubicon Partner's investment into Bamboo Distribution which specialises in the recovery, refurbishment and recycling of consumer electronic devices.

A SELECTION OF UK TMT CIRCULAR ECONOMY INVESTMENTS IN 2021



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TECHNOLOGY, MEDIA & TELECOM (TMT)

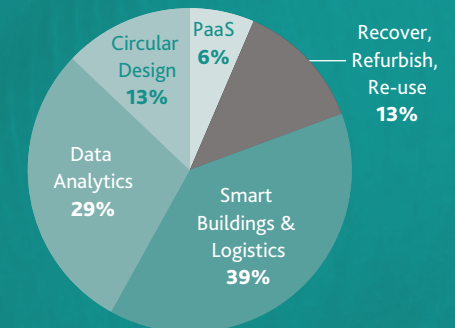
CIRCULAR ECONOMY INVESTMENTS BY VOLUME AND VALUE

2018 - 2021



CIRCULAR ECONOMY INVESTMENT TRENDS BY DEAL VOLUME

2021



CIRCULAR ECONOMY TRENDS BY SECTOR

CIRCULAR INVESTMENT IN THE UK FOOD & DRINK SECTOR INCREASED 278% TO £267M IN 2021

FOOD & DRINK – CIRCULAR TRENDS

The Food & Drink sector provided the backdrop for 19% of Circular Economy related investments in 2021. 2021 was a transformational year in terms of investment activity into the sector with disclosed deal values totalling £267m, more than double that of 2020.

Plant-based and free-from produce are key drivers, with plant-based food products alone accounting for 52% of deals in 2021.

Start-ups and fast growing businesses in the plant-based category continue to catch the eye, with private equity seeking to fund innovative food tech businesses like THIS, a provider of pea and soy-based meat substitutes, which secured £11m of Series A investment co-led by BGF and Lever VC.

Importantly trade buyers are also taking a keen interest in acquiring plant based and free from food producers. Globally, for every private investment in the space in 2021, there were nine trade acquisitions, providing comfort for investors over an eventual exit.

26% of 2021 Circular economy investments in the sector related to companies delivering tech led sustainable farming. 70% of UK land is farmed in some way and making innovative solutions that can reduce the carbon footprint of food production is an attractive investment proposition. Venture Capitalists invested £67m into six such UK businesses in 2021.

Another sector theme is businesses looking tackle the problem of food waste, with 13% of sector investments made into businesses looking to eliminate food waste.

Eliminating food waste can come in many forms whether that be through the Olio food sharing app aimed at commercial food producers or through Oddbox Delivery, providing a home for wonky fruit and vegetables not deemed perfect enough for supermarkets. The wave of investments into eliminating food waste reflects the overall trend to prioritise waste reduction over waste processing, with preventing waste at source the most desirable solution.

A SELECTION OF UK FOOD & DRINK CIRCULAR ECONOMY INVESTMENTS IN 2021



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FOOD & DRINK

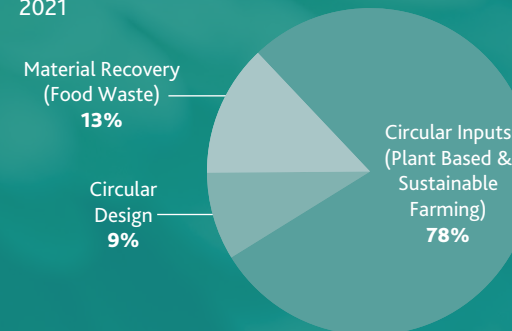
CIRCULAR ECONOMY INVESTMENTS BY VOLUME AND VALUE

2018 - 2021



CIRCULAR ECONOMY INVESTMENT TRENDS BY DEAL VOLUME

2021



CIRCULAR ECONOMY TRENDS BY SECTOR

INVESTORS ARE SUPPORTING THE CONSUMER SECTOR IN ADAPTING TO CHANGING SOCIETAL AND ENVIRONMENTAL PRESSURES

RETAIL, CONSUMER & LEISURE – CIRCULAR TRENDS

In 2021 there were 21 investments made into Circular Economy businesses in Retail, Consumer and Leisure with a disclosed value of £166m.

Fashion contributes 10% of the world's carbon emissions, and fast fashion is making the sector's current practices wholly unsustainable. **The desire to move away from fast fashion has been a catalyst for Circular Economy related investments into the consumer sector, with 47% of 2021 deals made into consumer facing businesses facilitating a Sharing Economy business model - Product as a Service at 33%, and second hand fashion at 14%.**

With a reduced desire to own assets, particularly in younger generations, consumers are increasingly willing to participate in PaaS business models. Investor appetite has followed suit, with one such example being Hurr which attracted a £5.4m investment led by Octopus ventures. Hurr offers peer-to-peer fashion rentals, with direct partnerships with more than 85 exclusive fashion partners.

Consumers are also understanding the positive sustainability impact of shopping second hand, keeping assets in circulation for longer. This trend is not lost on Mercia, who led follow on investment of £0.8m into Handbag Clinics, which restores and sells designer handbags and accessories.

The increasing desire of society to consume sustainable products has also been a key driver of CE investment activity in 2021 accounting for 48% (Circular inputs 38%, Circular design 10%) of deals. BGF invested £13m into Bambino Mio which manufactures and supplies reusable nappies with switching from disposable to reusable nappies having the dual benefit of saving a buyer money as well as reducing their carbon footprint by up to 40%.

Sustainable beauty products also saw significant investment in 2021 including Metro Bank providing debt funding to Foxy Hair Extensions, a company providing hair extensions made 100% from human hair.

A SELECTION OF UK RETAIL, CONSUMER & LEISURE CIRCULAR ECONOMY INVESTMENTS IN 2021



HumanForest

THE HANDBAG CLINIC

HURR COLLECTIVE

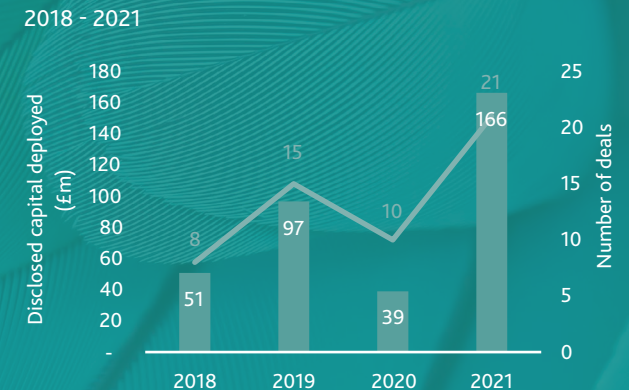



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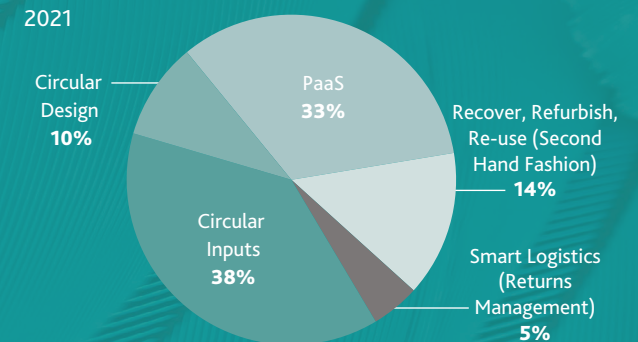


RETAIL, CONSUMER & LEISURE

CIRCULAR ECONOMY INVESTMENTS BY VOLUME AND VALUE 2018 - 2021



CIRCULAR ECONOMY INVESTMENT TRENDS BY DEAL VOLUME 2021



BDO CIRCULAR ECONOMY SERIES

BDO OUTLOOK: WHAT NEXT FOR THE CIRCULAR ECONOMY



INCREASE IN NUMBER OF DEALS

The number of Circular Economy related investments increased from 72 in 2020 to 119 in 2021 - an annual increase in deal volumes of 64%. With increasing focus on the Circular Economy from generalist investors and a growing number of specialist impact investors, we expect this momentum to continue into 2022.



INCREASED PARTICIPATION FROM MID-MARKET INVESTORS

Venture Capital has consistently invested in around half of Circular Economy investments in our data set, but in 2021 we saw a significant increase in appetite from mid-market private equity, responsible for 22% of Circular Economy related investments, up from 6% in 2020. As the UK Circular Economy becomes more established, businesses will look to private equity to provide development capital, and we expect mid-market PE to play an even greater role in the UK Circular Economy in 2022.



VALUATION MULTIPLES TO OUTPERFORM THE GENERAL MARKET





















The average EBITDA multiple paid by private equity investors in 2021 for UK businesses with an Enterprise Value of up to £50m is 8.2x historic EBITDA. As more Circular Economy investments are made by mid-market Private Equity in the UK, and meaningful volumes of valuation data become available, we expect valuations for Circular Economy facilitating businesses to exceed the UK market average.



INCREASING PROMINENCE OF PRODUCT AS A SERVICE AND SECOND HAND

2021 saw the number of sharing economy related transactions in the UK increase from 9 to 17 with total disclosed investment increasing from £31m to £184m. We expect appetite for the sharing economy to continue to increase in 2022, with investors attracted by the prospect of combining evolving consumer preferences with subscription based revenue models to maximise the return on individual assets.

A SELECTION OF BDO UK CORPORATE FINANCE CIRCULAR ECONOMY CREDENTIALS

<p>SELL-SIDE</p>  <p>Sale of Proelectric to Hill & Smith</p>	<p>SELL-SIDE</p>  <p>Sale of Isys Interactive to Access Group</p>	<p>BUY-SIDE</p>  <p>Investment in Re-Bike by Circularity Capital</p>	<p>SELL-SIDE</p>  <p>Sale of Green Home Group to Circularity Capital</p>	<p>BUY-SIDE</p>  <p>Acquisition of Simply Waste Solutions by Biffa</p>
<p>GROWTH ADVISORY</p>  <p>Advised Chilli Chain on its Growth Funding round</p>	<p>GROWTH ADVISORY</p>  <p>Advised Sanitary Owl (t/a Dame) on its Growth Funding round</p>	<p>SELL-SIDE</p>  <p>Sale of ReBound Returns to Reconomy Group</p>	<p>SELL-SIDE</p>  <p>Sale of Jet Aire to Adlar & Allan</p>	<p>SELL-SIDE</p>  <p>Sale of Cawood Scientific to Inflexion</p>
<p>BUY-SIDE</p>  <p>Investment in Wood Thilsted by Inflexion</p>	<p>BUY-SIDE</p>  <p>Acquisition of Enviroclear Site Services by Ambipar Response</p>	<p>SELL-SIDE</p>  <p>Sale of Green Highland Renewables to Ancala Renewables</p>	<p>BUY-SIDE</p>  <p>Acquisition of Alutrade by George Brothers Investments</p>	<p>SELL-SIDE</p>  <p>Sale of organic composting and waste to energy facility Bio Capital</p>
<p>BUY-SIDE</p>  <p>Acquisition of Initial Project by Cawood Scientific</p>	<p>BUY-SIDE</p>  <p>Multiple acquisitions by ERM Europe</p>	<p>BUY-SIDE</p>  <p>Acquisition of Dropps by The Craftory</p>	<p>SELL-SIDE</p>  <p>Sale of Everwarm to Sureserve Group</p>	<p>BUY-SIDE</p>  <p>Acquisition of Lexco by BPD Global Group</p>

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