

Regula Schegg of Circulate Capital

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, and many other investors for early stage and growth companies. I hope you enjoy this episode. Investor Connect is a 501 C three nonprofit dedicated to the education of investors and startups for fund raising. Please consider donating \$100 to the program to help others in their investor and entrepreneur journey. You can find the donate button on the Investor Connect org website. Hello, this is Hall Martin with Investor Connect. Today we're here with Regula Schegg Managing Director of Asia at Circulate Capital. Circulate Capital is an investment management firm dedicated to the development of a circular economy to combat plastic pollution through investments and high growth opportunities at the nexus of climate, tech and plastics recycling infrastructure regula. Thank you for joining us.

Speaker2: [00:01:00] Thanks for having me.

Speaker1: [00:01:02] So we always start with your background before investing in early stage companies. What did you do before this project?

Speaker2: [00:01:09] Well, throughout my career, I held positions in corporate settings, worked also for the government agencies in Switzerland and for non-profit organizations in Europe, in the US and in Asia. I did strategy work, worked in M&A, private equity. I even was financial controller for a large multinational corporation and business development. So quite broad. I was also in microfinance providing loans to MFIs throughout Asia and then co-invest. I established a social enterprise in affordable housing in the Philippines, so I've gotten a little bit of an experience what it means to set up a company.

Speaker1: [00:01:50] Great. So what excites you right now?

Speaker2: [00:01:54] And say red thread. Throughout my career I was always excited and really driven by creating impact by the work I do. Being part of the solution to the big challenges we face today, such as environmental crisis and I'm now in plastic recycling and waste management and really addressing those issues is really fundamental to me being part of this system solution

at large to address large problems. Right. But also getting the rubber on the road and implementing micro solution is what really rewards me, as in what I do today with circular capital. What really excites me also is that there is an increasing momentum for investments in the circular economy. Plastic pollution in itself has been very high on the global agenda for the last couple of years, and we now see really the shift from not only discussing the problem but actually scaling the solutions. And so at Circular Capital, over the last almost three years, we have really been pioneering investments in this plastic circular economy, particularly in Asia. We managed now like 13 companies that we invested in, and we now really can see the scaling of impactful solutions across the region. And that is really what excites me, not just the financial return, right, but really also see the impact we can have with these companies in tackling one of the big one of the big issues we have to find solutions for.

Speaker1: [00:03:35] Great where you see a lot of startups and a lot of investors in this space. What's your advice for people investing in startups in this sector? What do you tell them to do before they write that check?

Speaker2: [00:03:45] Advancing the circular economy and solving really the plastic pollution crisis requires really a systemic approach. You know, just one off investments will not do it. So even if someone invests in a specific company for our cities, really critical. And that's our advice is to take a step back and consider how this investment will really impact the whole value chain. So the systemic problem, how we address this, the systemic problem we have in this perspective, I would say I recommend either identifying as an investor who are the key investors out there and who are the key players with whom you want to co-invest. And then also really go beyond and understand what are the key players in the ecosystem, because we really need to go beyond investing but understand all map out the networks, the people on the ground, the organizations which contribute to the solutions. These can be government agencies, right? Industry players, consumers, corporations. Just really understand the ecosystem you're playing in and how you with your investment, can fit in.

Speaker1: [00:04:57] Great. Then on the other side of that table, what's your advice for people running startups in this sector? What do you tell the founder to do before they go out to raise funding?

Speaker2: [00:05:06] Well, it's not that different to to the investor side, right? I mean, my first advice would be to really understand the problem you're trying to solve, particularly in the local context. You know, we may have an idea of a solution in our in our setting, in our world we're operating in. But ultimately, at the end of the day, the solutions have to fit the local communities, the local customers, and really understand their needs rather than what we think their needs are for. For me, it's also very critical to, again, for them to understand the system and how their solution or their innovation may fit in, how or what is their unique value proposition to that problem. They should understand logically the competitors, and they really need to understand the overall political and economic boundaries they are operating in. I think also what we think is important when we just look at the sheer scale of the problem at hand, is how is your innovation or your business idea scalable and replicable? For us, that's really important to understand. And I think as as a startup also important to see because you need to have a vision and a long term vision of how where you want to go. And then I think, honestly, I always say to startups, don't just look for money. Think about what investor is aligned with your own vision and mission, and how can that investor support you in achieving that? And that goes far beyond capital, right? That is really also about technical assistance networks, how they can get you to customers who are interested in the offtake in the solution. So really go beyond just looking for someone to give you money.

Speaker1: [00:06:56] Right. Well, let's talk about the state of investing in the circular economy. How do you see the industry evolving from here?

Speaker2: [00:07:03] Well, we started in 2019. We're based in Singapore and focused initially mainly on South and South East Asia. And what we have been seeing is that there is really a growing number and a greater range of investors now coming in, including obviously us as a venture capitalist. But in the past there has really been a lack of investment investments in the lack of funding going into the industry. And now we see a real shift in investors moving into the circular economy. And when you look at just in the last the past four years alone, there has been a ten fold increase in the number of private market funds with the circular economy focus. And I think that's that's significant. And that speaks for itself, right, that there is an increasing appetite. However, I would like to say, though, that much more money is needed than there is currently available to really achieve this transition from a more linear economy in in packaging, in, in, in particularly in plastic packaging to a much more circular and low carbon

economy. And I think we have seen it in COP 26. Right. What we need to achieve to to keep the the level of the temperatures to increase to 1% and the the waste management and the plastics industry is is a contributor, a key contributor to CO2 emissions.

Speaker2: [00:08:39] So really, there is much more capital needed, particularly in Asia, to really move from a very linear approach to a circular approach and then really to finally, you know, to unlock those billions of dollars needed. And there's really it's not done with 100 million or 200 million, many billions of dollars to really build this circular economy in the waste management and plastic recycling industry. And we need to unlock those buildings and we need to we can do that by really make sure that we strengthen the pipeline of investment opportunities. And so really get these pipelines visible. You know, there are plenty of opportunities out there. We need benchmarks to track the impact we have and then also make sure that we showcase to the investors, which may have an appetite now or going forward, is that you actually can invest, have a successful exit and good returns. In addition to what I think is still extremely important and at the core is environmental and social impact.

Speaker1: [00:09:49] Great. So what do you think is the biggest change we'll see in, say, the next 3 to 5 years? What do you think is going to come up sooner rather than later?

Speaker2: [00:09:56] Following up on on on the last question is really that we see mainstream investors getting more involved in the sector. And with that, I think our mandate or theory of catalytic capital has has been proven. One of our portfolio companies, for example, in India, it's called Recycle. It's a company which developed the first Waste Commerce platform connecting all the actors across the value chain, from waste collectors to recyclers to brands who use the material. They raised \$22 million just a few weeks ago from a group of investors led by Morgan Stanley's Indian Infrastructure Fund. And, you know, five years ago, we haven't seen that. Three years ago we haven't seen that. But now we see that. So we see the latest change really that capital is moving into the market and the market starts understanding the opportunities there are.

Speaker1: [00:10:48] Great. So let's talk about the your investment thesis. What exactly is it for your fund and what's your criteria for making an investment?

Speaker2: [00:10:56] Mm hmm. So maybe let's go start with the actual challenge we have at hand. So we and we are really focusing on the plastic circular economy and the great investment opportunities we have at hand. The key challenges are really, you know, several fold, but just to give you a few numbers which put it into perspective. I mean, today we have 11 million tons of plastic waste leaking into the ocean every single day. I mean, this is not only huge economic loss when you think that vast plastic has value. Right. But it's also just an environmental tragedy. Right. And then when we look at Asia in particular, but overall, globally, statistics show that we have 2 billion people which lack access to waste collection services. Right. For you and I, you know, we sort the garbage, it gets picked up, it gets recycled. But in many countries that it doesn't exist. So the plastic or the waste is dumped. When we look at these 2 billion people which lack access, it seems that what statistics show is that it could grow to 4 billion by 2040. So that's basically 500,000 people per day, which need to be connected to waste management. I mean, that is a staggering number. And those numbers are mainly coming from low and middle income countries. So we look at the numbers and then we start understanding the health hazard that what that that has on the people in these in these communities and the environmental hazard.

Speaker2: [00:12:45] It has obviously also by all this material leaking into the waterways or being burned. I mean, in Indonesia, 36% of all plastic waste is which is not properly managed, is burned. I mean, that in itself, if we stop doing so, we could significantly reduce CO2 emissions. So it is really the huge challenge at hand now coming to the opportunities, the corporations, all of these many of these fast moving consumer good companies pledged a percentage of their packaging to be recyclable, and that in itself created a tremendous demand in the market. So really we see an increasing international and local demand of recycled material to be used in packaging. And today that can be easily done right. You can basically take a bottle we use for drinking water and recycle it back into a drinking bottle. So it's bottle to bottle. So that technology is out there and there is an increasing demand for the material. So this is really the great opportunity and with an increasing demand, right, obviously there are now plenty of opportunities to invest in. The gap is definitely there. And we are here to to close that gap between supply and demand.

Speaker1: [00:14:06] Greg, can you talk about maybe one or two startups that fit that thesis, perhaps a portfolio or two?

Speaker2: [00:14:12] Oh, absolutely. But maybe in general. So we see five gaps and these gaps you need to fill. The first gap is really scaling collection and sorting typical upstream solid waste management. We do that in collaboration with cities. We invested, for example, in two companies. One is in India, it's called Napier. Napier is India's largest dry waste management company. So they basically collect municipal waste, dry waste and sorted and then take that material back to the recycling and manufacturing. And we also invested in recycling. It's an Indonesian company which is also in the waste collection industry and really does the same at a city level. And with that again we can really make sure that the material is not leaking or burned and that is one gap to close. And where we see investment opportunities then in the in India, the second gap is really scaling upcycling. And upcycling is really what we understand is waste to value. You know, plastic in itself has tremendous value if it is recovered. So we've done several investments there. One I mentioned, or two which are really recovering our pet or pet bottles, recycle it so that it is food or food grade quality and can be reused for food grade packaging. We've done two in India, Shree Chakra and Dalmia and one in Indonesia, which does the same. But you know, plastic in itself, some of it is more high value. Some of it's lower value can also be used in new applications such as construction materials.

Speaker2: [00:15:56] We have one investment in India which which uses plastics to produce panels in the construction industry. And a third one is really developing advanced recycling technologies for difficult to manage plastic waste, such as flexibles. Right. They use flexible material or plastics and produce shrink wrap for recycled shrink wrap. For example, when another one is in the textiles industry, it's called Sirk, which returns mixed fibers and poly cotton to raw material, and then you can reuse it again. So these are all really interesting upcycling investment opportunities. The third one is really digitization. There's a significant data gap in the industry and you need data obviously also to track the impact and improvements, but you also need digitization to connect the entire value chain and recycle, as I mentioned before, which just close to \$22 million funding round is really one of those which really provides more efficiency and transparency also along the waste management and recycling process. And then finally, the fourth, which we think even also important, while the first three are more short term right to really, you know, address those gaps. But then the fourth is really innovative materials because we can recycle and we can reduce and we can replace and replace. And innovation is really key. And here we also have done several investments which really look at materials,

alternative materials, which replace petroleum based products or are bio based. So in that sense, this is really what we're investing in.

Speaker1: [00:17:47] Right. So you mentioned before the challenges in this space. What do you think is the main challenge startups face in pursuing these opportunities?

Speaker2: [00:17:56] Main challenge for startups, right? Well, I would say for startups and SMEs in that space, they are really challenged by even obtaining funding. Right. And that goes back to the funding gap I mentioned and the lack of traditional finance institutions being willing and able to understand the sector and provide loans or equity. And so therefore that's really our goal that we we prove that this is an investment case and with our investments can really catalyze significant additional capital into the local companies. On the other hand, also, we really need more startups to disrupt the plastic value chain because beyond the traditional recycling, disruption is really key and the market is ready for disruption. And here I think we need structured incubation mechanisms in all these markets to help these ideas, these startups to get on their feet and further develop so that they become investment ready for us and other investors for that good reason. We support the incubation network, which is based in Asia as well and has already in the last years supported 99 startups in the circular economy. And so I think that is really the breeding ground for new future opportunities.

Speaker1: [00:19:15] Raytheon on the other side of that table. What's the challenge investors have in this space? What are they struggling with most?

Speaker2: [00:19:22] I think the challenges for them in the past and less so today. But but we're you know I think there's still progress to be made is visible pipeline and the lack thereof and then you know understanding what kind of opportunities are out there and how could they invest but also like evidence based track record. Right. And actually also investment products, which an investor can invest in, in which he has trust to to ensure that, you know, these these investment opportunities really not only generate about a nice financial return, but also have tremendous social and environmental impact. But as I mentioned, now that we see more deals happening in the sector and more funds developing products, so I think it's now only a matter of time until there are plenty of opportunities for investors to invest.

Speaker1: [00:20:19] Great. Well, there are many subsectors and applications in this space. If you had to pick one that you think is the best opportunity for investors to pursue. Which one would you call out?

Speaker2: [00:20:29] I think digital solutions right in disruptive innovation is really the area where there's plenty of opportunities. There may be early stage, right. And it depends on your appetite at what stage you want to invest. But I think if you look into disruptive innovations, digital solutions and alternative or innovative material development is really interesting. Then if you're more into more mature companies, then I think upcycling really process of turning waste into valuable products is an area to go for.

Speaker1: [00:21:03] Right. Well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:21:07] Well, I think that often in this space, you know, when we go back to the discussion on ecosystem development, it is really important to ensure that all the stakeholders are part of this systemic solution. And often, you know, the most vulnerable people, particularly in developing markets, or those who are the waste workers, those who actually live off the waste, right. By collecting it and selling it and making money. So I think it's particularly also for me and driven by my former work in the Philippines, it's really important to understand their needs and make sure they're on the table and they're not left out. But with any investment opportunity we have, we can ensure that their standard of living, their their their livelihood is improved and not worsened. And I think that is really important and something I would like to add.

Speaker1: [00:22:01] Great. So how best for listeners to get back in touch with you?

Speaker2: [00:22:05] Well, they can follow us on LinkedIn. They can visit us on our website. And I would say sign up to our newsletter. So you get regular information and updates on the industry and the investments we do. And and with that, I think it's a good start.

Speaker1: [00:22:24] Great. We'll put that in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:22:30] Thank you so much for having me.

Speaker1: [00:22:34] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect dot org. Paul Martin is the director of Investor Connect, which is a 500 1c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.