

# PALOS

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## Weekly Commentary

Issue No. 25 | JUNE 20, 2022

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## Li-Cycle Holdings Corp.

**Li-Cycle Holdings Corp.** (LICY: NYSE) is a battery recycling company co-founded in 2016 by two engineers with experience in the lithium-ion (Li-ion) battery industry: Ajay Kochhar (CEO & Executive director) and Tim Johnson (Executive Chairman). Originating as a Special Purpose Acquisition Company (SPAC), the SPAC merger with Peridot Acquisition Corporation raised UDS\$527 million for Li-Cycle. LICY shares commenced trading as a public company in August 2021.

The company is an end-of-use recycler of Li-ion batteries while concurrently recapturing metals that form critical ingredients for Li-ion batteries, which are widely used in electric vehicles (EV), energy storage, and consumer electronics. The company's Spoke & hub Technologies forms a "closed loop" solution that transforms waste into a reputable source of much needed raw materials for EV supply chains.

On June 14, LICY reported its Q2/2022 financial results. Revenues increased to (USD)\$8.7 million from \$300,000 in Q2/2021. Operating expenses increased to \$30 million from \$5.6 million during the same quarter in 2021. The increase was attributed to the expansion of operations in North America and preparations for the upcoming build out in Europe. The company further announced significant commercial agreements in Q2, including significant strategic partnerships with global mining giant **Glencore PLC** (London), and **LG Chem** (South Korea), a world leader in chemicals and manufacturing of active battery materials.

The Glencore agreement is complementary as it focuses on the supply of battery feedstock (recyclable batteries) to Li-Cycle's "spokes" as well supplying chemical ingredients, mainly sulfuric acid, which is required for the "hubs". In addition, Glencore will provide marketing and off-take of the recycled end products. The Glencore investment is in the form of a \$200 million, five-year convertible note. The note is redeemable at the option of Li-Cycle and carries a conversion price of \$9.95 per share, well above last Friday's closing price of \$7.77. Glencore adds its Head of Recycling (Kunal Sinha) to the Li-Cycle board, and should the company elect to convert, GLEN would hold approximately 10% of LICY shares outstanding based on the current share structure.

In addition to the GLEN investment, Li-Cycle has completed long-term agreements with LG Chem for both intake (recycled nickel feedstock) and offtake (supplying battery grade recycled nickel sulphate) for LG

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batteries. The amount invested is \$50 million. Both agreements are subsequent to a \$100 million five-year convertible note investment by Koch Industries in late 2021. Koch Industries is actively investing in the green transition and will lend its expertise. The note matures in September 2026 and has a conversion price of \$13.43 per share. In combination with these deals and the initial raise, Li-Cycle has more than \$750 million in cash (pro-forma) which is ample liquidity for financing all projects currently in the pipeline.

Operationally, Li-Cycle currently has three “spokes” in operation: Kingston, ON (processing 5,000 tonnes per annum or ‘5k tpa’, Rochester, NY (5k tpa) and the Arizona facility which commenced operations in April 2022 (10k tpa). A fourth facility in Alabama (10k tpa), which uses the same ‘modular’ specifications as Arizona, is expected to be operational later this year. European expansion is in development with permitting and equipment lead-time completed and locations in Germany and Norway expected to be operational next year (20k tpa). In an announcement last Friday, Li-Cycle also revealed plans to expand into Asian markets, specifically South Korea, Japan and Vietnam. Maintaining the same strategy as in North America and Europe, the Asian build out will focus on establishing commercial relationships and constructing recycling facilities in proximity to sources of feedstock as well as OEM consumers.

In our view, an impressive pedigree of partners combined with a growing expansion portfolio have Li-Cycle well positioned to capitalize on the expected demand growth for Li-ion batteries. From an environmental perspective, growing EV adoption will eventually require an environmentally friendly method for the disposition of old battery packs. Li-Cycle’s patented technology addresses problems at both ends of the supply chain. This is a compelling investment thesis given the exponential growth that’s expected from EV vehicle sales as OEM manufacturers, with the support of governments worldwide, are ramping up the transition from internal combustion engine vehicles to electric.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.40	-12.87%
Palos Equity Income Fund - RRSP	PAL101	\$6.34	-12.17%
Palos Merchant Fund L.P. (Dec 31, 2021) <sup>2</sup>	PAL500	\$1.16	24.67%
Palos WP Growth Fund - RRSP	PAL213	\$1384	-26.84%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$8.70	-15.41%
S&P TSX Composite (Total Return with dividends reinvested)			-9.66%
S&P 500 (Total Return with dividends reinvested)			-22.34%
S&P TSX Venture (Total Return with dividends reinvested)			-31.79%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			3.23%
Canadian Government 10-Year			3.41%
Crude Oil Spot			US \$109.56
Gold Spot			US \$1,845.70
US Gov't 10-Year/Moody BAA Corp. Spread			221 bps
USD/CAD Exchange Rate Spot			US \$0.7677

<sup>1</sup> Period ending June 17th, 2022. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays



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