

STATE OF ITAD SECTOR AND OUTLOOK

2Q2023 Industry Survey Review

Compliance Standards LLC & E-Scrap News
Report Published September 2023

Contact Details to be Found on Last Page of Report



Introduction & Executive Summary

Introduction

In August 2023, E-Scrap News and Compliance Standards ran the second quarterly survey titled 'ITAD Sector Performance Review and Outlook.' The first survey was conducted in June 2023. The joint research initiative aims at assessing the ITAD sector and adjacent market segments. The second survey has attracted representatives of 20 companies, whose feedback is summarized in this report. The number of responding companies was down from 27 in the prior quarter, largely because of the summer vacation.

PURPOSES

The findings of the survey are used by E-Scrap News to enhance its editorial work, by augmenting its articles with up-to-date statistics and industry leader insight. Compliance Standards LLC uses the data to form analyst opinions on the state of the market and report back to participating companies in the form of analyses and opinion pieces.

All responses remain entirely confidential. Analysts will access data in their aggregate format to review the sector as a whole. Analysts are not allowed to share company-specific information from participating respondents.

Executive Summary & Takeaways

The following are takeaways from the survey, summarizing in bullet points:

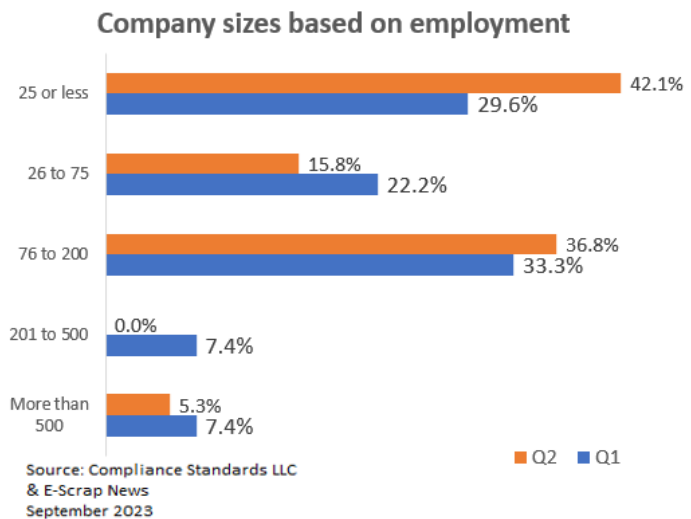
- *As was concluded in the first survey in June 2023, the vast majority of the companies participating in the second survey confirmed that they experienced a still depressed market, making the first half of the year a difficult period for the sector.*
- *The most important inhibitors to market growth were the same listed in the first survey, including extremely low prices in the secondary market, driven by reduced demand. Also, as a result, margins in the industry have further tightened, according to industry players.*
- *Industry executives also reported that layoffs and the wait-and-see attitude among some of their customers contributed to the depressed state experienced by the sector.*
- *In general, the second quarter may have been worse than 1Q2023 but most executives remain optimistic as they are anticipating better conditions taking place in the second half of this year.*
- *Many are already experiencing clients resuming purchases and activities. On the resale front, some industry players are seeing an easing in market volatility, anticipating a return to normal pre-pandemic levels.*
- *However, there is also a subset of the industry that remains pessimistic and continuing to see no urgent incentive for enterprise clients to upgrade their hardware. This is in addition to lingering concerns over the fundamentals in the economy.*
- *From our perspective, we call for more caution as the second half of the year progresses. Although inflationary pressures have dropped and enterprise users are engaging in refreshes and renewal, opening more opportunities for the disposition function, there are still many end-user companies reluctant to consider spending beyond what they consider as mission-critical areas. For many ITAD is a secondary area and can often be set aside for the time being, creating instability in the ITAD space.*

The Participants

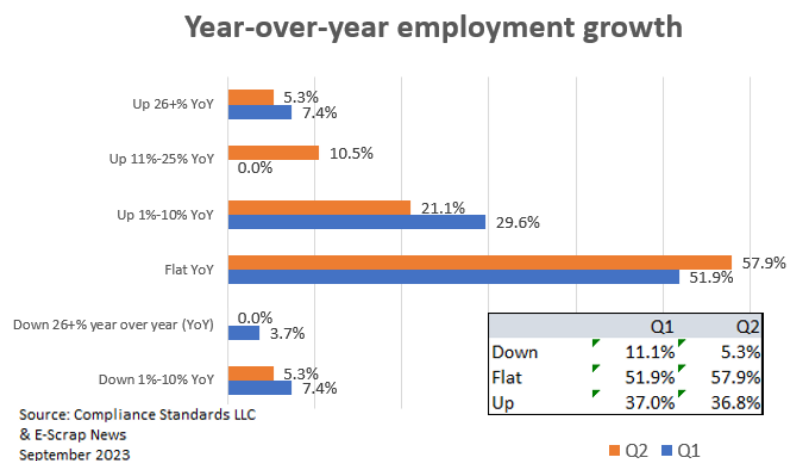
The following is a profile of who the participating companies are:

EMPLOYMENT DATA AND TRENDS:

In the second quarter survey, the percentage of mid-and-larger companies dropped largely as a result of the summer break season peaking. In general, surveys are difficult to administer during the summer holiday seasons. And so some 42% of the respondents to the survey represent small ITAD companies with 25 employees or less. The other highly represented group is the 76-to-200 employees, accounting for nearly 37% of the respondents' base, up from 33% in the 1Q survey. Large companies with more than 500 employees accounted for some 5%, down from 7% in 1Q23. These figures, although representing a small number of survey participants, provide us with a balanced view of the sector's performance.

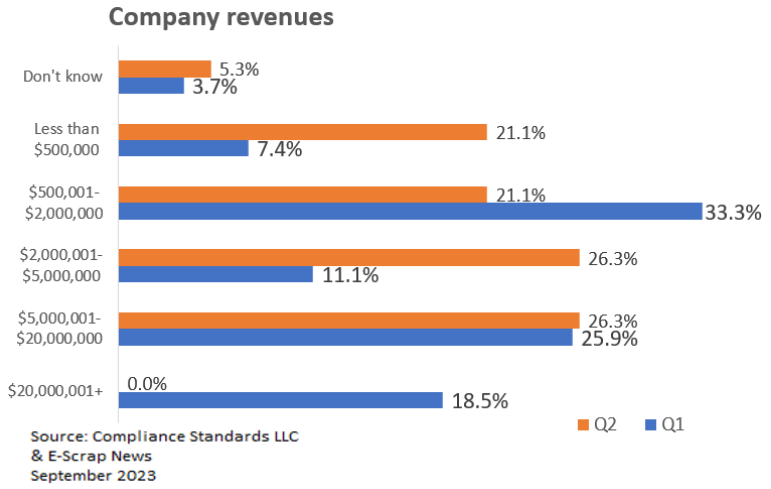


The general picture of employment has not changed from the 1Q survey. In general, more than half reported no changes in employment policy on a year-over-year basis. Some 37% reported an increase, which in general terms bodes well for the industry as an employer. What appears to be the most interesting finding is that those reporting negative employment trends halved from more than 11% in 1Q to some 5% in 2Q.



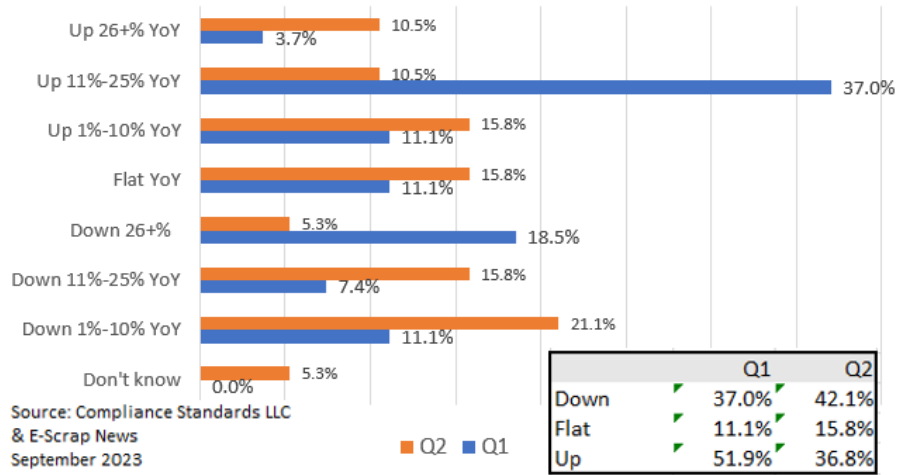
REVENUE DATA AND TRENDS:

The revenue figures also correspond to the employment size profile, although in this latest 2Q2023 survey, there is no representation of companies with more than \$20 million in quarterly ITAD-related revenue. The sweet spot on the revenue size remains between \$500K to less than \$20 million, likely reflecting the image of the industry dominated by SMBs. All revenue ranges are almost equally distributed, reflecting a balanced representation of companies based on revenue size.



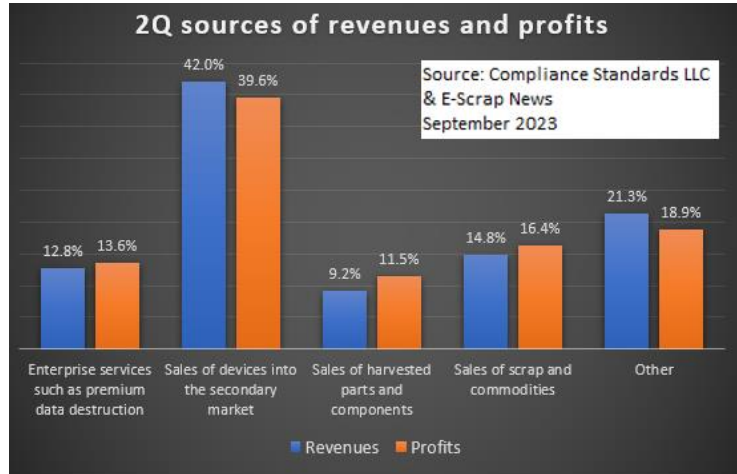
Respondents' feedback on the second quarter revenue trend shows a still depressed market, with the proportion of those reporting a drop in sales growing from 37% in 1Q to 42% in 2Q. Even if we had a bigger number of participants (as in 1Q), we assume the result would be

Year-over-year revenue growth



more/less likely the same, highlighting that a large section of the ITAD vendor ecosystem is struggling with difficult economics. Still, nearly 37% reported a better revenue trend in 2Q, confirming that the sector is an uneven playing field when it comes to how each company performs, with results likely related to individual go-to-market strategies.

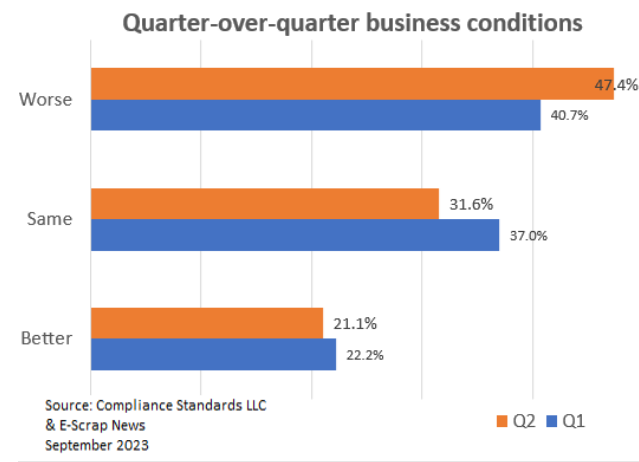
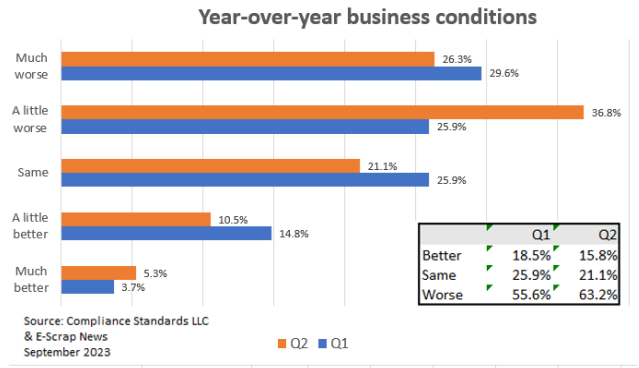
Looking into this quarter’s sources of revenues and profits, respondents’ shared approximations confirm the predominance of the sales of devices into the secondary market, accounting for 42% of revenues and 39.6% of profits. The charts to the right provides the approximations.



I- CURRENT SITUATION

State of the Sector in 2Q2023: Business Conditions

In the second quarter, the business climate appears to have worsened for a big majority of participating companies. 63.2% reported experiencing negative business conditions in 2Q, representing a more-than-eight percentage point rise compared to 1Q2023. The data aligns with the revenue trends showing a decrease in sales for more than 42% of companies. Consequently, the companies that experienced better conditions versus the year-ago quarter accounted for less than 16%, down from 18.5% in the previous quarter. These figures clearly indicate that the sector has been dormant for most companies.



Sequentially, the quarter-to-quarter data

also shows a worsening of conditions in 2Q2023 versus 1Q2023, with those reporting an adverse environment accounting for more than 47%, up from 40.7% in 1Q2023.

IN ANALYZING THE VERBATIMS, WE NOTE THE FOLLOWING *(UNEDITED)* REASONING SHARED BY RESPONDENTS AS TO WHY THE BUSINESS ENVIRONMENT EITHER IMPROVED OR WORSENERD:

On the negative side:

- *Depreciation of technology and lower demand in secondhand market coupled with decreased value of donated technology.*
- *Implementation of a new ERP system impacted productivity.*
- *Less demand of used or refurbished IT and lower than expected value for used IT assets*
- *Margins are tighter and decisions take longer time.*
- *Customers are going through layoffs which create risk and opportunity.*
- *Q2 Started off strong but was negatively impacted by continued variability in the reuse markets. This volatility continues to be our biggest challenge although we believe it is largely driven by sentiment rather than the actual strength or weakness of the market.*
- *Although we anticipate continued volatility in market pricing, we are hopeful that we've hit bottom and will gradually begin an upward trend.*
- *The prices and demand for data center equipment are dramatically down.*
- *Many companies that initiated ITAD services RFPs, evaluations, etc., have let the individuals go who were leading the project. Inflation continues to rage - higher expenses.*
- *Very weak demand for used electronics.*
- *We are seeing more layoffs in the industry among the clients we represent with white glove services. Companies are being forced to take this action.*
- *We are up because volumes of items in our door have gone up, but it is much harder to sell things. CPU we could sell for \$40 to a downstream are now \$5, or less.*

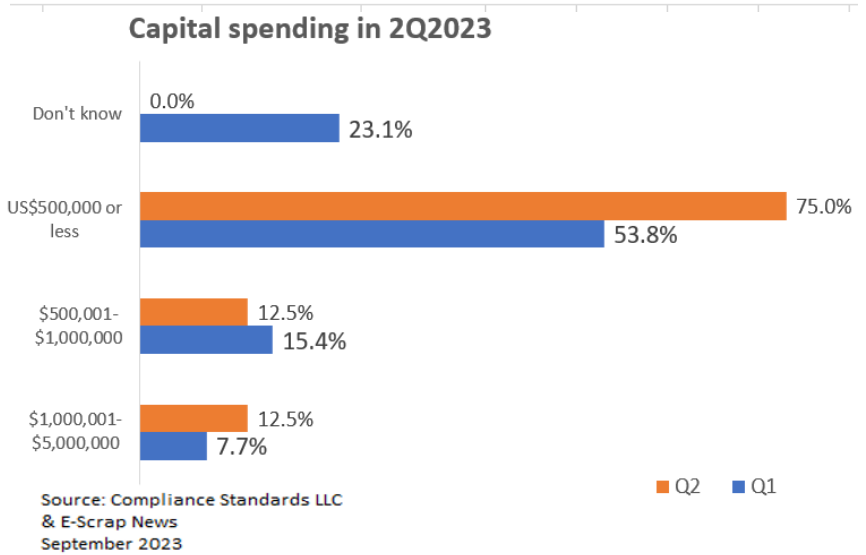
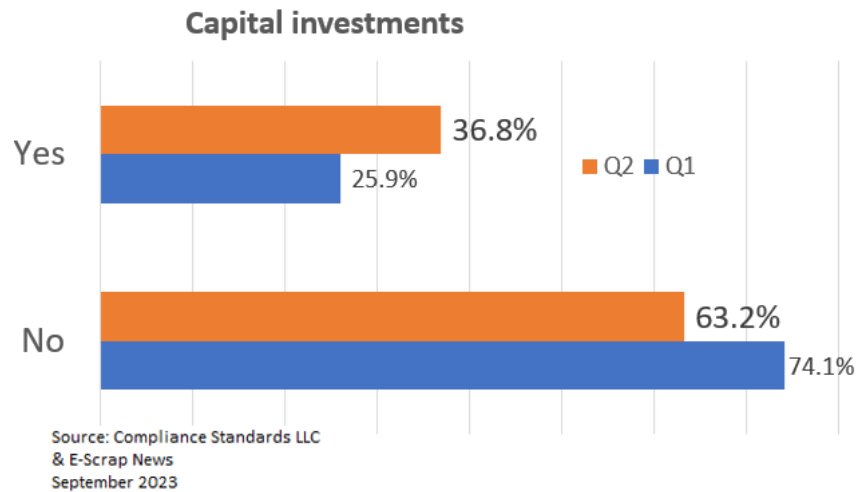
On the positive side:

- *Demand for services improved and resale values stabilized.*
- *Good demand for the equipment we were bringing in.*
- *More new potential customers and progress with existing customers.*
- *Sale prices are starting to rebound from rock bottom, new refreshes starting.*

Capital Investment

Despite a difficult second quarter, the number of companies that have committed capital investments in that period rose to nearly 37%, versus less than 26% in 1Q.

In terms of the value of the capital spent, those reporting less than \$500,000 accounted for 75% of the base, up from 54% in 1Q2023, reflecting a conservative approach to spending amid a difficult economic environment.



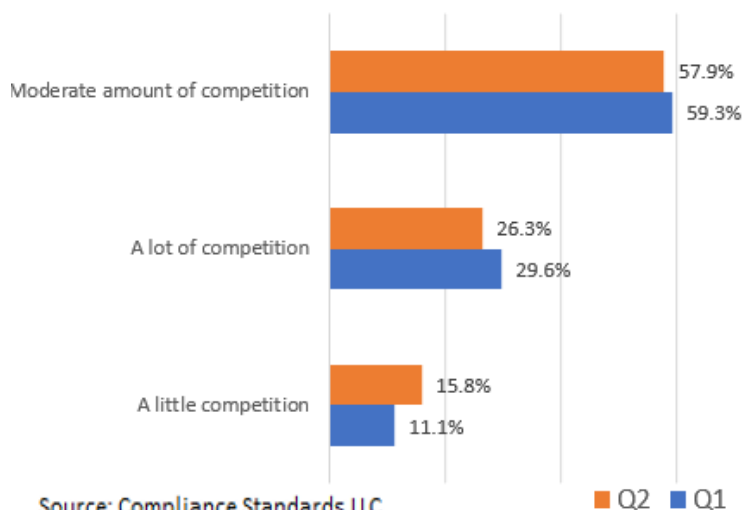
Competition

Tough competition during the quarter was decried by more than 26% of the participating ITAD companies. More than one quarter say that they experienced a lot of competition in 2Q23, while a strong 58% reported moderate levels of competition.

The profile of the competitive landscape has not changed compared to 1Q2023, reflecting no major alteration in the industry and subdued M&A activity.

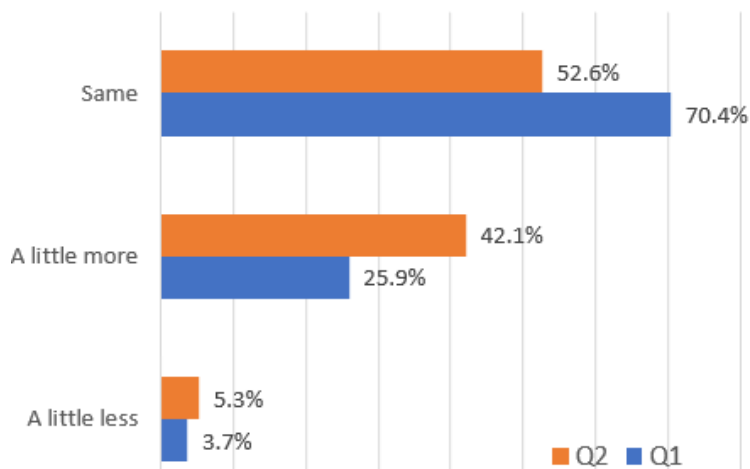
Compared to 2Q2022 (year-ago quarter) and given the difficult conditions experienced by the industry, competition appears to have intensified in 2Q2023. The intensity of competition was reported by more than 42% of the participating companies, versus less than 26% reporting a toughening of the competition in 1Q23. This is compared to nearly 53% seeing no change in competitive behavior, versus 70.4% reporting a calm market in 1Q.

Current state of competition



Source: Compliance Standards LLC
& E-Scrap News
September 2023

State of competition vs. year-ago quarter



Source: Compliance Standards LLC
& E-Scrap News
September 2023

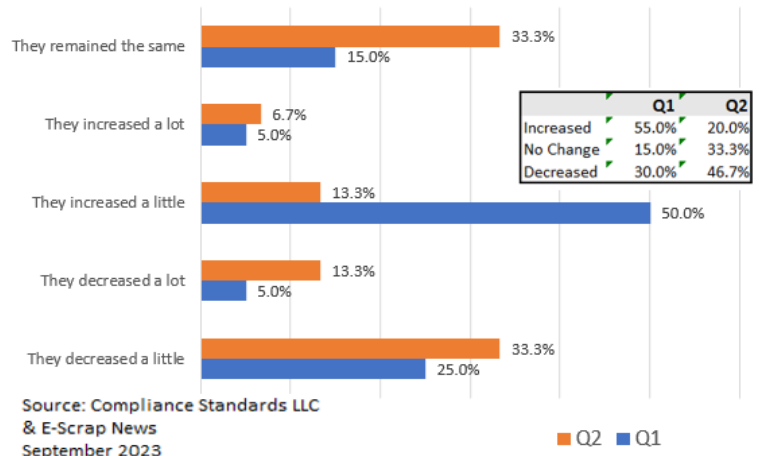
Customers and End-Users: IT Refresh, Data Security and the Environment

In analyzing general customer behavior, we asked ITAD vendors how they assess their customers' IT activities in 2Q of this year compared to early 2Q2022. The results show an alarming trend with nearly 47% noticing IT projects decreasing among their clients, versus just 30% reporting the same in the last quarter's survey. The figure may be indicative of tough business conditions also affecting ITAD vendors' clients. The sequential trends from 1Q2023 also suggest IT refresh projects slowing down, with nearly 29% reported observing decreases, vs. 15% reporting the same in 1Q2023.

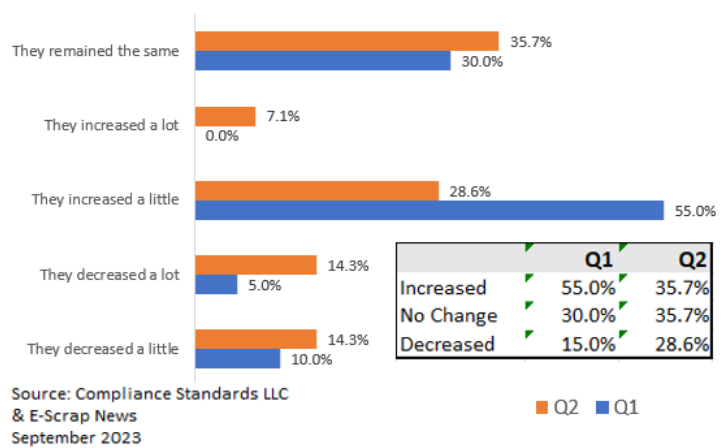
Just as in last quarter conclusion, we believe these findings are generally in line with the overall observation that IT departments are careful in controlling their spending, while remaining focused on major projects such as IT security, digital deployment and cloud initiatives.

Asked about their clients' awareness of the importance of **data security**, 40% of the represented ITAD vendors say awareness continued to rise among their

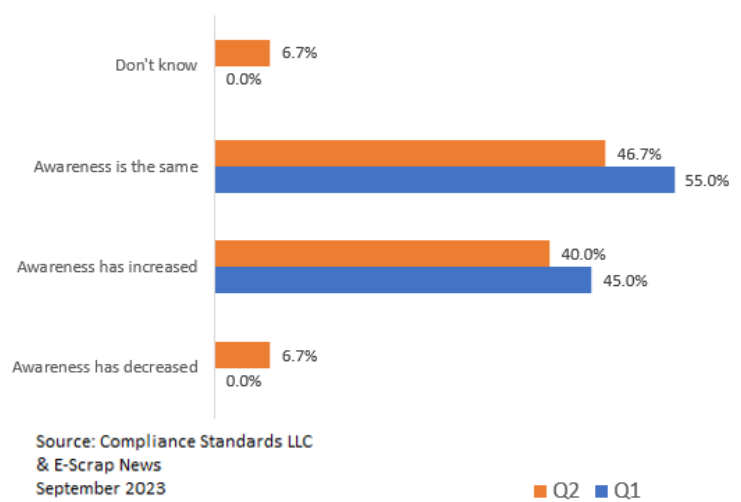
IT Refresh



QQ IT Refresh



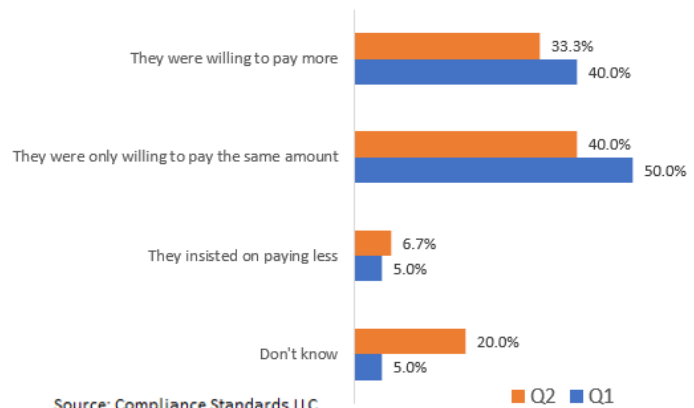
Awareness on data security



clients, putting only less than 8% reporting a decrease in awareness. The general perception of data security remains about the same compared to 1Q2023. However, unlike in 1Q, this survey shows for the first-time responses suggesting a decrease in awareness of the importance of data security, although at a low rate of 6.7% of the participating companies. This figure may be a reflection of a difficult IT spending budget environment where end-user organizations are forced to be selective in their spending plans.

To test whether data security is truly in the minds of clients reporting growing importance, we asked whether clients were willing to pay more for data security. And the answers were positive, with a solid 33% reporting that clients were indeed willing to pay more. This is while 40% noted no change and only 7% said their clients were pushing for less spending on data security. Although weaker than in the 1Q survey, these figures, which are generally on par with 1Q2023 findings, are positive news for the industry, in particular for ITAD companies that have the proper set of offerings to monetize data security.

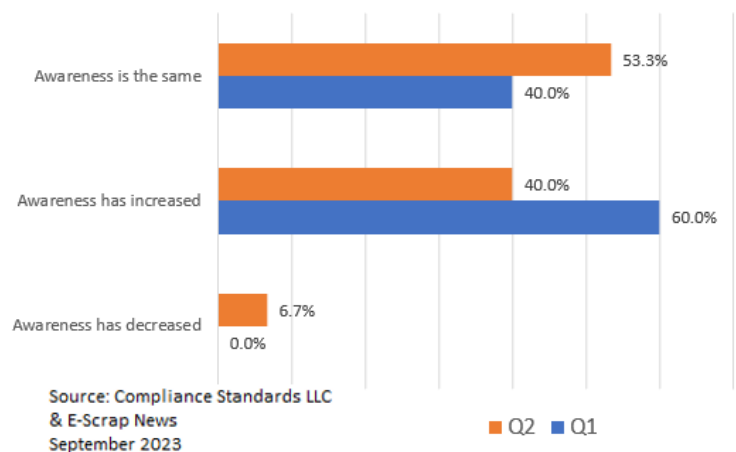
Willingness to pay more for data security



Source: Compliance Standards LLC & E-Scrap News September 2023

On the environmental front, data shows greater awareness on the environmental benefits of reuse and recycle among ITAD vendors' clients. But the increase in awareness slowed compared to 1Q2023, affecting clients of 40% of the participating ITAD vendors, down from 60% among the 1Q2023 respondents. We also see nearly 7% of the base reporting a decrease in awareness on the benefits of environmental controls among their customers.

Clients' awareness of the environmental benefits of reuse/recycling



Source: Compliance Standards LLC & E-Scrap News September 2023

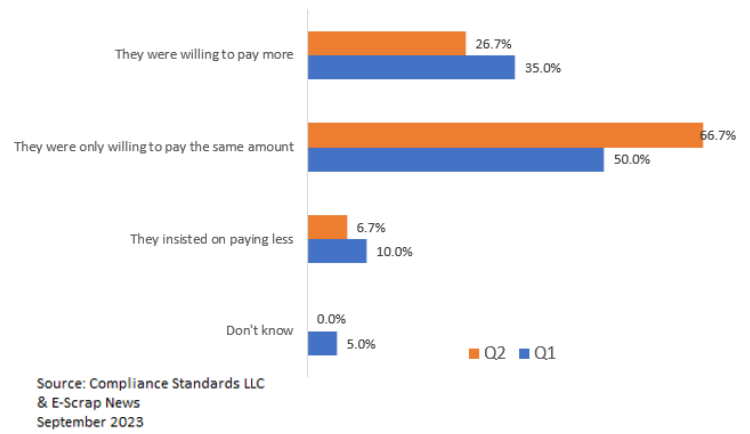
As in the same takeaway concluded in the 1Q2023 survey, monetizing environmental services may be a bit more challenging as only 27% reported of ITAD companies say their clients are willing to pay more for the services and 67% reporting no change.

Used Electronics Market

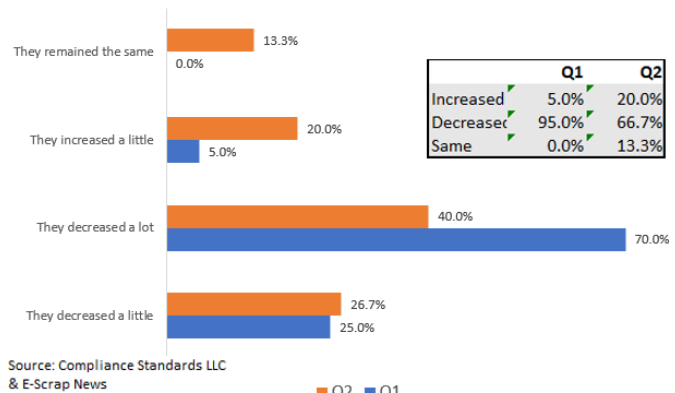
Major stumbling blocks to the growth of the sector are the prices of used electronics as they move into the secondary market. All in all, data suggests that the vast majority of the vendors participating in the survey (nearly 67%) saw a decrease in prices compared to 2Q2022. Only a minority of 20% say they experienced increases and more than 13% noted stable prices on a year-over-year basis. Of the 67% reporting decreases, 40% characterized the drop as significant. Of the 67% reporting decreases, 40% characterized the drop as significant.

While the sequential data confirms a weak pricing environment, those reporting ‘decreased a lot’ accounted for just 20%, perhaps indicating a slower rate of price drops. Those seeing sequential increases accounted for 26.7%.

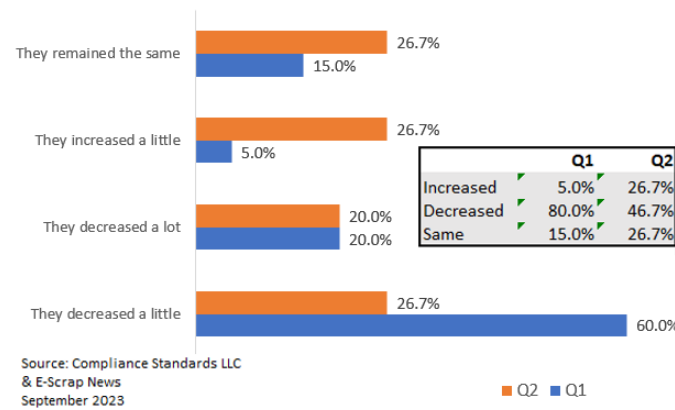
Willingness to pay for more environmental benefits



Year-over-year evolution of secondary market prices for used electronics



Sequential evolution of secondary market prices for used electronics



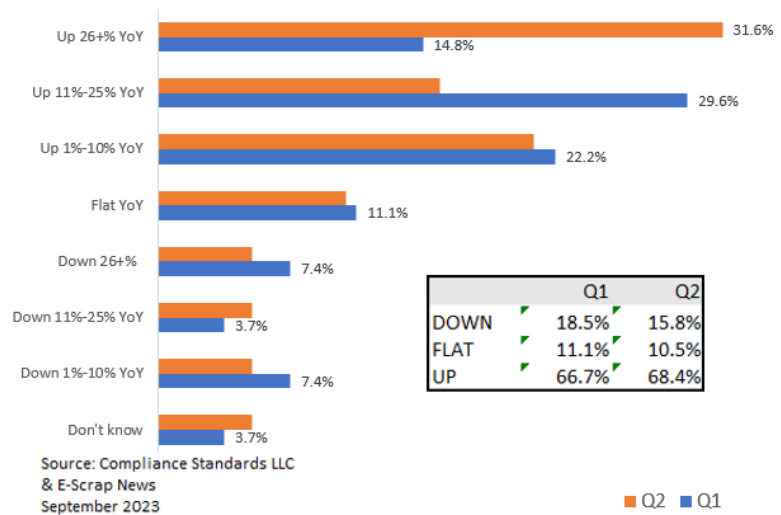
II- OUTLOOK

Revenue and Capital Investment Outlook

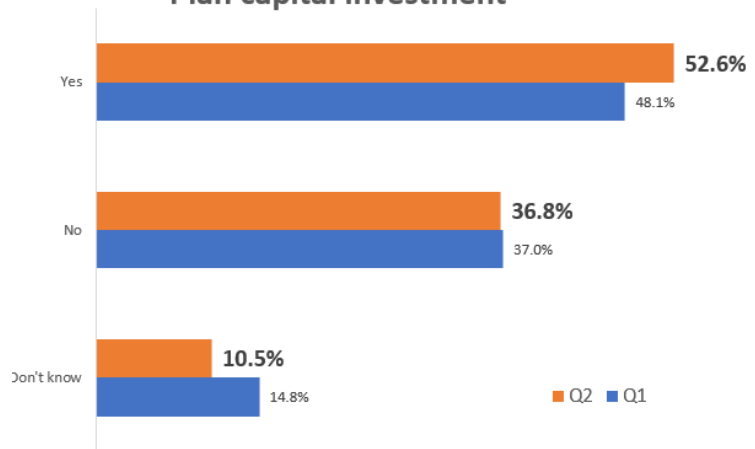
Representatives of the ITAD sector maintained in 2Q the same degree of optimism on the outlook for their industry as in 1Q. More than 68% displayed a positive assessment of their revenue expectation over the next 12 months. Some of them, 31.6%, even displayed excessive optimism with anticipated revenue growth of more than 26%. Although such growth will be difficult to achieve, the figure illustrates the positive state of mind experienced by many ITAD executives.

In general, these figures bode well for the development of the sector because they would translate into more capital investments in the months ahead. Nearly 53% of the respondents anticipate making capital investments. While 37% said they have no plans, another group of 10.5% remain uncommitted and likely watching how the economy is progressing.

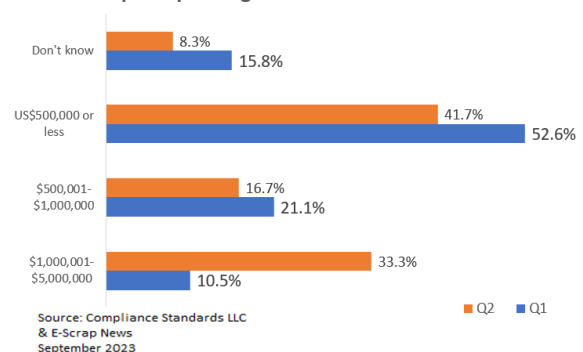
Revenue expectation over the next 12 months



Plan capital investment



Capital spending in next 12 months



Specific to those planning to make capital investments over the next 12 months, data suggests the willingness of vendors to open to more spending as many appear to move from the less-than-\$500K range to higher spending ranges, include 33% reporting more than \$1 million. This trend, if accomplished, bodes well for the sector that needs permanent improvements and in line with the respondents anticipating revenue growth over the next 12 months.

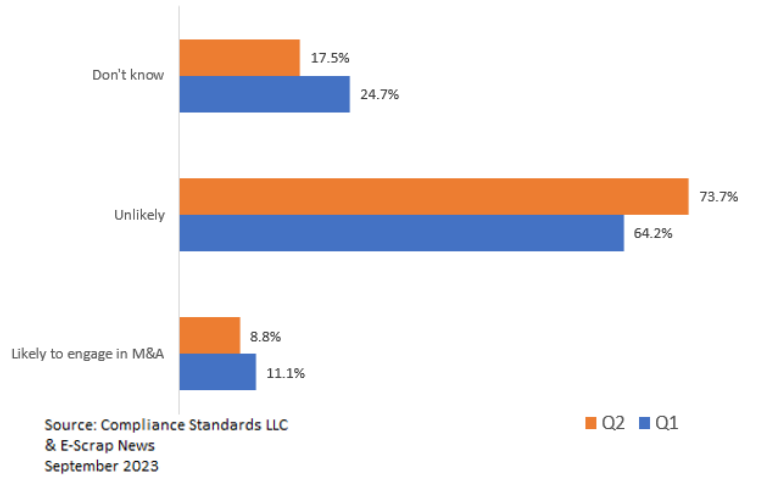
DESCRIPTION (*UNEDITED*) OF SOME OF THE CAPITAL INVESTMENTS:

- *Additional facilities, trucks, shredders, etc.*
- *Advertising, growth, and vehicle upgrades.*
- *Facility expansion for additional volume*
- *Investments have been for equipment for processing non-ferrous metals. Our future investments are in plastics recycling.*
- *New ERP system implementation*
- *Processing systems to recover chips for refurbishment.*
- *Processing systems to remove chips from circuit boards.*
- *Purchasing of new equipment*
- *US expansion*
- *We are looking to purchase additional warehouse space as well as some processing equipment. We are investing in a new ERP platform.*

M&A Activity Outlook

Data suggests that there is a decreasing likelihood of strong M&A activity in the ITAD sector in the months to come as companies focus on maintaining organic growth and avoiding mistakes in a difficult economic landscape. Nearly 74% of the participating companies have no intention of engaging in M&A as defined below. Only a minority of 8.8% say they may be engaged in M&A. The data is an aggregate figure generated by combining the responses to three questions about the next 12 months:

Likelihood of engaging in M&A in the next 12 months



1. Do you anticipate that your company will be acquired by investors and/or an industry player?

2. Do you anticipate selling a non-controlling stake in your company?

3. Do you anticipate your company acquiring another company in the electronics reuse and recycling space?

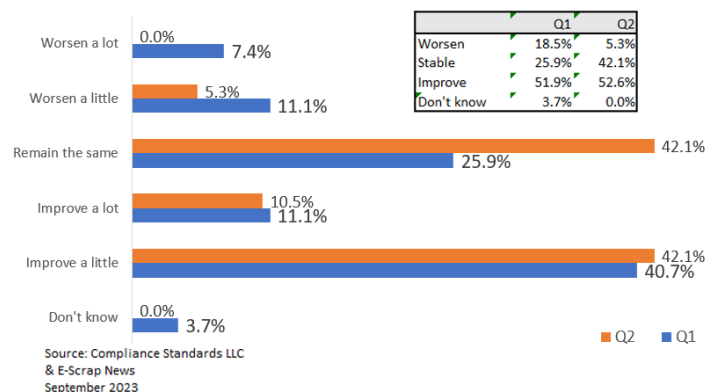
With the results for each question being statistically close, we averaged the responses into a single dataset summarized in the chart above showing an industry M&A expected participation of 8.8% in 2Q, down from 11.1% in 1Q. The reduced prospect of M&A can be explained by the general feelings about the difficulties facing many companies during the first half of 2023.

Sentiments over Business Conditions Ahead

The data on the expected business conditions over the coming months depicts relative optimism among slightly more than half of the base, reporting improved conditions.

Those predicting a worsening of the business environment account for some

Business conditions in next 12 months



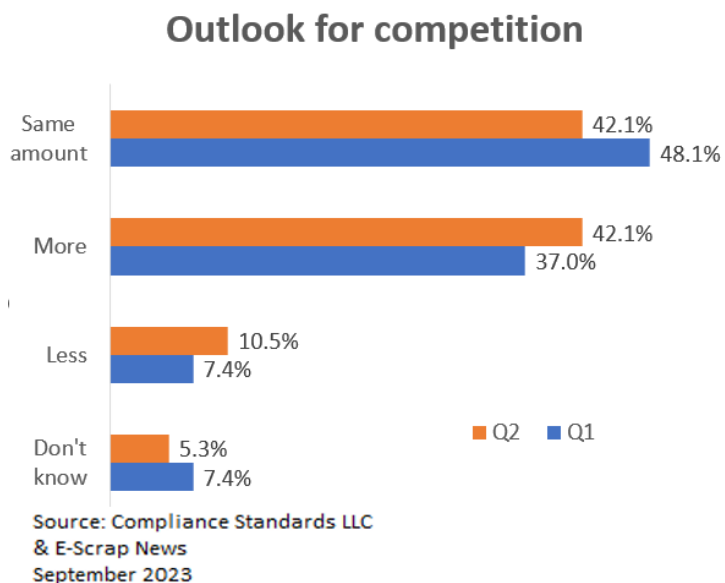
5.3%, down from 18.5% in the 1Q survey. The data perhaps suggests ITAD vendors feel that they have reached the bottom, but a sizeable percent of 42% see neither an improvement nor a worsening.

IN ANALYZING THE VERBATIMS, WE NOTE THE FOLLOWING REASONING (UNEDITED) SPECIFIC TO THE BUSINESS ENVIRONMENT OUTLOOK:

- *Cautiously hopeful but fearful that this environment will continue for another 12+ months.*
- *Companies are starting to buy again, which means need to replace.*
- *Demand for services and products is still strong, and completion of ERP implementation will allow us to meet demand.*
- *Hopeful that resale market volatility has stabilized, and that pricing will begin to increase as organizations continue to decommission higher volumes of new equipment as well as overall supply of devices in the secondary market should return to normal "pre-covid" levels.*
- *I am not confident businesses have or will continue to upgrade their equipment. I see a lot of holding, both households and businesses pausing upgrading their tech.*
- *I expect inflation to get under control and market conditions to slightly improve.*
- *I see several poor companies, processes, overspending, etc., that need to be flushed out before a recovery can begin in earnest.*
- *Increased emphasis on sustainability and impact of supply change shortages, which are both good for us.*
- *Industry competition is growing.*
- *Optimistic that the market has bottomed out and used asset prices will begin to rise above pre-covid levels.*
- *Our project and inbound device pipeline has increased for the next few quarters. We have also onboarded new accounts that will positively impact on our business.*
- *Prices should continue to rebound.*
- *There are still some concerns over fundamentals in the economy, but our client base is strong.*
- *Think it will take over 1 year for the market to recover.*
- *We do a lot of government business and there are many initiatives within the federal space to modernize infrastructure. Budgets for IT spending have definitely gotten bigger, and we are seeing a large amount of refreshments going on.*

Competition's Outlook

Most ITAD vendors surveyed either anticipate more competition ahead (42%) or a stable competitive landscape (also 42%). Only 10.5% suggest an easing in competition.



CONCLUSIONS

In conclusion:

- This second survey, conducted by Compliance Standards & E-Scrap News, confirmed that the ITAD market in 2Q2023 was likely more depressed than the first quarter, owing to a series of factors negatively affecting the demand side. In our previous report, Compliance Standards & E-Scrap News assumed that the 2Q2023 would also end up in a similar situation as 1Q did. Data suggests that the downward path followed by the sector may have been more pronounced due to further reduction in the prices in the secondary market amid falling demand.
- Likewise, surveyed executives have not lost confidence in the outlook and have shown steady optimism that the rest of the year will be better.
- Although Compliance Standards & E-Scrap News agree with industry leaders that the second half could bring much needed respite, they still encourage industry stakeholders to remain cautious, while focusing on improving operations, reducing unnecessary cost to achieve lean corporate structures and to renew their focus on their go-to-market programs. Identifying best niche markets could help wither the storm, should the sector fails to recover in 2H2023.

Authors and Contact Information

David Daoud

Compliance Standards

Office: (617) 276-6035

Mobile: (508) 981-6937

DDaoud@Compliance-Standards.com

Jared Paben

E-Scrap News

Office: (503) 233-1305 Ext. 127

jared@resource-recycling.com