

ACQUISITION CRITERIA MEMO

Project Name: Used Oil / Petroleum Recycling

Executive: Dennis

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Industry Description	<ul style="list-style-type: none"> The oil recycling industry is defined as the marketing, collection, transport and processing of non-hazardous used oils and non-hazardous waste petroleum stocks from pipelines and terminals and marketing and resale of those stocks as spec and off-spec fuel supplies Other segments include antifreeze reclamation, oil filter reclamation, petroleum contaminated water and sludge treatment
Size, Growth, Margins and Fragmentation	<ul style="list-style-type: none"> \$5B, 3-5% annual volume growth, 5-12% margins¹ 1.1B gallons motor oil sold annually in US; 208B gallons of jet, gas and diesel fuel² 350 companies; top 10=20% of industry revenues and top 25=30%³
Key Industry Trends/ Opportunities	<ul style="list-style-type: none"> Dumping used oil is now a violation of Federal law / Non-green is non-popular Demand for cheaper industrial fuels in maritime and road-building growing Demand for ISO certified processing and services to cautious industrial customers Fragmentation among the 400+ regional recyclers; lack of available growth capital Barriers to entry in the market legally and technically
Key Threats/ Challenges	<ul style="list-style-type: none"> Fuels and oil are commodities - price volatility Possibility of EPA declaring used oil "hazardous waste" Synthetic oils reduce service cycles/volume available
Key Product Descriptions (prioritized and margins)	<ul style="list-style-type: none"> Used oil processing and resale accounts for 40% of revenue and 40% of margins Petroleum services/reclamation accounts for 40% of revenue and 50% of margins Solid waste services account for 15% of revenue and 10% of margins
Key Segments	<ul style="list-style-type: none"> Bunker and #6 fuel sales Reclaimed petroleum fuel sales Services rendered for collection and cleanup to customers
Manufacturing tech/processes (prioritized)	<ul style="list-style-type: none"> Used oil dessication and filtering Thermal and chemical petroleum product treatment Mechanical and thermal sludge and solids compaction and disposal Metals thermal decontamination and scrap sales
Acquisition Thesis	<ul style="list-style-type: none"> Industry: Oil and petroleum recycling (Non-Haz Wastes) Concept: Platform purchase with rollups over 5-7 years and exit Take \$40 million revenue company (\$6.5M EBITDA) to \$100 million revenue (\$18M EBITDA); 70% acquisition / 30% organic growth Acquisitions favorable due to industry fragmentation, lack of growth capital, prolonged economic downturn (owner fatigue), increasing tech barriers to lower-tier owners Make add-on acquisitions with \$5-15M in revenues in used oil and waste petroleum segments to complement the product offering and enhance organic growth geography Platform target has G&A infrastructure to accommodate M&A and organic growth, and drive down operating costs / overheads

¹ TBN company strategic plan 2009

² API Industry data 2010

³ NORA

Top 5 Targets	<ul style="list-style-type: none"> Platform: Aaron Oil Company, Mobile AL = \$40M revenue, founder is CEO, seeking “maximum” multiple Noble Oil Company, Sanford NC = \$5M, family owned, CEO looking for strategic alliance to thwart competitor encroachment Universal Petroleum, Atlanta GA = \$30M revenue, PEG owned with management/margin troubles (Last contact 2009) Holston Environmental, Waynesville NC = \$25M, Family owned 2nd generation, good acqs after platform plus 1 (Last contact 2005) Berry Inc, Miami FL = \$20M, 35 years family owned, secondary target, no recent contact
Geographic Preferences	<ul style="list-style-type: none"> Southeastern US, acquiring into Atlantic coast and into East Texas Buildout into Piedmont as Gulf and Atlantic coast acquisitions close
Preferences (Size, Segment, other)	<ul style="list-style-type: none"> Platform: \$30-40M; with scalability for both used oil and petroleum reclamation Add-on three \$5-20M regional acquisitions to define service trapezoid Acquire tuck-in recyclers that specialize in one (or more) segments to complement platform and regionals
Nat’l Competitors	<ul style="list-style-type: none"> Safety-Kleen FCC Ambito Clean Harbors

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