

RENEWCELL

Target Price: SEK 133.99Current Price: SEK 76.25Upside Potential: 76%

Renewcell

Equity Research Division

Textile Recycler Enabling Circularity

Recommendation: **BUY** Investment Horizon: 3 Years

Vienna, 23.06.2023

Team Overview

Equity Research





Frida Leka

Head of **Equity Research**

- Task Distribution
- Story Guideline



Christo Genchev

Associate

- Valuation
- Peer Benchmarking





EK



Anselm Miksch

Analyst

- Product Understanding
- Technology Analysis



Jonas Sprenger

Analyst

- Company Overview
- Industry Analysis

froots

IMAP **Deloitte.**

BSc.(WU)

BSc. – 6th Sem. (WU)

MA – 4th Sem. (LBS Vienna)

BSc. – 2nd Sem. (WU)

BSc. – 6th Sem. (WU)

Joseph-Daniel

Schiedlbauer

Associate

Business Model

Strategy Analysis

AURELIUS

Agenda

WU	г і ѕ
----	-------

1	Investment Thesis	4
2	Business Overview	5
3	Industry Overview	12
4	Peer Benchmarking	19
5	Valuation	21
6	Conclusion	25
7	Appendix	27

Share Price Performance







Investment Thesis



A first mover facing strong tailwinds – Renewcell is positioned to succeed in this upcoming market



Renewcell WUTIS – Equity Research SCA

RENEWCELL

annan -

A sc/

· US

Business Overview

Company Overview



First mover pioneer in the circular fashion led by well-established industry expertise management

Business Description



Renewcell is an award-winning company that specializes in textile-to-textile recycling, empowering the fashion industry's transition towards circular economy



á-a



Production Facility Sundsvall

Headcount 130 (+260% LTM)

It's the first commercially available plant is leading the way for the global fashion industry, propelling it into a new era of circularity

-22

Financials

SEK mn	2020A	2021A	Q1 2022A	2022A	Q1 2023A
Total Revenue	1.5	3.6	2.0	13.8	30.1
% growth		104%		283%	118% ⁽¹⁾
EBITDA	-61.4	-117.7	-46.3	-251.9	-80.3
EBIT	-68.4	-125.4	-48.8	-262.8	-105.6
Net Income	-68.7	-133.4	-54.0	-299.9	-125.4
Total Assets	827.3	1,115.1	1.237.5	1,835.2	2,036.8

Management Team



Patrik Lundström CEO since 2021 Prev. Board Member at JonDeTech Sensors AB

Kristina Christoffersson

Prev. Techn. Manager at

Domsjö Fabriker AB

CTO since 2021



Toby Lawton CFO since 2022 Prev. CFO at Svenska Cellulosa AB



Martin Stenfors COO since 2020 Prev. SCM Director at Naty AB

The management team comprises of industry experts holding the ability to accelerate Renewcell's growth

Shareholder Structure



Note: (1) Compared to Total Revenue for the Entire FY2022 Source: Company Presentations and Financial Statements

Business Model



Renewcell is the only industrial scale 100% textile-to-textile recycling closing the loop to enable fashion circularity



Technological Process



Patented process to turn old garments into branded cellulose product Circulose®



The process is patented through 5 different patent families across 20 countries

Circulose®



A sustainable fiber product being used by the world's biggest fashion bands

Overview



Circulose® Production in 2023

Brand Collaborations



Geographies



Steady and continuous organic growth enables global outreach towards brand partnerships



Strategy



Renewcell is placing customer and capacity growth at the forefront of their expansion strategy



Renewcell WUTIS – Equity Research

170

TRANSPORT (TRANSPORT

Industry Overview

The Problem



As fashion industry waste comes under scrutiny, Renewcell offers an innovative solution to mitigate damages



What needs to happen in order to successfully transition the fashion industry towards circularity?

Collaboration across all segments of the value chain

Transparency of material resources and increased sustainability effort

Large scale production of recycled clothes made possible through **transitional funding**



Industry Overview I



Global fiber production has increased strongly whilst recycling levels remain low

Global Fiber Production Development



Textile consumption & recycling development





Global Fiber Market Breakdown by Category





Source: Textile Exchange Preferred Fiber & Materials Market Report 2022, Team Research

Industry Overview II



Although currently only making up a small market share, MMCFs are projected to strongly outgrow other fibers





 $\Delta_{\mathcal{A}}$ Pollution Forestrv \square Waste Unsustainable forestry The production of most The production of MMCFs involves the practices have a detrimental impact on garments using new utilization of harmful deforestation and logging, materials generates chemicals, posing risks to substantial textile waste, particularly in ancient and workers and local endangered forests, as often left unrecycled, ecosystems if not resulting in landfill or adequately managed with well as encroaching on the traditional lands of incineration practices. modern technologies indigenous communities.



Wood-Based Cellulosic Fiber Demand Growth 2021 - 2030

Industry Overview III



Renewcell is positionend ideally in the industry, to benefit from the increased need for textile waste recycling



Renewcell is One of the Few Producers Ready to Produce Commercially





Gross Textile Waste Volume in Europe, Mn tons

Textile Waste Available for Recycling in Europe



Trends and Drivers



The global fashion industry is strongly pushed into a more sustainable and more circular future

Current Trends and Policies Influencing the Market

Population and Consumption Growth

Global population, currently at 8 billion people, is projected to reach 8.5 billion by 2030. As the population grows, accompanied by an expanding middle class, consumption per capita is on the rise, leading to an increased demand for fibers.

Policy

Once unregulated for decades, the industry now faces a surge in regulations. The EU Green Deal aims to revolutionize sustainability. The Corporate Sustainability Directive, starting in 2024, reinforces responsible business practices.

Sustainable Fiber Gap

Existing solutions fall short in bridging the sustainable fiber gap. Synthetic fibers contribute to marine pollution and lack biodegradability. Cotton exerts a significant toll on land, water, and relies on extensive chemical usage.

Climate Change

The UN Global Compact aims to restrict global temperature rise to 1.5°C and achieve net-zero emissions by 2050. Localization of production and consumption is crucial. Investments in green energy sources have surged, while biodiversity concerns are on the rise.

Greenwashing

Greenwashing cases have experienced a notable upsurge, necessitating clear and accurate information for consumers. Claims must be backed by robust data, while high levels of transparency and traceability are imperative.

Fast Fashion

Fast fashion's relentless pursuit of trends and affordability places immense pressure on the fiber industry to innovate and find environmentally friendly alternatives that reduce waste and promote circularity.

Supply deficit recycled fibers by 2030 in Europe





Renewcell WUTIS – Equity Research

Peer Benchmarking

Comparable Benchmarking I



Size matters: predicting long-term margins by identifying Renewcell's comparable players





Peer Group Rationale

Peers Financial Metrics



Selection

While the novelty of Renewcell rendered size an unfeasible factor. For that, we chose to select companies with as many cross-sections to Renewcell as possible.

کر Pulp

The process of making wood pulp involves chemically breaking down wood fibers into a pulp. In terms of process, this is what Renewcell does with fabric.

Textiles & MMCF

Companies which produce wood-based as well as man-made cellulosic fibers were considered due to being as close as possible to the activity of Renewcell.

Company Comparable Analysis

Tangential industries validate significant growth potential





Renewcell WUTIS – Equity Research

1000

Valuation

Valuation Summary



Charting a course for sustainable expansion: pioneering growth with confidence

Key Highlights



Greenfield opportunity

Renewcell will be **rapidly expanding production** capacity in coming years as **demand** has already proven to be **insatiable**



Sustainable Long-Term Financials

We project Renewcell to operate long-term with a **41% Gross Profit Margin** and a **26% EBITDA Margin** – both in-line with industry averages

Operational Efficiency

Renewcell is projected to operate at a **capacity utilization rate of 85% -** a humble target for a new player in the industry

FCF and Accumulated FCF (starting in 2023)



Capacity Expansion in Base Case

Renewcell is poised to unleash their expansion strategy, incrementally enhancing their capacities to meet the unprecedented surge in demand



Sales and EBITDA Margin



Financial Summary



The power of three: unlocking massive growth potential in every scenario



DCF Analysis



Balancing risk and reward - high capital cost doesn't deter favorable investment

3 Scenarios and Weighted Price



DCF Key Metrics

~~^^

ST

WACC Discount Rate of 11.44% Cost of Debt: 5.5%, Cost of Equity: 14.3%, Beta: 1.96
Growth Rate We project Renewcell to grow along with the Swedish Economy in the long run – 2.1%
Capital Structure Given Renewcell's expansion plans, we find the current Debt/Equity split

of 40/60 to be a suitable choice and incorporate it accordingly

	Growth Rate						
		1.1%	1.6%	2.1%	2.6%	3.1%	
WACC	9.4%	191.91	208.73	227.84	249.75	275.11	
	10.4%	150.00	162.50		192.27	210.21	
	11.4%	117.26	126.78	137.32	149.05	162.19	
	12.4%	91.19	98.60	106.71	115.66	125.56	
	13.4%	70.12	75.97	82.34	89.30	96.93	

Renewcell WUTIS – Equity Research

6

5 9 9 5 9 Cent 1

.....

-

Conclusion

~ ~

Conclusion

Circular fashion. Be there or be square.





Renewcell WUTIS – Equity Research

Appendix

Appendix: Company Specific Risks



As a company in its early stages of growth, RenewCell is exposed to a variety of both internal and external risks

M1	Decrease in Demand for Circularity and Sustainability in Fashion Industry
M2	Threat of New Entrants in the Market
M3	Trade Agreements and Political Tensions Between Sweden and Key Customer Markets (China, India, etc.)
01	Production Targets May End Up Not Being Met and Expansion Plans are Delayed
02	Overreliance On Key Management Figures Exposes Renewcell to Threats if Such Key Members Leave
03	Increased Input Costs of Raw Materials, Electricity, and Steam
S1	Ability to Generate New Partnerships and Maintain Old Ones as They Remain the Key Business Drivers to Renewcell's Growth
S2	Potential Reputational Backlash from Collaborations with Mass- Market Clothes Production Companies (H&M, Inditex, others)
	Market M – Operations O – Strategic S



Impact

Appendix: Catalysts



Strategic catalysts could see major shareholder value unlocked in the near-term

Catalyst	Туре	Influenced Factor	Estimated Impact on Share Price
Meeting Targets in a Timely Manner	Hard	Revenue Pipeline	 Meeting these important targets would increase investor confidence and signal that Renewcell is able to deliver
New Off Taking Agreements	Hard	Revenue	 More off taking agreements would cement the notion that demand is insatiable
Further Regulatory Support	Hard	Revenue	 With increased incentives, brands will want and need more sustainable, plug and play solutions
Research and Development Breakthroughs	Soft	Revenue/Margins	 Although their process is patented, improving upon it could lead to higher margins and an even higher quality
Increased Adoption on the Part of the Fashion Industry	Soft	Revenue Reputation	 With higher demand for recycled fabric, Renewcell will be one of, if not the, best positioned to capitalize on the desire for circularity

Appendix: PESTLE Analysis

To Renewcell macroeconomic opportunities outweigh risks



	Impact				Impact	
High	Medium	Low		Low	Medium	High
Changes in government regula recycling could pose challeng F	ations related to waste n ges and increase compli Renewcell	nanagement or ance costs for	Ρ	The Swedish government protection provides a t	t's commitment to sustainabi favorable political environme operations.	ility and environmental ent for Renewcell's
Inflation maintains at high leve management accou	els putting pressure on r intable to safeguard mar	evenues holds rgins	E	Due to crises h custome	ousehold income declined o er budget to spend on app sh	causing less nrunk
Customer awareness for fash encouraging apparel bra	hion circularity has stead ands to cooperate with R	dily increased enewcell		The growing societal of sustainable products wor and preferences	concern for the environment k in Renewcell's favor, as it of environmentally consciou	t and the desire for aligns with the values is consumers.
The textile recycling industry is a keep up with technological ad maintaining its competi	evolving rapidly, and if F vancements, it may face itiveness and market rele	Renewcell fails to e challenges in evance.	Т	Continuous advanceme enhance Renewcell's e innovat	nts in recycling technologies efficiency and provide oppor tion and competitive advanta	s and processes can rtunities for product age.
Renewcell is present in a for instance, EU Sustainable	an increasingly regulate e Textile Strategy or U.S	d market S. Textile Act	L	ESG reporting in terms of	f CSRD and later CSDDD tid internal capacities, and	es up capital, requires
A potential challenge for Renewco of textile waste as raw material, w market dynamics a	ell is the availability and /hich can be influenced ind collection infrastructi	consistent supply by factors such as ure.		Renewcell's recycling e resources, and minimizing	efforts contribute to reducing g the environmental impact a production.	y waste, conserving associated with textile

Appendix: SWOT Analysis

Strengths predominate weaknesses, enabling organic growth

STRENGTHS

- Innovative Technology: Renewcell utilizes advanced technology for textile recycling, positioning itself as a leader in sustainable solutions.
- Strong Regulatory Environment: Sweden has a favorable regulatory landscape that supports and encourages sustainable practices, providing an advantage to Renewcell.
- Established Brand Image: Renewcell has built a positive reputation as an environmentally conscious company, which enhances its market position.

OPPORTUNITIES

- Growing Demand for Sustainable Products: Increasing global consciousness about sustainability presents an opportunity for Renewcell to capitalize on the demand for eco-friendly textile alternatives.
- Expansion into New Markets: Renewcell can explore opportunities to expand its operations and enter new geographical markets, potentially increasing its customer base and revenue streams.
- Collaborations and Partnerships: Forming strategic alliances with fashion brands, retailers, and other stakeholders can accelerate Renewcell's market presence and create mutually beneficial relationships

RENEWCELL

- Early-stage Development: As a company in the early stages of development, Renewcell may face challenges related to scalability and operational efficiency.
- Reliance on Suppliers: Renewcell's success depends on securing a consistent supply of raw materials from textile waste, which requires reliable supplier partnerships.
- Limited Market Reach: The company's market penetration might be limited, particularly if consumer awareness and adoption of sustainable textile products are not widespread.

- Market Competition: Competitors entering the sustainable textile recycling industry may pose a threat to Renewcell's market share and growth.
- Changing Regulations: Shifting or inconsistent regulatory policies could impact Renewcell's operations and require adaptability to comply with evolving standards.
- Price Volatility: Fluctuations in the cost of raw materials and energy can impact Renewcell's profitability and overall financial performance.

THREATS

WEAKNESSES



ESG Overview



As it expands, Renewcell can provide significant sustainability benefits

ENVIRONMENTAL

Applied to a large scale the company could have significant positive environmental impact, touching upon all 6 of the EU Taxonomy categories:

Climate Change Mitigation / Adaption



The net climate change impact of Circulose[®] (kg CO2e / kg) at -2 is far lower, than the ones from plastic, cotton, and viscose with 3, 2, and 3 respectively

Sustainable use and protection of water and marine resources



8 DECENT WORK AND ECONOMIC GROWTH The production of Circulose[®] is less **water-intensive** than comparable fibers like cotton. Additionally, Circulose® can be used as a substitute for polyester clothing, which is responsible for 35% of ocean microplastics

Transition to a circular economy



Renewcell is pioneering the shift of the textile industry to circularity. Circularity is crucial to tackle the 92 million metric tons of garments piling up in landfills

Pollution Prevention and Control



Textile-to-textile recycling represents less than 1% of the global fiber market. Huge amounts of textile waste end up in landfills and the oceans

Protection and Restoration of Biodiversity and Ecosystems

Circulose® reduces the stress on nature through cotton monocultures, which use large quantities of pesticides and fertilizers

SOCIAL **3** GOOD HEALTH AND WELL-BEING

5 GENDER EQUALITY

9 INDUSTRY, INNOVATION AND INFRASTRUCTU

2 RESPONSIBLE CONSUMPTION

13 CLIMATE

AND PRODUCTIO

- Renew ell currently has a **relatively small team** of about 134 people \rightarrow with about 30% women hired at various levels
- Working in the man-made cellulosic industry poses some challenges in terms of employee safety \rightarrow safety management system that is in full compliance with the Swedish Work Environment Act
- Renewcell empowers communities, supports employee well-being, and embraces diversity for sustainable growth

GOVERNANCE

- Renewcell prioritizes transparency, ethics, and board diversity for effective and responsible decision-making
- Board of Directors and Management are both comprised of highly qualified individuals in the industry with decades of experience
- Recently named winner in Fast Company's 2023 World Changing Ideas Awards for the sustainability / energy category
- Main shareholders in the company: H&M & Girincubator AB
- Reporting of the company's footprint the first time in 2022 complying with GRI standards, SASB, TCFD, and UN Global Compact frameworks





Textile Prices



3,500	7				1	
3,000	-					
2,500	-					
2,000	-					
1,500						
1,000	-					
500	Viscose produced from Circulose® (MMCF)	BCI (Better Cotton Initiative)	Organic cotton	Modal (MMCF)	Lyocell (MMCF)	Viscose
	Garment type	T-shirt	T-shirt	Sweatshirt	Jacket	Dress
	Retial price, €	18.8	22.56	103.4	55.46	18.8
	Fiber composition, %	100% organic cotton	50% organic cotton, 50% modal	50% lyocell, 50% organic cotton	71% polyester, 29% lyocell	100% polyester
	Retail price, € with green premium	19.34-19.43	22.27-22.82	103.75-103.81	55.74-55.78	19.07-19.11
	Increase in retail price, %	2.9-3.3%	1.0-1.2%	0.3-0.4%	0.5%-0.6%	1.4-1.6%



	Company	Input materials	Production status	End Product
	Renewcell	Cotton and viscose waste (all colours)	Commercial production, 2022	DTP
	Infited Fiber Company	Cotton, cardboard, agricultural waste	Pilot stage	New type of cellulose fiber
S	Evrnu	Cotton waste	Pilot stage	New type of cellulose fiber
ellulo	HKRITA-Novetex	Mix of polyester and cotton waste	Research stage	Polyethylene pellets and cellulose products
cled c	Natural Fiber Welding	Cottong and agricultural waste	Pilot stage	Cotton yarn
Recyc	SaXcell	Cotton waste	Research stage	New type of cellulose fiber
	Block-Texx	Mix of polyester and cotton waste	Concept stage	Polyethylene pellets and cellulose products
	Worn Again Technologies	Mix of polyester and cotton waste	Pilot stage	Polyethylene pellets and cellulose products
	Tyton Biosciences	Mix of polyester and cotton waste, agricltural waste	Pilot stage	PE monomers and cellulose products
pulp irs n)	Sappi	Deciduous wood	Commercial production	DWP
tional oduce lectio	Stora Enso	Deciduous and coniferous wood	Commercial production	DWP
Tradit pro (se	Rayonier Advanced Materials	Confierous wood	Commercial production	DWP
od wood textiles	Lenzing Refibra	Wood and cotton waste	Commercial production	Lyocell and fiber of <30% recycled material
	Aditya Birla	Wood and cotton waste	Commercial production	Viscose with <20% recycled material
Mix and	Södra	Deciduous wood and otton waste	Commercial production	Dissolving pulp with <20% recycled material

Legal



This document is being made available by WUTIS Trading and Investment Society, acting through its society ("WUTIS"), for information purposes only and for the sole and exclusive use of the addressee in connection with the matter or possible transaction to which this document relates. This document is incomplete without reference to, and should be assessed solely in conjunction with, the oral briefing provided by WUTIS. This document is strictly confidential and remains the property of WUTIS. You agree that you shall only use this document for the purpose of evaluating and considering the matter or possible transaction to which this document relates.

This document may not be distributed, published, reproduced, or disclosed, in whole or in part, to any other person, nor relied upon by you or any other person, nor used for any other purpose at any time, in each case without the prior written consent of WUTIS. This document does not constitute, nor does it form part of an offer to sell or purchase, or the solicitation of an offer to sell or purchase, any securities or any of the businesses or assets described herein or an offer or recommendation to enter into any transaction described herein nor does this document constitute an offer or commitment to provide, arrange or underwrite any financing. You are responsible for making your own independent investigation and appraisal of the risks, benefits, appropriateness and suitability of any transaction or matter contemplated by this document and WUTIS is not making any recommendation (personal or otherwise) or giving any investment advice and will have no liability with respect thereto. The decision to proceed with any transaction or action contemplated by this document must be made by you in the light of your own commercial assessments and WUTIS will not be responsible for such assessments.

Neither WUTIS nor any of its subsidiaries or affiliates, nor any of their respective officers, directors, employees or agents (WUTIS together with such persons being the "WUTIS Group") accepts any liability whatsoever for any direct, indirect or consequential losses (in contract, tort or otherwise) arising from the use of this document or its contents or any reliance on the information contained herein. WUTIS Group is not responsible for any specialist advice, including legal, regulatory, accounting, model accounting, tax, actuarial or other advice.

This document was prepared on the basis of information and data, obtained from publicly available sources and, where applicable, from you and/or any other entity that may be involved in any transaction or matter contemplated by this document (and/or any of your or the aforementioned entities' affiliates), in each case prior to or on the date hereof. The information in this document has not been independently verified by WUTIS. WUTIS has relied on any information provided by you or from third party or public sources as complete, true, fair, accurate and not misleading. With respect to any financial or operating forecasts and analyses provided to it, WUTIS has assumed that they are achievable and have been reasonably and properly prepared on bases reflecting the best currently available information, estimates and judgments as to the future financial performance of the entity(ies) to which they relate and that such forecasts or analyses would be realized in the amounts and time periods contemplated thereby. No member of the WUTIS Group, makes any warranty or representation, express or implied, as to the acte hereof, may not be final, is based on information available to WUTIS as at the date hereof, is subject to any assumptions set out therein and is subject to change without notice. Accordingly, this document may be based on (a) data and information that may no longer be current and (b) estimates that may involve highly subjective assessments. It should be understood that subsequent developments may affect this document and the WUTIS Group does not undertake any obligation to provide any additional information or to update any of the WUTIS Group are involved in a wide range of commercial banking, investment banking and other activities out of which conflicting interests or duties may arise. The socument of is using the subjective assessments, it should be understood that subsequent developments may affect this document and the WUTIS Group as performance is no indication of future performance. Members of the WUTIS

The WUTIS Group operates in accordance with a conflicts of interest policy which identifies conflicts of interest it faces in the ordinary course of its business, and establishes organizational and procedural measures to manage those conflicts where it is reasonably able to do so. Neither WUTIS nor any other part of the WUTIS Group shall have any duty to disclose to you or utilize for your benefit any non-public information acquired in the course of providing services to any other person, engaging in any transaction (on its own account or otherwise) or otherwise carrying on its business. WUTIS' research analysts and research departments are independent and are subject to certain regulations and internal policies. WUTIS research analysts may hold opinions and make statements or investment recommendations and/or publish research reports with respect to any company referred to herein, the transactions contemplated herein or any person or entity involved therein or related thereto that differ from or are inconsistent with the views or advice communicated by WUTIS.