

KEYNOTE INTERVIEW

The future of waste management in Europe



Ambitions to create circular economies are creating attractive infrastructure investment opportunities, say Cube Infrastructure Managers' [Stefan Weis](#) and [Ambroise Bayen](#)

EU countries are in the process of fundamentally changing their approach to waste management and reuse of materials. With ambitious targets for recycling municipal waste and sustainability firmly atop the agenda, the investment opportunities are plentiful, argue Cube Infrastructure Managers partner Stefan Weis and senior investment manager Ambroise Bayen.

Q What are the key mega-trends that are currently driving the waste management sector in Europe?

Stefan Weis: Europe aims to create circular economies. Where waste

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production cannot be avoided, its economic value must be recovered and its impact on the environment significantly minimised, at least.

The EU Waste Framework Directive has set ambitious targets for the recycling of municipal waste to a minimum level of 55 percent by 2025, 60 percent by 2030 and 65 percent by 2035. Moving towards those recycling rates will secure material resources for Europe's economies and will help

reduce greenhouse gas and other emissions that are generated when virgin resources are extracted or processed.

Separate municipal collection and increased sorting efficiency are the key building blocks to facilitating the transition to a circular economy and meeting these EU targets. To achieve a high recycling rate, local communities must separately collect the materials that make up the largest share of municipal waste. Biowaste constitutes the largest fraction, representing around 35 percent of waste produced, followed by paper and cardboard, wood, glass, metals, textiles and electronic equipment.

The requirements to collect

biowaste and glass separately by the end of 2023, followed by textiles by the end of 2024, are the first steps to achieving high-quality recycling and ensuring the reusability of the materials collected. This is key to reducing waste contamination which makes recycling and sorting more difficult.

The majority of EU member states therefore have plans to increase the coverage of their population with separate municipal waste collection systems or to improve the effectiveness of municipal waste collection systems already in place.

Finally, the transformation of waste infrastructure in urban environments is critical for improving EU residents' wellbeing. For example, municipalities increasingly agree that there is an acute need for fleet electrification within the waste collection industry as part of EU-wide decarbonisation initiatives. Electric waste collection vehicles are not only an effective means to reduce air pollution but also noise pollution during collection hours.

Q Where do you see the most interesting investment opportunities?

Amboise Bayen: The strikes in the city of Paris in March 2023, with thousands of tonnes of waste sitting abandoned on the streets of the French capital, demonstrated how essential municipal waste collection services are for citizens' wellbeing. In numerous regions in Europe, municipalities have therefore defined a contractual framework to improve the quality of waste collection services.

Municipalities primarily provide operators with availability-based contracts, linked to pick-ups rather than volumes of waste collected with indexation formulas allowing a pass-through of the main operational costs, such as labour, energy and vehicle maintenance, which are regularly updated. Some municipalities, especially in Nordic countries, have also shortened the delay to pay municipal waste collection

operators, which reduces working capital requirements to start new contracts. These attractive contractual frameworks create a well-suited basis for infrastructure investments.

In addition, more complex municipal waste collection and the demand to increase recycling rates in Europe require improvement in technologies and significant investment in waste infrastructure, such as green waste collection fleets, multiple chamber trucks to keep the waste separated and automated sorting technologies.

Municipalities will also need to increase separate collection for textile

and food waste, create new civic amenities for plastics and glass and develop take-back collection points for apparel, electronics and other durable consumer goods. The evolution and complexity of the sector is creating opportunities to invest and generate attractive returns for long-term infrastructure investors.

Meanwhile, there are also country-specific dynamics which can make investment in municipal waste collection attractive. In France, for example, large waste management conglomerates are primarily focusing on treatment, waste-to-energy and the

Q What are the main risks that you see in this sector going forward?

Stefan Weis: The journey towards a circular European economy is certainly not without its challenges. It requires a paradigm shift in how we perceive, collect and treat waste. It demands co-ordinated efforts from multiple stakeholders – governments, municipalities, policymakers, institutional and private investors as well as individuals. It fundamentally requires that communities rethink their consumption patterns, re-evaluate their waste collection operations and transform their waste treatment methods.

Stricter regulatory requirements are leading municipalities to ask for increased service levels, which results in more complex and more costly operations. This is in line with EU waste management objectives, but municipalities need to tender more complex services, especially during this transition phase.

Although electric and multiple chamber truck prices are expected to decrease in the coming years due to technology improvements and mass-scale production, currently their upfront price is almost double the price of a conventional truck, which can be an initial hindrance for firms.

We believe the transformational changes of the waste management sector drive strong value creation for infrastructure investors, however, there are several sub-segments with specific risks that are not well suited to all investors. For example, the trading of recycled materials often entails significant commodity pricing risk,

Cube's investment strategy in the environmental sector is therefore predominantly focused on the municipal waste collection segment, which offers limited exposure to volume and commodity pricing risk.



commercial and industrial segment of the waste management market. This presents an opportunity for independent mid-sized waste management operators to propose a differentiated and high-quality waste collection solution for municipalities.

The Nordic markets also benefit from favourable regulation driving the development of separate waste collection, waste sorting and environmentally friendly operations. For example, in Denmark, most of the municipal waste is treated via waste-to-energy plants and only 35 percent is recycled, which is significantly below the EU targets.

Denmark also has no fewer than 10 different bins in most municipalities. Consequently, municipalities are focused on improving the efficiency of sorting facilities. Going forward, municipalities in other Nordic countries are also expected to continue to increase the demand for more selective waste collection operations, resulting in a higher number of routes and increased frequency of collection.

Q What is Cube's approach to investing in waste management assets?

SW: For several years, we have been scrutinising the municipal waste collection sector, which offers strong cashflow visibility through medium- to long-term contracts with local authorities. Following successful investments in the waste incineration sector with CNIM Development and IDEX, the acquisition of a majority stake in Sepur marked our first investment in the municipal waste collection market, reflecting our capacity to build on our track record of pioneering investments in a new subsector with strong infrastructure characteristics.

We also have a strong track record of investing in public transport operators and vast experience of working with local authorities to deliver growth and provide essential services to local communities. There are striking similarities between public transport and

municipal waste collection: both represent essential services for local communities and are key for the transition towards more sustainable economies in Europe.

In addition, both have a similar contractual framework and face similar challenges, particularly the need for fleet electrification and excellent management of human resources. As a labour-intensive industry, the management of sickness and absenteeism rates is important to achieve strong operational performance.

Q How is this approach reflected in the recent acquisitions that Cube has made?

AB: In February 2022, we invested in Sepur, the largest pure-play municipal waste collection company in France, serving 220 municipalities with more than 30 agencies, 1,700 vehicles and 3,200 employees.

Its revenues are predominantly derived from a diversified portfolio of more than 200 medium- to long-term contracts with local authorities.

“The evolution and complexity of the sector is creating opportunities to invest and generate attractive returns”

AMBROISE BAYEN

Remuneration is largely availability-based, providing resilience to economic cycles. The company is also led by a highly experienced management team which has been key to its continuous success over the past 10 years.

Through a partnership with Sepur's founder, we intend to support the continued geographic expansion of the company in the French market, which is driven by sustainable growth drivers such as the increasing focus of large integrated environmental groups on commercial and industrial waste management, the regulatory trend towards increasing waste sorting and separate collection and the requirement to invest in environmentally friendly fleets.

In August 2023, Cube agreed to acquire Urbaser Nordic, an essential infrastructure service provider delivering municipal waste collection and sorting services to local communities in all Nordic countries.

The company's revenues are underpinned by a diversified portfolio of more than 175 medium- to long-term contracts with local authorities. The contracts are largely availability-based and protected against inflation, which provides strong resilience through economic cycles and crises, as proven during the pandemic and the 2022 energy crisis.

During our due diligence, what most impressed us was the operational excellence and quality of management teams. Local managers have very strong relationships with their public sector clients. The company also has the lowest sickness rate among its competitors and most of its fleet employs technology that can optimise waste collection routes, thereby reducing fuel consumption.

Going forward, we plan to support management with both capital and sector expertise to accelerate the company's future growth, mainly in its core municipal waste collection segment as well as in synergetic industrial and commercial collection and in the Danish waste treatment sector. ■