

*delivering solutions  
to the global middle market*

## *Recovering Value in Waste*

November 2011

*Prepared for: NORA*

*Mergers & Acquisitions* ◆ *Debt & Equity Placements* ◆ *Financial Restructurings*



# Presentation Highlights

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The State of the Capital Markets	
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Debt Capital Markets	
M&A Market Overview	
Sector Valuations and Activity	III
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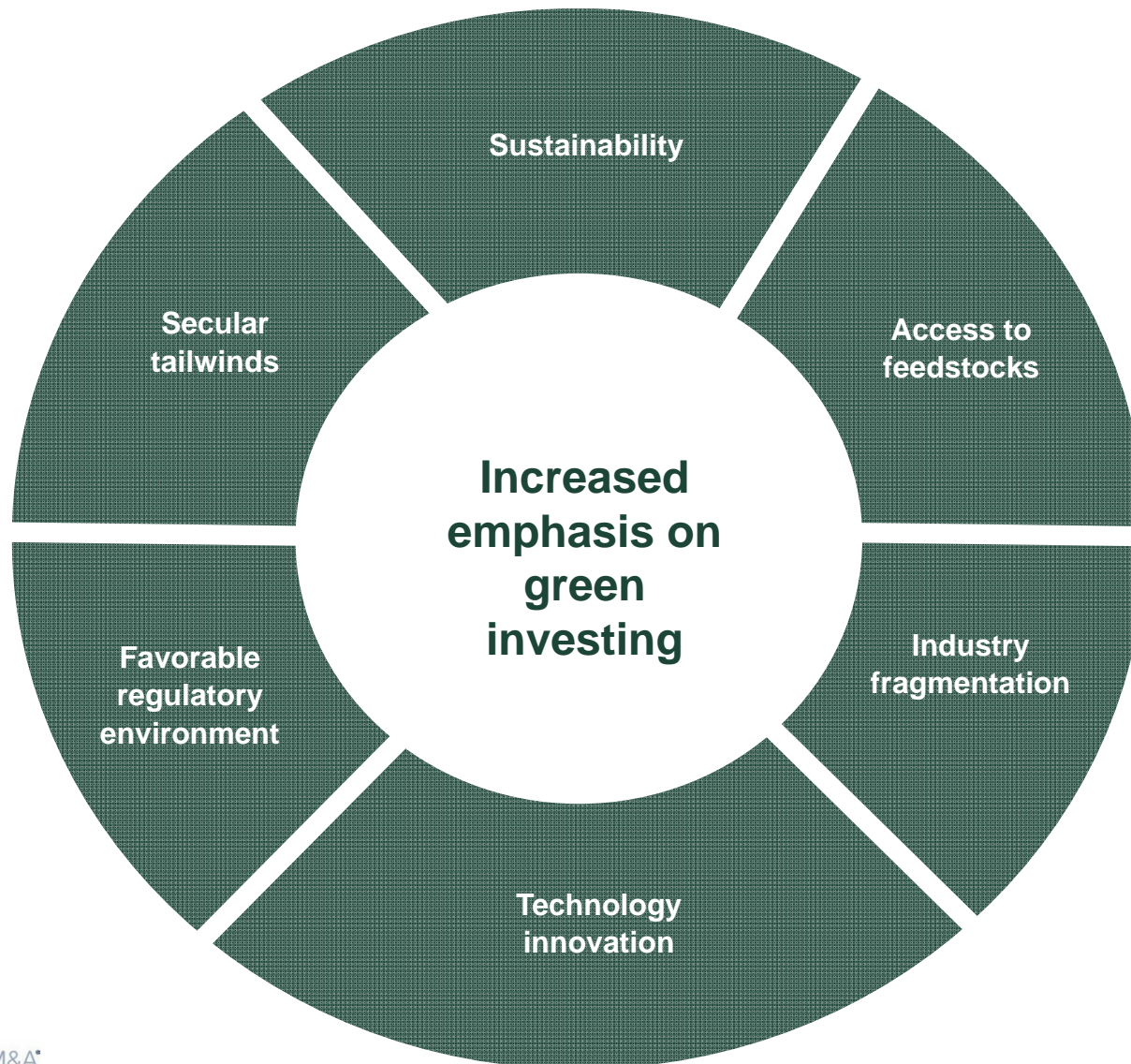


# Industry Perspective

## Industry Perspective

### Capital Flowing Into, and Within, the Waste Industry

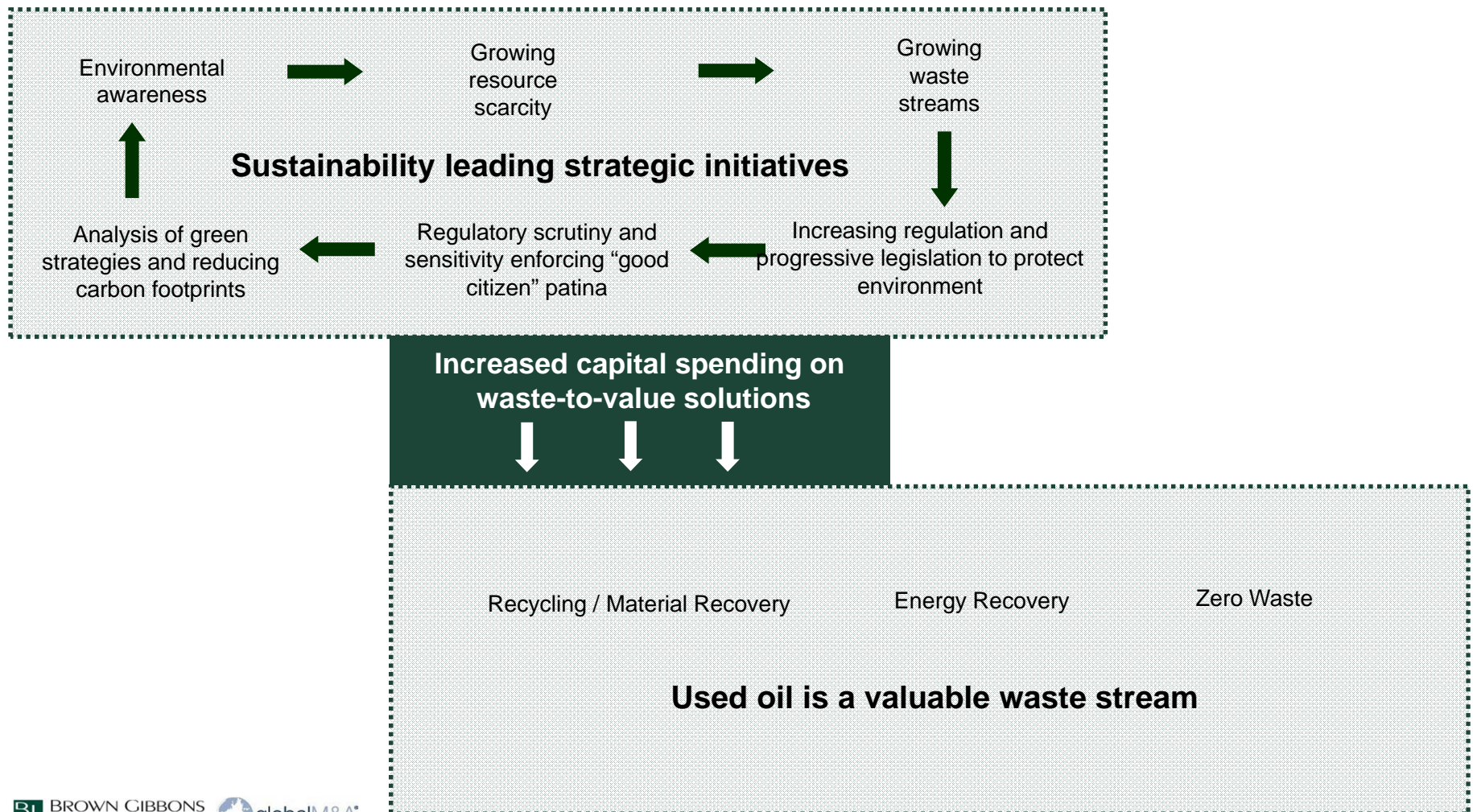
- Heightened competition from cash-rich strategics and specialized and generalist private equity firms that need to put capital to work
- Highly competitive market for marquee properties



## Industry Perspective

# Sustainability is Driving Value Recovery from Waste Streams

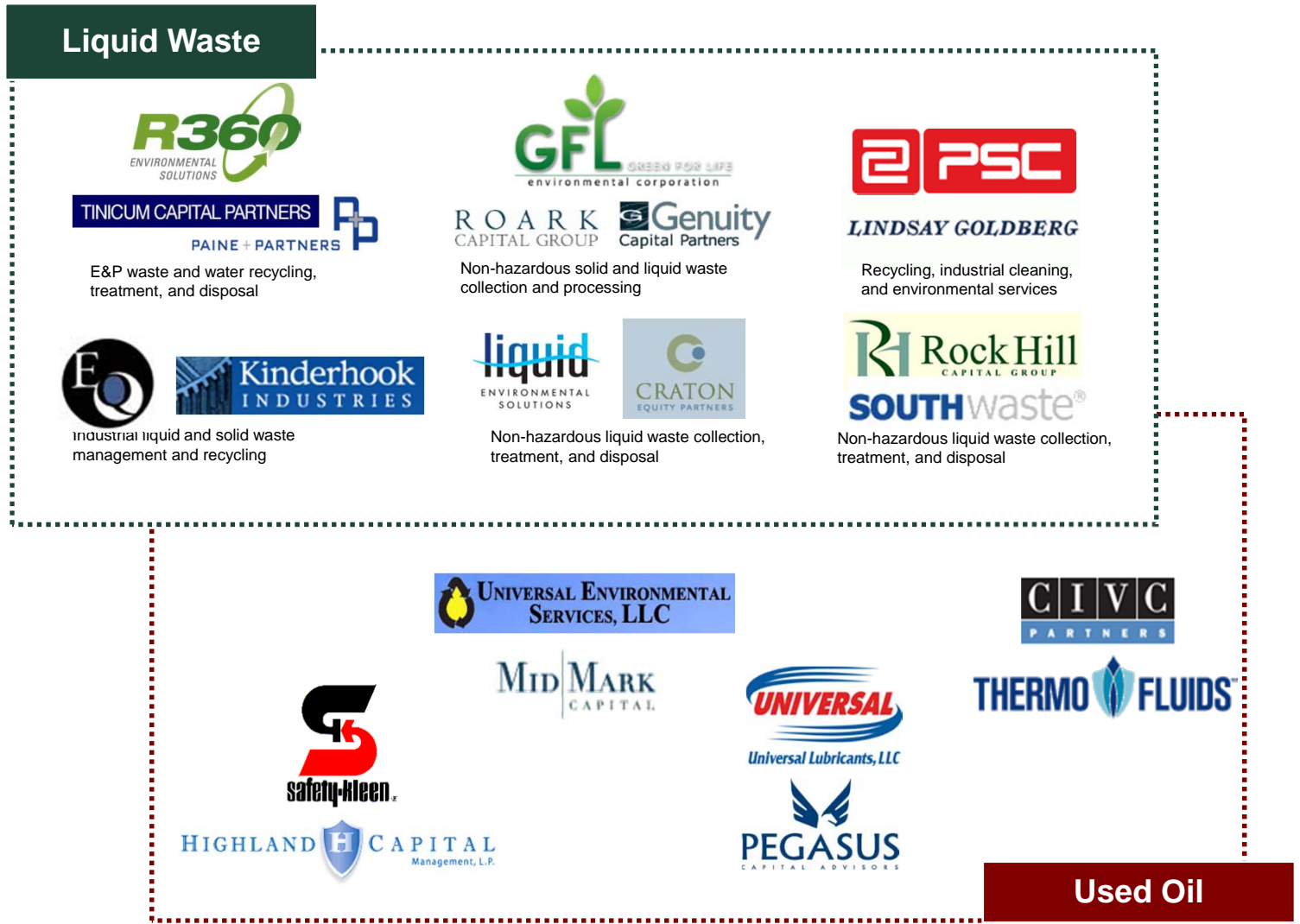
**Oil recycling is gaining in importance as sustainability fuels increased investment in solutions for material and energy recovery from waste**



## Industry Perspective

### Recovery from Waste Garnering Increased Private Equity Interest

- The economic recovery is driving renewed interest in liquid waste businesses
- Used oil as a waste stream is gaining in importance
- Target-rich landscape presents opportunity to execute regional consolidation strategy
- Track record of existing platform investments in sector





## Industry Perspective

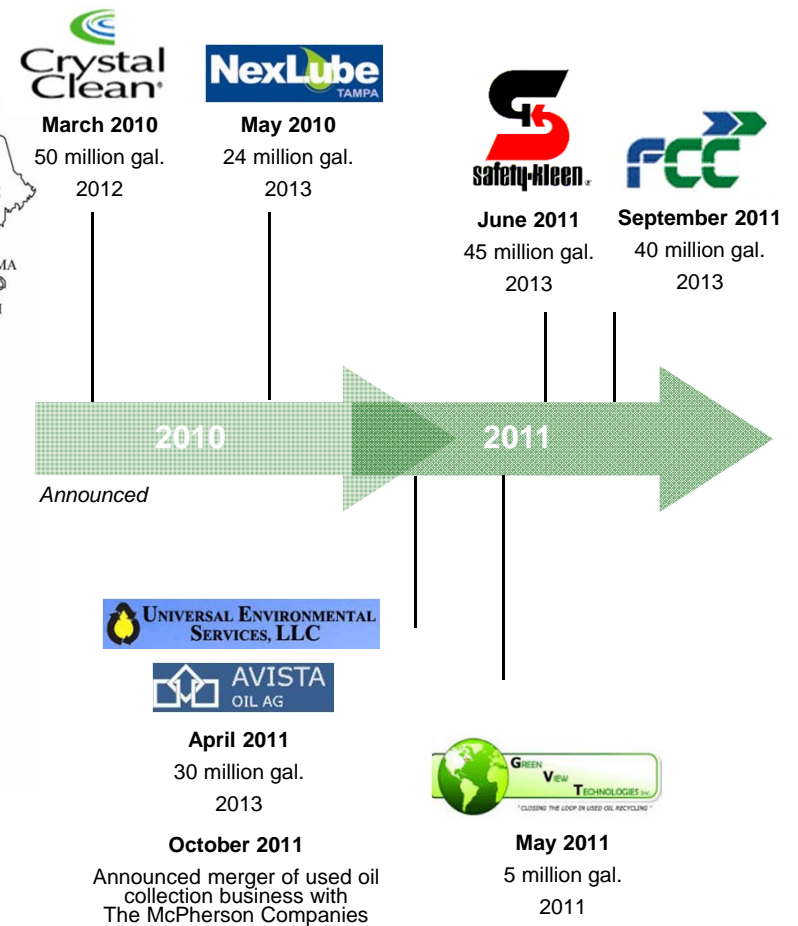
### Capital Flowing Within the Industry

- Public and private investment capital backing expansion push
  - Several significant capacity expansions announced within last six months
  - Nearly 200 million gallons in new re-refining capacity coming online by 2013

U.S. Re-refining Capacity



SOURCE: NORA, Company Filings, and BGL Research.



## Industry Perspective

### Strategic Shift Altering Supply/Demand Picture

**Oil recycling is at an inflection point**



Growing awareness fueled by sustainability push  
Valvoline entry legitimizes category

#### COLLECTORS

**Challenge:** Finite Supply of Used Oil



**Opportunities:** Recovery from 2008/2009  
Improve collection rate  
Expand service offering  
Build scale

#### RE-REFINERS

**Challenge:** Securing Feedstock /  
Filling Capacity



**Opportunities:** Contractual relationships  
Own/consolidate feedstock

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#### Market Risks

- Sustainability of long-term demand
- Commodity price volatility
- Availability of financing
- Changing regulatory environment and impact on future flow of oil



- Opportune time to advance the relationship within and between collection and re-refining
- Highly accessible and attractive capital markets





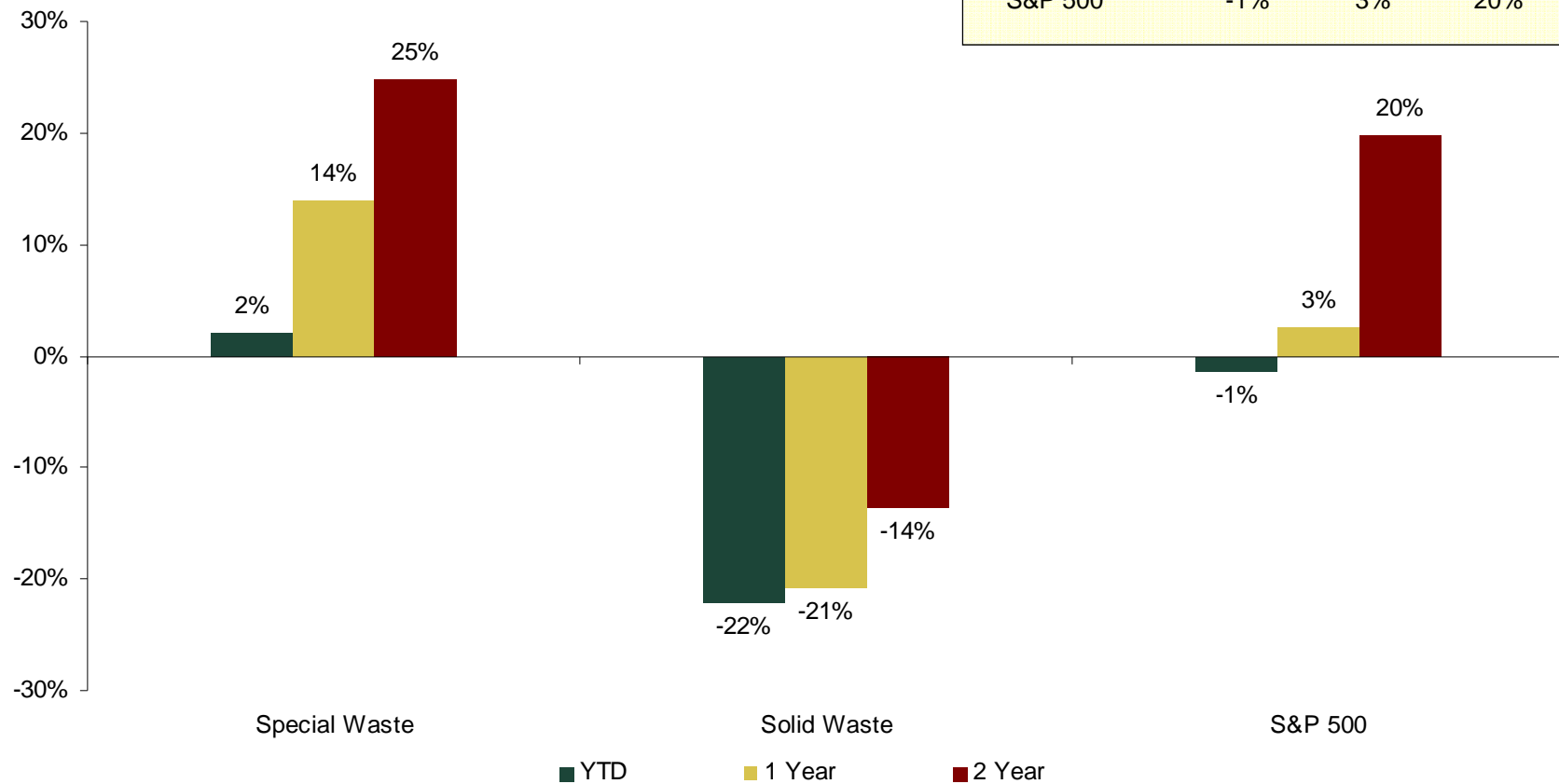
# The State of the Capital Markets

## The State of the Capital Markets

Public Special Waste Company Stock Performance Outperformed the Broad Market Over the Last Twelve Months and Year-to-Date Period

### Historical Public Sector Performance

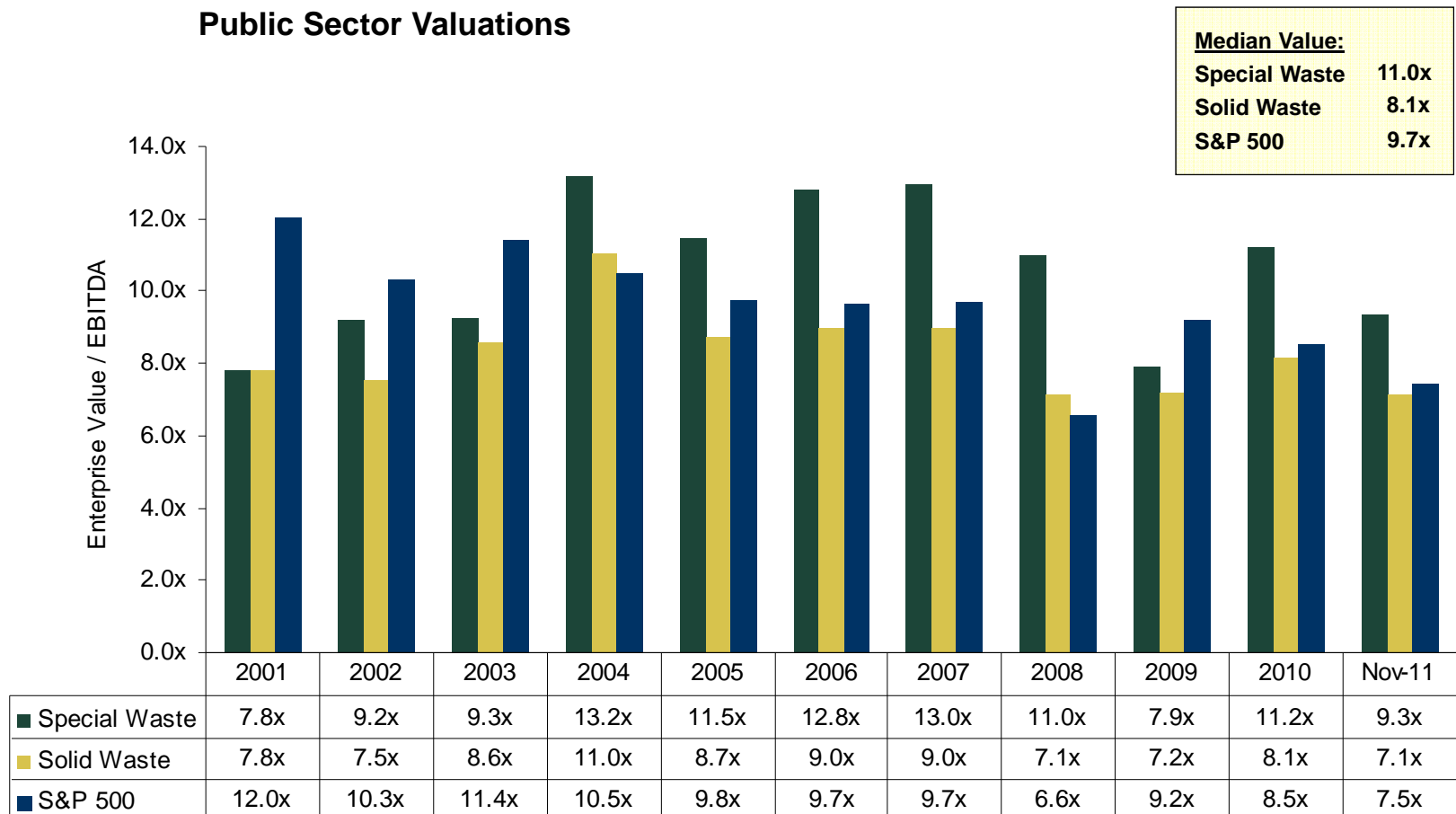
	YTD	1 Year	2 Year
Special Waste	2%	14%	25%
Solid Waste	-22%	-21%	-14%
S&P 500	-1%	3%	20%



## The State of the Capital Markets

### Public Special Waste Company Valuations Bounced Back Quickly and Aggressively After the Recession

#### Public Sector Valuations



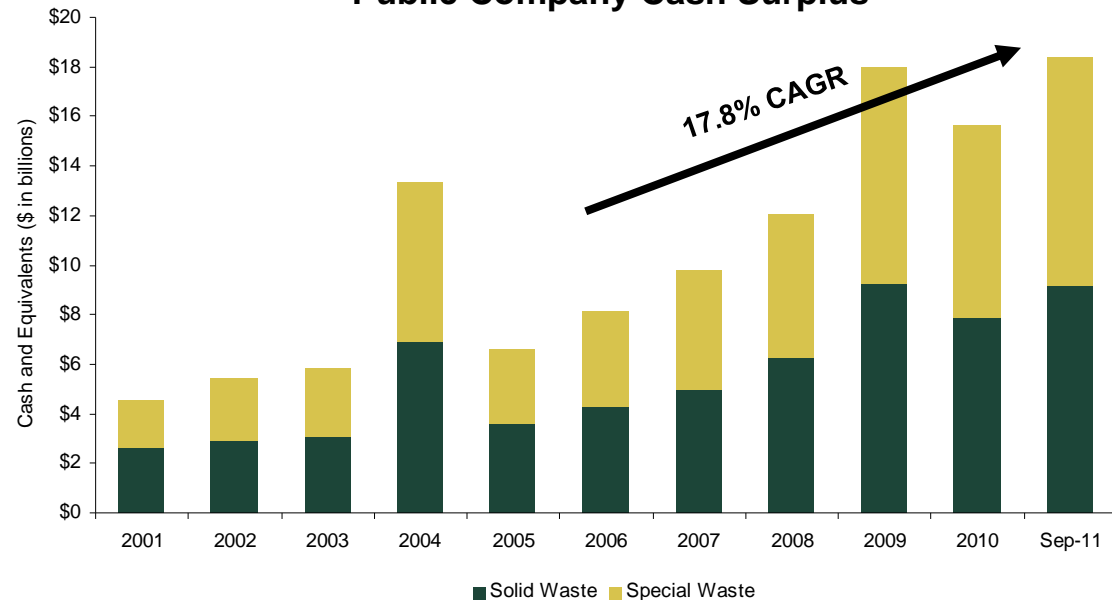
SOURCE: Capital IQ.

## The State of the Capital Markets

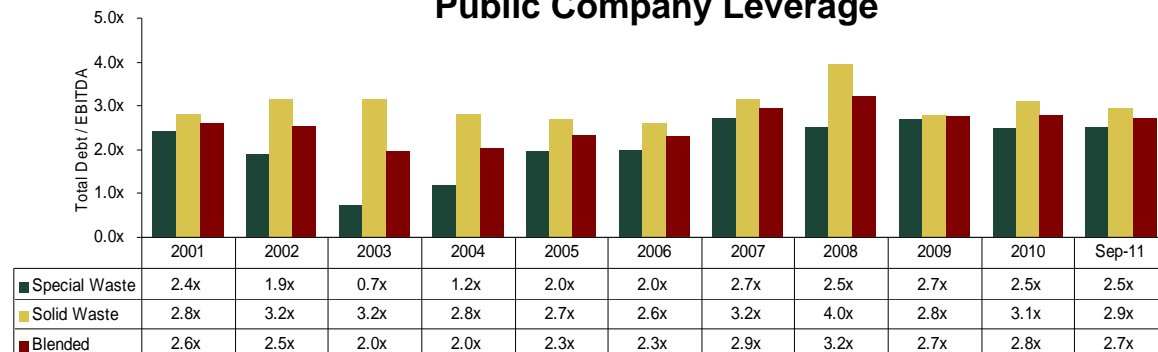
### Corporates in General, Including Special Waste, Have Increased Cash and Delevered Following the Recession

- Following a period of deleveraging and operational efficiency improvements during the downturn, waste companies have armed themselves
  - Waste companies increased their total cash stockpile at a CAGR of 17.8% from 2006 to 2010
  - Leverage is decreasing
- Well-positioned to make capital investments / pursue acquisitions

#### Public Company Cash Surplus



#### Public Company Leverage

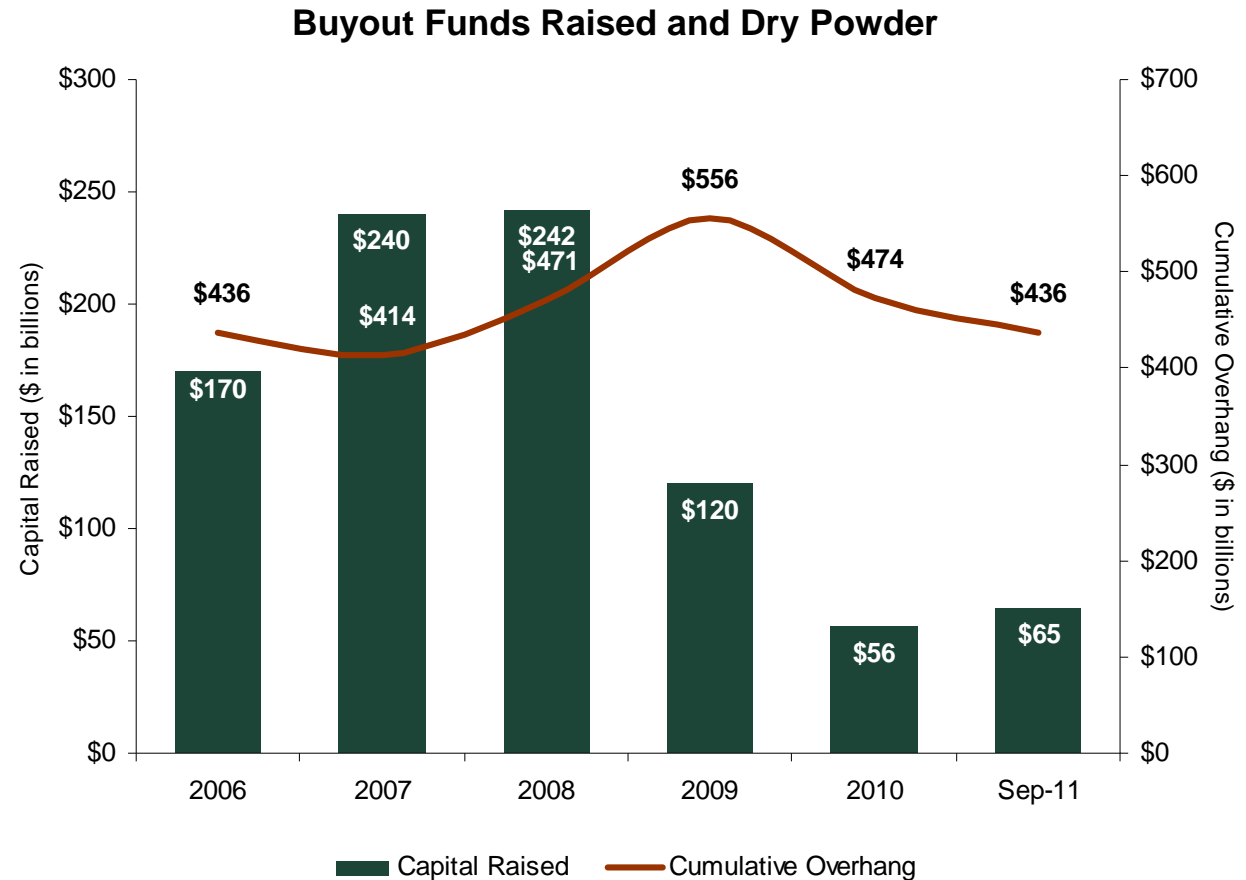


SOURCE: Capital IQ.

## The State of the Capital Markets

### Private Equity Firms Have Significant Amounts of Capital to Deploy

- Private equity firms raised record amounts of capital in 2007 and 2008
- Numerous private equity firms have raised additional cash to be redeployed into the middle market
- Firms have not deployed a significant portion of this capital due to the adverse market conditions from 2008 to 2010



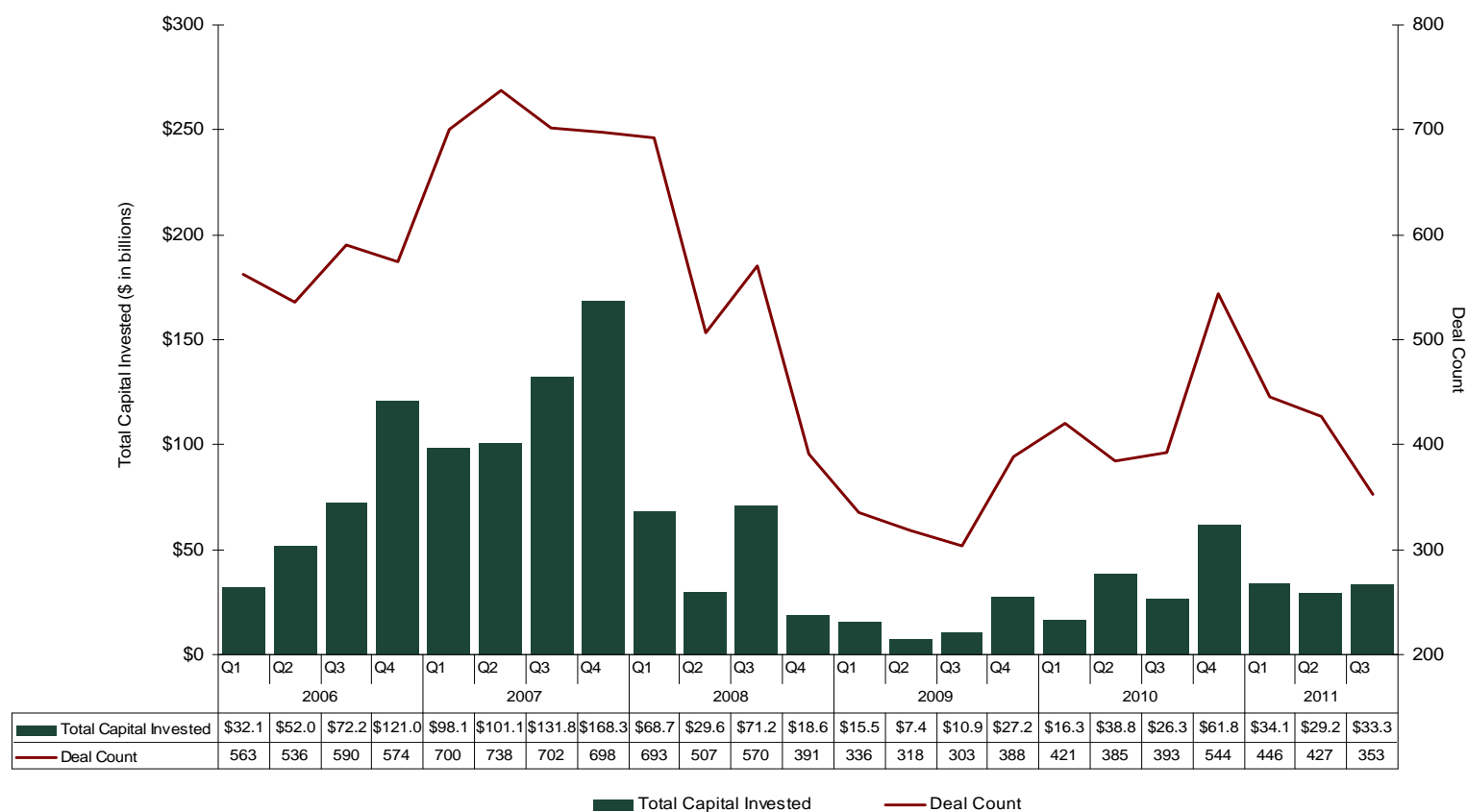
SOURCE: PitchBook.

## The State of the Capital Markets

# Private Equity Firms Remain Cautious on the Whole, yet Leveraged Buyout Activity is Steadily Increasing

- H1 '11 was the best start to the year since 2008
- “Use it or lose it”
  - Abundance of “dry powder” expected to drive volume and value of private equity deals over the next few years

### Private Equity Transaction Activity and Capital Invested



SOURCE: PitchBook.

## The State of the Capital Markets

### Improvements in the Debt Capital Markets are Supporting Corporate M&A Activity and LBOs

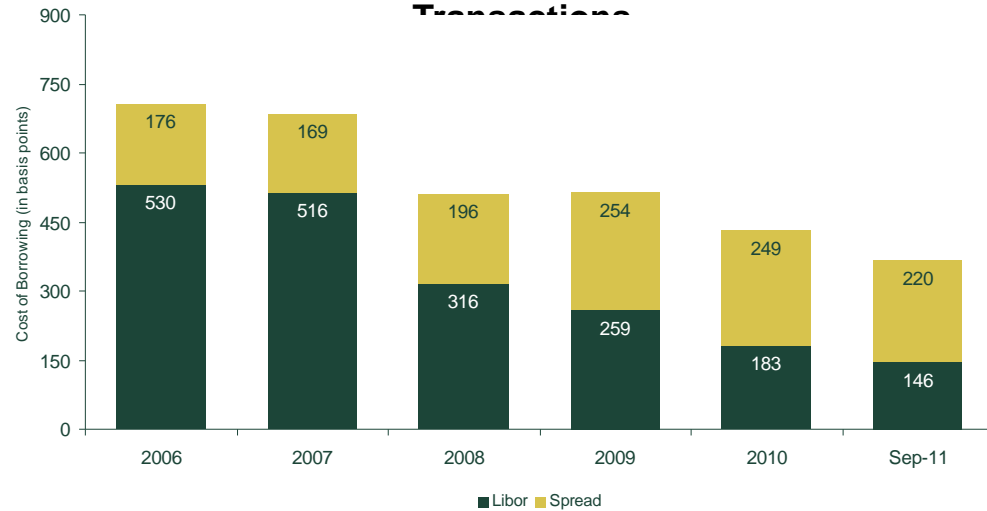
#### 2011 – First Half

- Debt markets highly competitive across all layers of capital structure:
  - Improved pricing, covenant, and repayment terms for borrowers

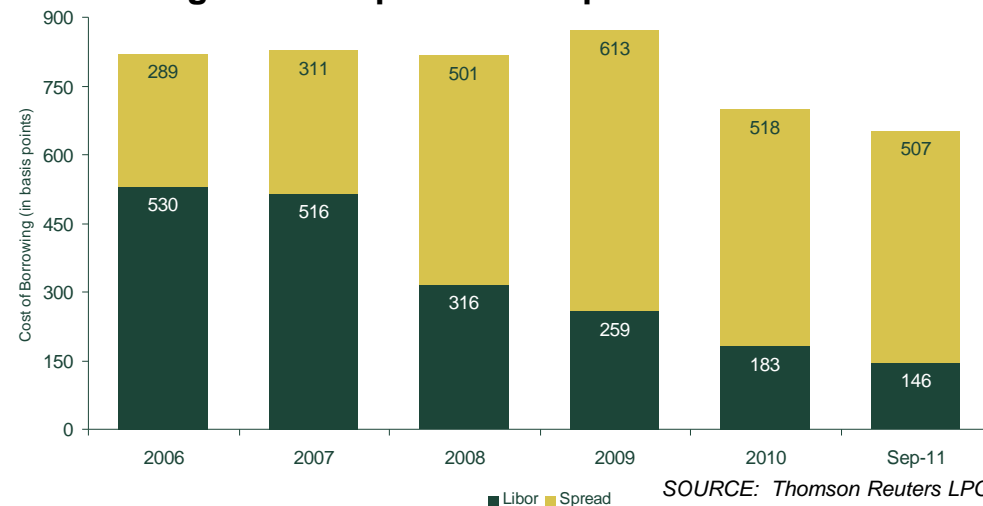
#### 2011 – Second Half

- Caution amid market volatility
- Widening of credit spreads
- Flight to quality could put ceiling on allowable leverage
- Fundamentals and earnings quality will drive M&A

#### Average Credit Spreads for Non-Sponsored Transactions



#### Average Credit Spreads for Sponsored Transactions



SOURCE: Thomson Reuters LPC.



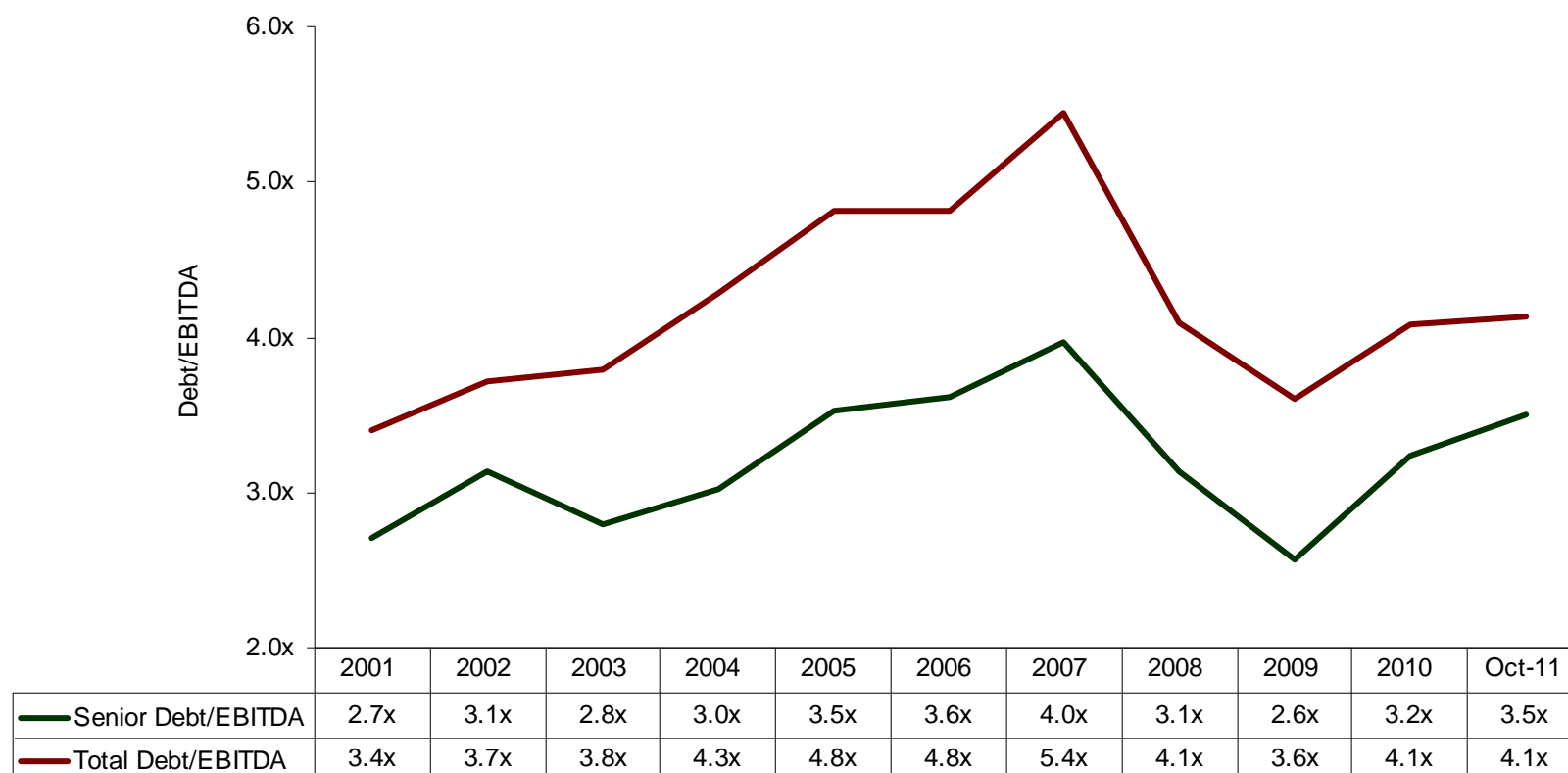
## The State of the Capital Markets

### Leverage Multiples are Expanding from Recessionary Lows

#### 2011 – First Half

- Debt markets highly competitive across all layers of capital structure:

#### Leverage Multiples



SOURCE: Standard & Poors Leveraged Commentary & Data.

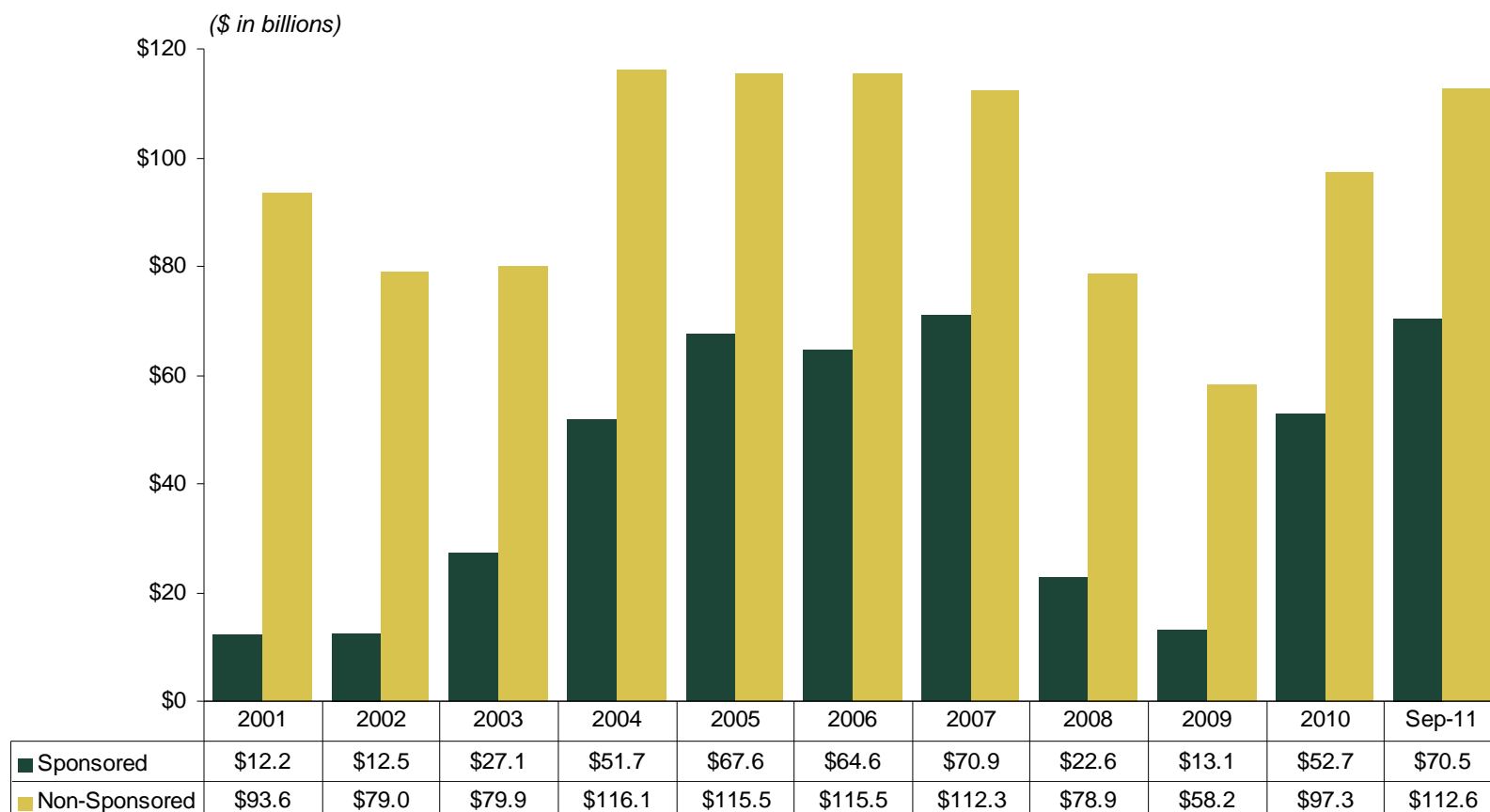
## The State of the Capital Markets

### Middle Market Loan Issuance Is Up

#### 2011 – First Half

- Middle market loan issuance returning to pre-recession levels

#### Middle Market Loan Issuance



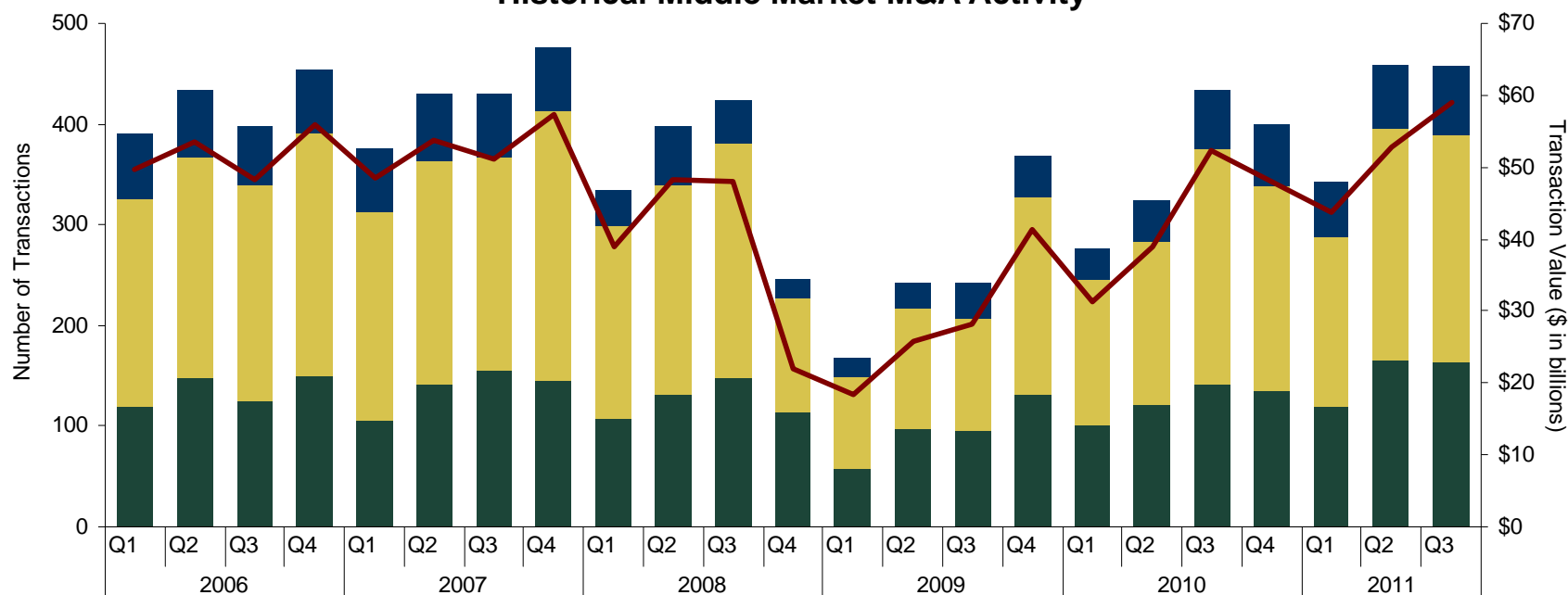
SOURCE: Thomson Reuters LPC.

## The State of the Capital Markets

### All of These Factors are Driving a Recovery in the Overall M&A Market

- 2010: M&A market showed initial signs of recovery in aggregate deal volume and value
- H1 '11: M&A market remained strong, despite warning signs in Q2 '11
- Capital is chasing deals, but the health of the M&A market hinges on stability in the economy and liquid credit markets

#### Historical Middle Market M&A Activity



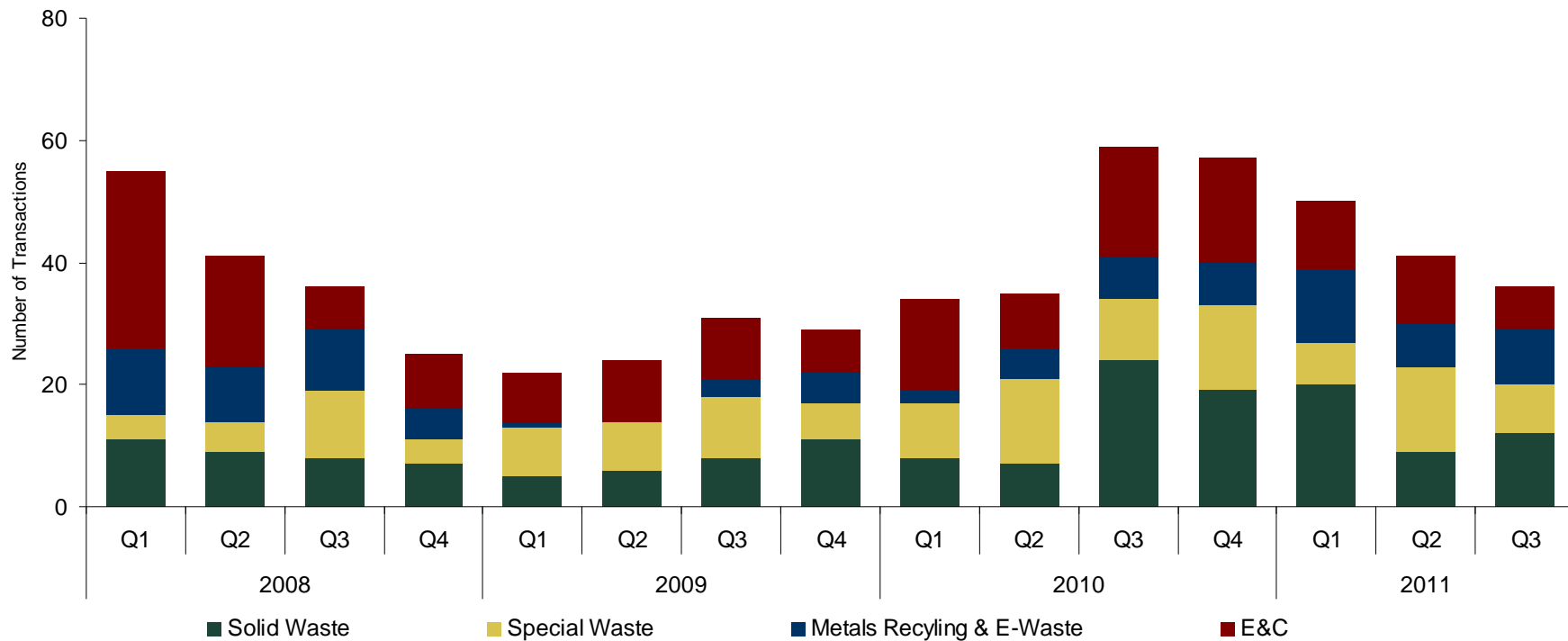
	2006				2007				2008				2009				2010				2011		
■ \$250M-\$500M	65	66	59	63	62	67	63	63	36	58	43	19	19	26	35	40	32	42	58	61	55	63	68
■ \$50M-\$250M	207	219	214	240	207	222	211	268	191	207	233	113	91	120	111	197	145	161	234	204	168	230	226
■ \$25M-\$50M	119	148	125	151	106	141	156	145	107	132	148	114	58	97	96	131	100	122	141	134	120	166	163
— Trans Value	\$49.6	\$53.5	\$48.3	\$55.9	\$48.5	\$53.7	\$51.1	\$57.4	\$39.0	\$48.2	\$48.0	\$21.9	\$18.4	\$25.8	\$28.3	\$41.3	\$31.4	\$38.9	\$52.3	\$48.1	\$43.6	\$52.8	\$59.0

## The State of the Capital Markets

### ...As Well As M&A Activity in the Waste Industry

- Environmental services continues to see strengthening deal activity
- 2010: Deal volume up nearly two-fold from 2009 levels
- 2011: Target-rich middle market feeding steady transaction activity

#### Historical M&A Activity in the Waste Industry



SOURCE: Capital IQ, PitchBook, mergermarket, BGL Research.

## The State of the Capital Markets

### Flight to Quality is Fueling a Bifurcated Market

- Larger (> \$10-12 million EBITDA) are attracting significant interest at high valuations
- Mid-sized to larger companies and carve-outs are getting done at fair valuations
- Valuations for smaller companies are more varied (industry specific)
- Due diligence is more rigorous
- Bank underwriting can be rigorous and time consuming



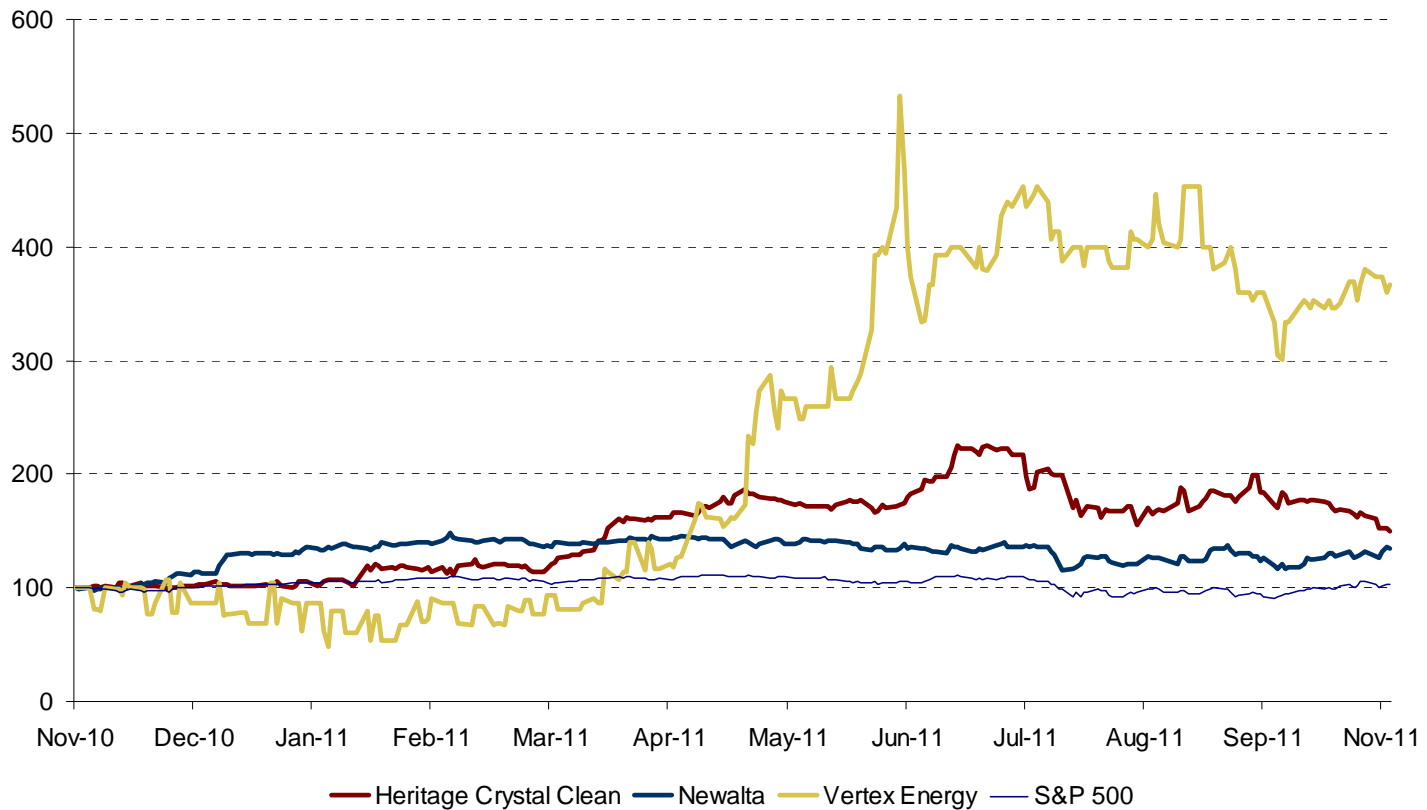
## Sector Valuations and Activity

## Sector Valuations and Activity

### Analysis of Comparable Public Oil Recycling Companies

- Public peers with a focus in oil recycling have outperformed the Special Waste composite and broader market indices over the last twelve months

#### LTM Stock Price Performance



SOURCE: Capital IQ.



## Sector Valuations and Activity

### Analysis of Comparable Public Oil Recycling Companies

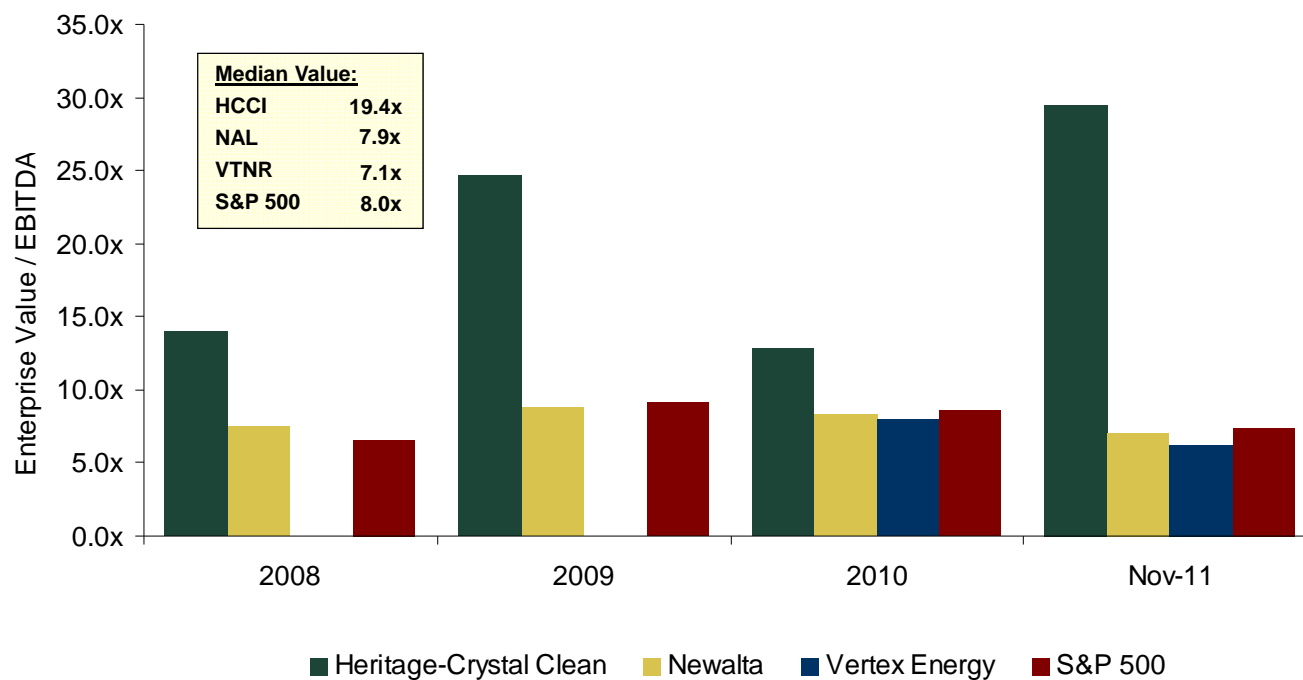
#### Summary Statistics

(\$ in millions) Company	Market Cap	Enterprise Value	Trailing Twelve Months (TTM)			Revenue Growth		% Margin		Total Debt / EBITDA	Enterprise Value / TTM		
			Revenue	EBITDA	EBIT	1 Year	3 Year	EBITDA	EBIT		Revenue	EBITDA	EBIT
Newalta Corporation	\$590.9	\$903.4	\$637.0	\$127.3	\$69.3	20.2%	4.0%	20.0%	10.9%	2.4x	1.4x	7.1x	13.0x
Heritage-Crystal Clean, Inc	213.0	222.4	134.0	8.8	4.3	26.4%	9.3%	6.6%	3.2%	2.5x	1.7x	25.3x	51.7x
Vertex Energy, Inc.	25.8	25.5	94.1	4.4	4.2	68.1%	10.2%	4.7%	4.5%	0.2x	0.3x	5.8x	6.0x
<b>Median</b>	<b>\$ 213.0</b>	<b>\$ 222.4</b>	<b>\$ 134.0</b>	<b>\$ 8.8</b>	<b>\$ 4.3</b>	<b>26.4%</b>	<b>9.3%</b>	<b>6.6%</b>	<b>4.5%</b>	<b>2.4x</b>	<b>1.4x</b>	<b>7.1x</b>	<b>13.0x</b>
<b>Mean</b>	<b>276.6</b>	<b>383.8</b>	<b>288.4</b>	<b>46.8</b>	<b>26.0</b>	<b>38.2%</b>	<b>7.8%</b>	<b>10.4%</b>	<b>6.2%</b>	<b>1.7x</b>	<b>1.1x</b>	<b>12.7x</b>	<b>23.6x</b>

As of November 4, 2011

Source: Capital IQ and SEC Filings.

#### Public Market Valuations



SOURCE: Capital IQ.

## Sector Valuations and Activity

### Recent Public Company Activity



#### Summary Statistics:

LTM Revenue:	\$17.7 billion
LTM EBITDA:	\$1.9 billion
1-Year Revenue Growth:	(5.2%)
Market Capitalization:	\$2.9 billion

Parent company:\*

Fomento de Construcciones y Contratas, S.A. (CATS: FCC) of Madrid, Spain, a diversified environmental and construction services company

#### Recent Activity

- September 2011 – Announced it will invest \$50 million in a 40 million gallon oil recycling facility, the first of several U.S. plants according to a company statement.
- Located in the Northeast U.S. (Baltimore, MD), the new facility will be the first of its kind on the East Coast. FCC expects to break ground in mid-2012 with the facility operational by mid-2013.



#### Summary Statistics:

LTM Revenue:	\$123.5 million
LTM EBITDA:	\$9.0 million
1-Year Revenue Growth:	21.6%
Market Capitalization:	\$250.6 million

Elgin, IL

- Construction of 50 million gallon re-refinery is on time and expected to begin production of base oil by year end.
- Acquired the Warrior Group in February 2011 for approximately \$4 million, adding used-oil collection volume of approximately 6.5 million gallons per year in Indiana, Kentucky, and Illinois. With the acquisition, HCCI has a captive used oil supply of approximately 11 million gallons from its existing collections business.
- HCCI will look to grow its used oil collections network organically and through acquisitions.

## Sector Valuations and Activity

### Recent Private Company Activity

#### Recent Activity



Plano, TX



2008 investment

- June 2011 – Announced plans to construct a third North American re-refinery in the Southeast/Gulf Coast region of the U.S. The new facility will increase domestic processing capacity by 45 million gallons annually.
- The company's Breslau, Ontario re-refinery is on schedule to complete a 10-million gallon per year capacity expansion.



Peachtree City, GA



2004 Investment



2011 Investment

- September 2011 - Announced merger of used oil collection business with The McPherson Companies (TMC), expanding its network to 70 trucks and 21 terminals and covering a geography that extends from North Carolina to Louisiana and from Georgia to southern Ohio. TMC collects an estimated 10.5 million gallons of used oil per year, bringing combined gallons collected to nearly 30 million.
- September 2011 – Construction of a 30 million gallon Group II base oil re-refinery is on time and scheduled to begin production in Q1 2013. The TMC merger will further UES' efforts to build its captive collection network to supply feedstock for its re-refinery.
- April 2011 – Announced partnership with Avista Oil AG to fund its expansion into re-refining.

## Sector Valuations and Activity

### Recent Private Company Activity

#### Recent Activity



Phoenix, AZ



2006 Investment

- Acquired used oil collection business of Bango Oil in January 2011.
- Completed seven tuck-in acquisitions over last five years.



Wichita, KS



2007 Investment

- Acquired Chemical Research and Licensing Company in December 2010.
- Currently working through the permitting process for a second and potentially third re-refinery
- Launched 12 million gallon Group II base oil re-refinery in April 2009.



# Furthering Growth

## Furthering Growth

### Summary of Strategic Alternatives

	Overview	General Advantages	Other Considerations
Obtain Debt Capital	<ul style="list-style-type: none"> <li>Secure additional capital in the form of senior and/or subordinated debt</li> <li>Capital can be used for growth initiatives and/or shareholder liquidity</li> </ul>	<ul style="list-style-type: none"> <li>Retain benefit of future upside in the Company's equity</li> </ul>	<ul style="list-style-type: none"> <li>Increased risk as a result of incremental debt leverage</li> <li>Subordinated debt providers may require equity participation</li> </ul>
Bring in Minority Equity Partner	<ul style="list-style-type: none"> <li>Change in capital structure without a change in control</li> <li>Significant financing for growth, dividends, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Partial liquidity event</li> <li>Retain benefit of future upside in the Company's equity</li> <li>Private equity sponsor can help execute business plan</li> </ul>	<ul style="list-style-type: none"> <li>Governance complexity</li> <li>Market conditions / receptivity of non-control equity investors</li> <li>Desire of management to continue with the Company</li> </ul>
Bring in Majority Equity Partner	<ul style="list-style-type: none"> <li>Change of control and potential financing for organic growth or large acquisition</li> <li>Management retains equity stake and opportunity to gain from upside</li> </ul>	<ul style="list-style-type: none"> <li>Significant liquidity event</li> <li>PEG can help take business to the next level</li> <li>Acquisition strategy to build scale, expand markets, and drive shareholder value</li> </ul>	<ul style="list-style-type: none"> <li>Loss of board control</li> <li>Limits participation in value appreciation relative to minority recap</li> <li>Will require significant debt leverage</li> </ul>
Sale to / Partner with a Strategic Acquirer	<ul style="list-style-type: none"> <li>Sale of percentage of equity to one of several strategic acquirers</li> </ul>	<ul style="list-style-type: none"> <li>Liquidity for the shareholders</li> <li>Strategic buyer will potentially pay a premium valuation for potential synergies</li> </ul>	<ul style="list-style-type: none"> <li>Loss of control</li> <li>May restrict participation in future value appreciation</li> <li>May not maximize value</li> <li>Execution risk and distraction for management team</li> </ul>



# BGL Overview

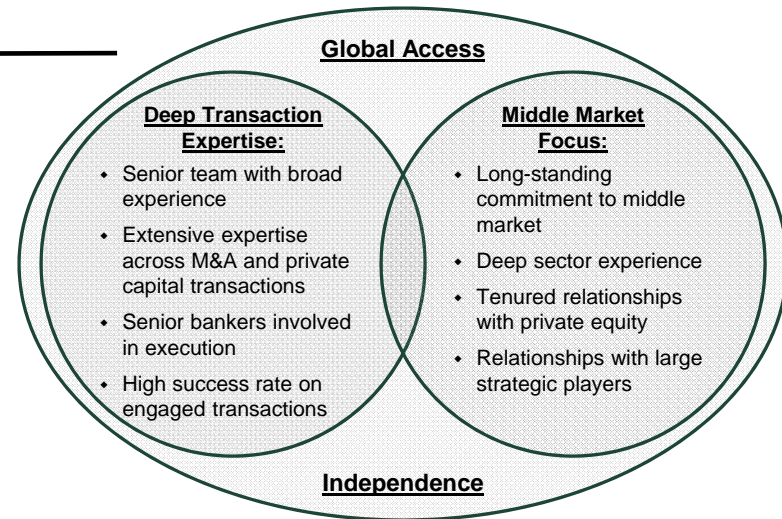


# BGL Overview

## Who We Are

### LEADING INDEPENDENT FIRM

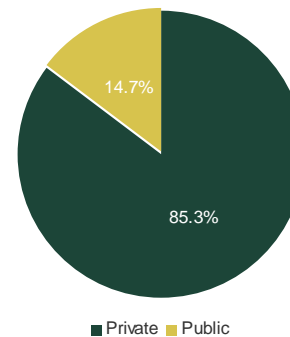
- ♦ Middle market focused
- ♦ Deep transaction expertise
- ♦ Significant experience and tenure; partners average over 20 years of experience
- ♦ Global reach / local knowledge
  - Offices in Chicago and Cleveland and internationally through Global M&A Partners



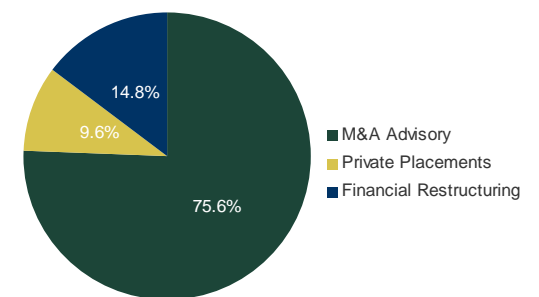
### COMPREHENSIVE CAPABILITIES

M&A Advisory	Private Placements	Financial Restructuring
General Financial & Strategic Advice Acquisitions & Divestitures Public & Private Mergers Special Committee Advice Strategic Partnerships & Joint Ventures Fairness Opinions	Private Equity Mezzanine Debt Bank Debt Private High Yield Recapitalizations	Restructurings Capital Raises Divestitures §363 Auctions

CLIENT OWNERSHIP



SERVICE OFFERING




For transactions closed from 2000 - Present.

**SECTOR FOCUS AND EXPERIENCE**



**SPECIAL WASTE**

**Reclaimer for Ozone-Depleting and Global Warming Gases**



**SOLID WASTE**

**International, Vertically Integrated Waste Management Firm**




**E&C**

**International Environmental Consulting, Engineering & Construction Firm**



**METALS RECYCLING & E-WASTE**

**Recycler of Electronic & Other Hazardous Waste**



**PUBLISHED RESEARCH**



BGL publishes the *Environmental Services Insider*, a nationally recognized quarterly research report that discusses key trends and issues and recent mergers & acquisitions and capital markets activity within BGL's four targeted sectors within the environmental services industry



### **Effram E. Kaplan**

**Director and Principal; Head of BGL's Business and Environmental Services Teams**

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Effram Kaplan leads the firm's investment banking activities in the Business Services sector, with sub-sector expertise in Environmental Services, Marketing Services, and Tech-Enabled Services. He has significant experience advising clients on strategic and financial alternatives, sale and acquisition transactions, recap transactions and other financial advisory assignments. His clients include both leading private equity groups and private companies. Effram has spent over a decade focused on various segments within the business services industry. As a result, he has strong relationships throughout the industry and a well established understanding of the particular strengths and challenges facing each industry. Prior to joining Brown Gibbons Lang & Company, Effram was an Associate at Key Capital Markets' and prior to, held management consulting positions at Arthur Andersen and Cap Gemini.

#### *Education*

B.S., Miami University; M.B.A., The University of Chicago Graduate School of Business

#### *Memberships/Affiliations*

Member, Association for Corporate Growth (ACG)

Member, National Association of Responsible Recyclers (NORA)

Member, National Solid Wastes Management Association (NSWMA)

#### *Certifications*

Series 7 and 79 Licensed



*delivering solutions  
to the global middle market*



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