



  
Crystal  
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Heritage - Crystal Clean, Inc. • Baird's 2018 Global Industrial Conference • November 6, 2018

# Safe Harbor Statement

All references to the “Company,” “we,” “our,” and “us” refer to Heritage-Crystal Clean, Inc., and its subsidiaries.

This release contains forward-looking statements that are based upon current management expectations. Generally, the words “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “should,” “will be,” “will continue,” “will likely result,” “would” and similar expressions identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements or industry results to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other important factors include, among others: general economic conditions and downturns in the business cycles of automotive repair shops, industrial manufacturing businesses and small businesses in general; increased solvent, fuel and energy costs and volatility in the price of crude oil, the selling price of lubricating base oil, solvent, fuel, energy, and commodity costs; our ability to successfully integrate businesses that we acquire; our ability to enforce our rights under the FCC Environmental purchase agreement; our ability to pay our debt when due and comply with our debt covenants; our ability to successfully operate our used oil re-refinery and to cost effectively collect or purchase used oil or generate operating results; increased market supply or decreased demand for base oil; further consolidation and/or declines in the United States automotive repair and manufacturing industries; the impact of extensive environmental, health and safety and employment laws and regulations on our business; legislative or regulatory requirements or changes adversely affecting our business; competition in the industrial and hazardous waste services industries and from other used oil processing facilities including other re-refineries; claims and involuntary shutdowns relating to our handling of hazardous substances; the value of our used solvents and oil inventory, which may fluctuate significantly; our ability to expand our non-hazardous programs for parts cleaning; our dependency on key employees; our level of indebtedness, which could affect our ability to fulfill our obligations, impede the implementation of our strategy, and expose us to interest rate risk; our ability to effectively manage our extended network of branch locations; the control of The Heritage Group over the Company; and the risks identified in our Annual Report on Form 10-K filed with the SEC on March 1, 2018 and subsequent filings with the SEC. Given these uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. We assume no obligation to update or revise them or provide reasons why actual results may differ. The information in this release should be read in light of such risks and in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this release.



# HCCI Introduction

# HCCI Strengths & Opportunities

## Demonstrated Strengths

- ◆ Excellent Customer Service
- ◆ Integrated Sales & Service Approach
- ◆ Large Branch Network – 89 Branches
  - Efficient Rollout Model
- ◆ Large and Highly Diverse Customer Base
- ◆ Experienced Management Team

## Numerous Growth Avenues

- ◆ Same-Branch Sales Growth
- ◆ Expanded Service Offerings
- ◆ Geographic Expansion
- ◆ Focused on Pursuing Acquisition Opportunities

**Poised for Continued Growth**

# HCCI Business Segments

## Environmental Services

- ◆ Primary Services: parts cleaning, drummed waste, vacuum services
- ◆ Provider of industrial and hazardous waste services to small and mid-sized customers
  - Focus on small industrial manufacturers (e.g., metal product fabricators and printers) and vehicle maintenance providers (e.g., car dealerships and automotive repair shops)
- ◆ Customers outsource the handling and disposal of parts cleaning solvents and containerized waste to HCCI; allows them to focus on their core business
- ◆ Parts Cleaning Services:
  - 2nd largest full-service provider in the U.S.
  - Reduce the volume of hazardous waste generated and associated regulatory burden for our customers
  - Strong recurring revenue business with substantial majority of revenues under automatically renewing service contracts

## Oil Business

- ◆ Includes used oil collection, oil filter disposal, RFO sales, re-refining and the sale of base oil and related by-products
- ◆ Complementary to Environmental Services segment; leverages branch infrastructure
- ◆ 2<sup>nd</sup> largest used oil collector and re-refiner in North America
- ◆ Integrated business from used oil collection to marketing and sale of re-refined base oil
- ◆ Annual base oil capacity of 47 million gallons



# Primary Service Offerings

## Parts Cleaner Services



- ◆ Solvent-based
- ◆ Aqueous-based
- ◆ Other

## Drum Management



- ◆ Waste identification
- ◆ Pickup and disposal

## Oil Recovery



- ◆ Used oil and oily water removal

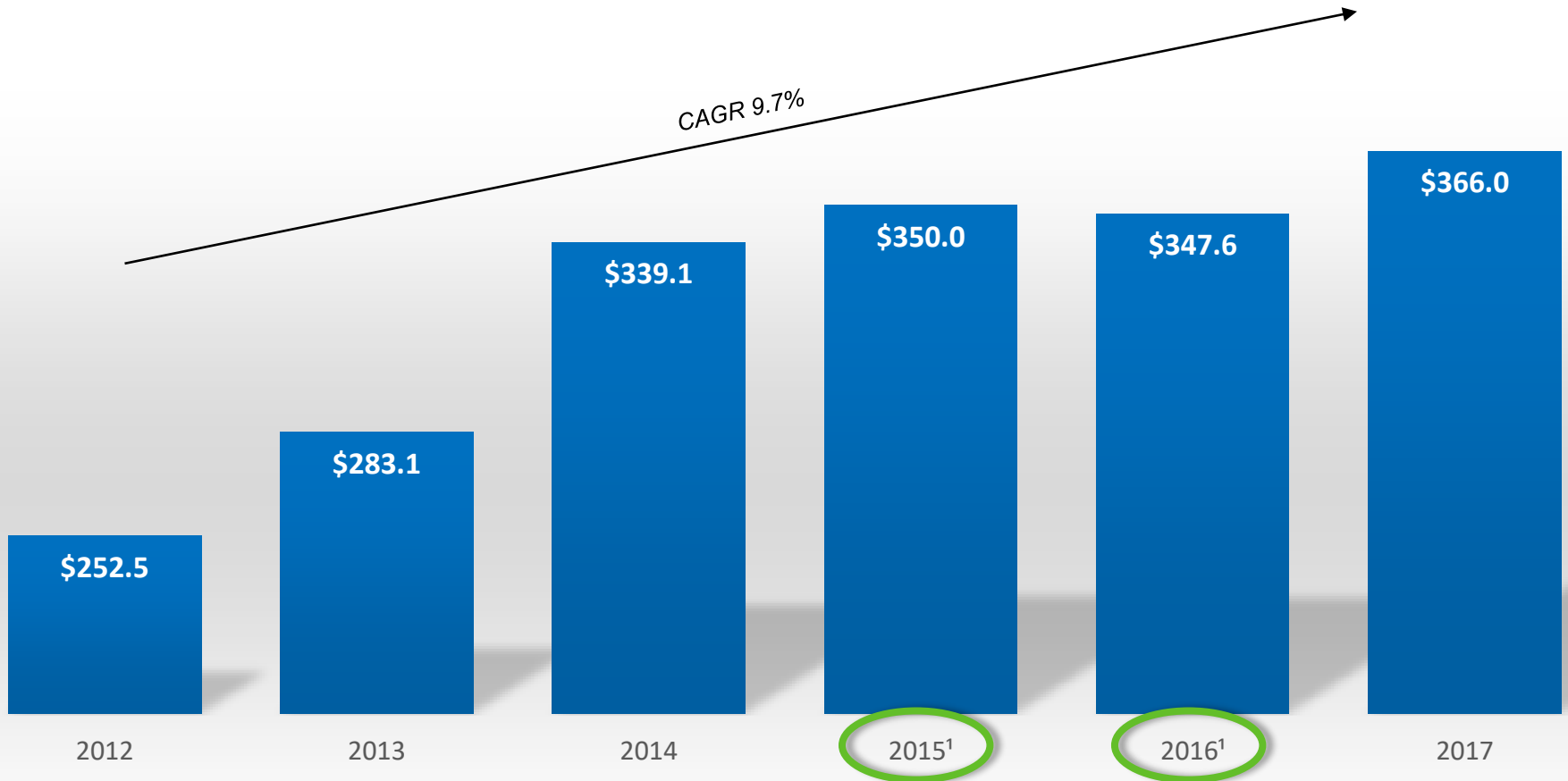
## Vacuum Services



- ◆ Liquids containing sediment or sludge
- ◆ Available in 2/3 of branches

# Historical Sales Growth

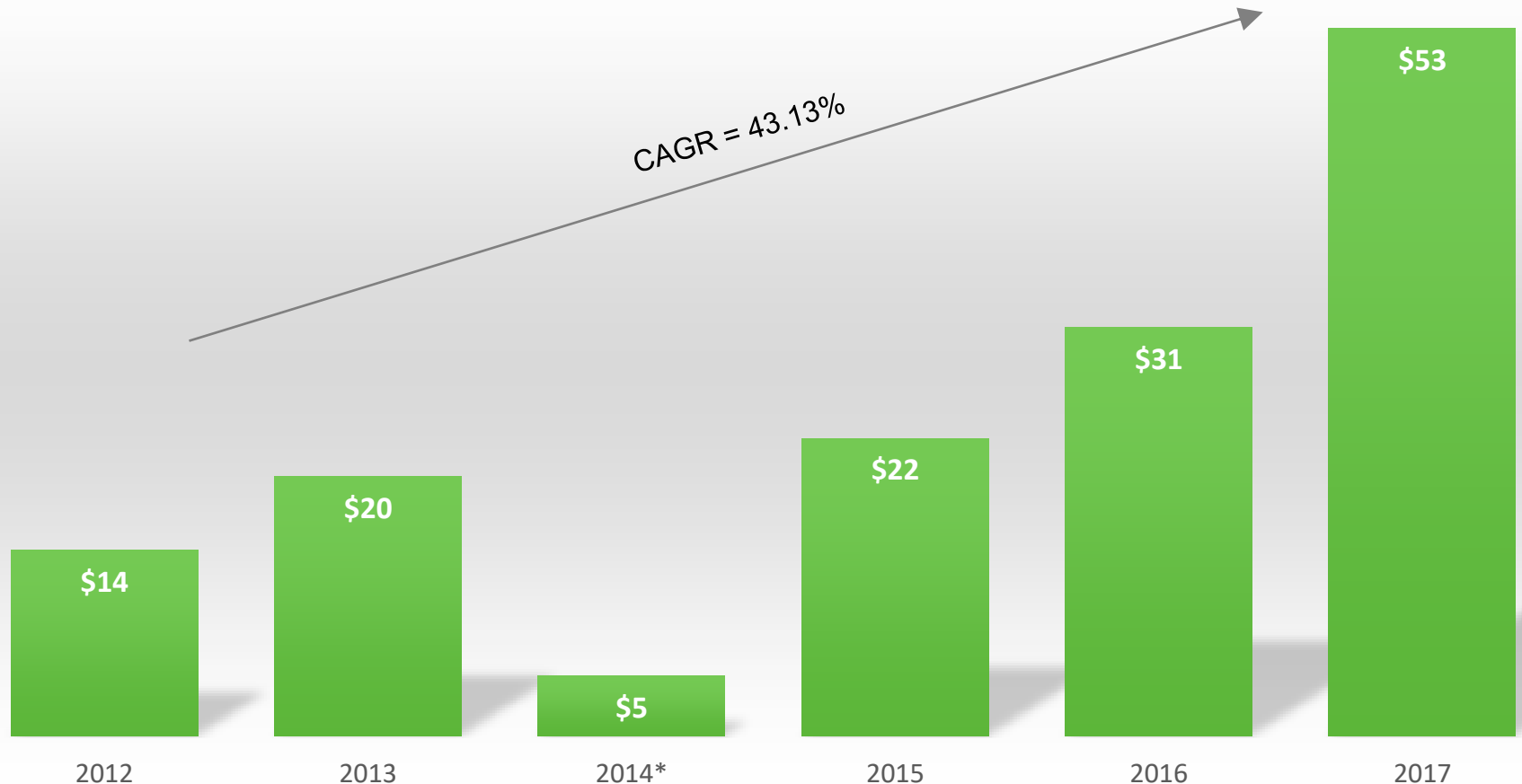
(\$ in millions)



(1) Revenue negatively impacted by dramatic decline in commodity prices

# EBITDA Growth Trend

(\$ in millions)



\* FCCE included from date of acquisition

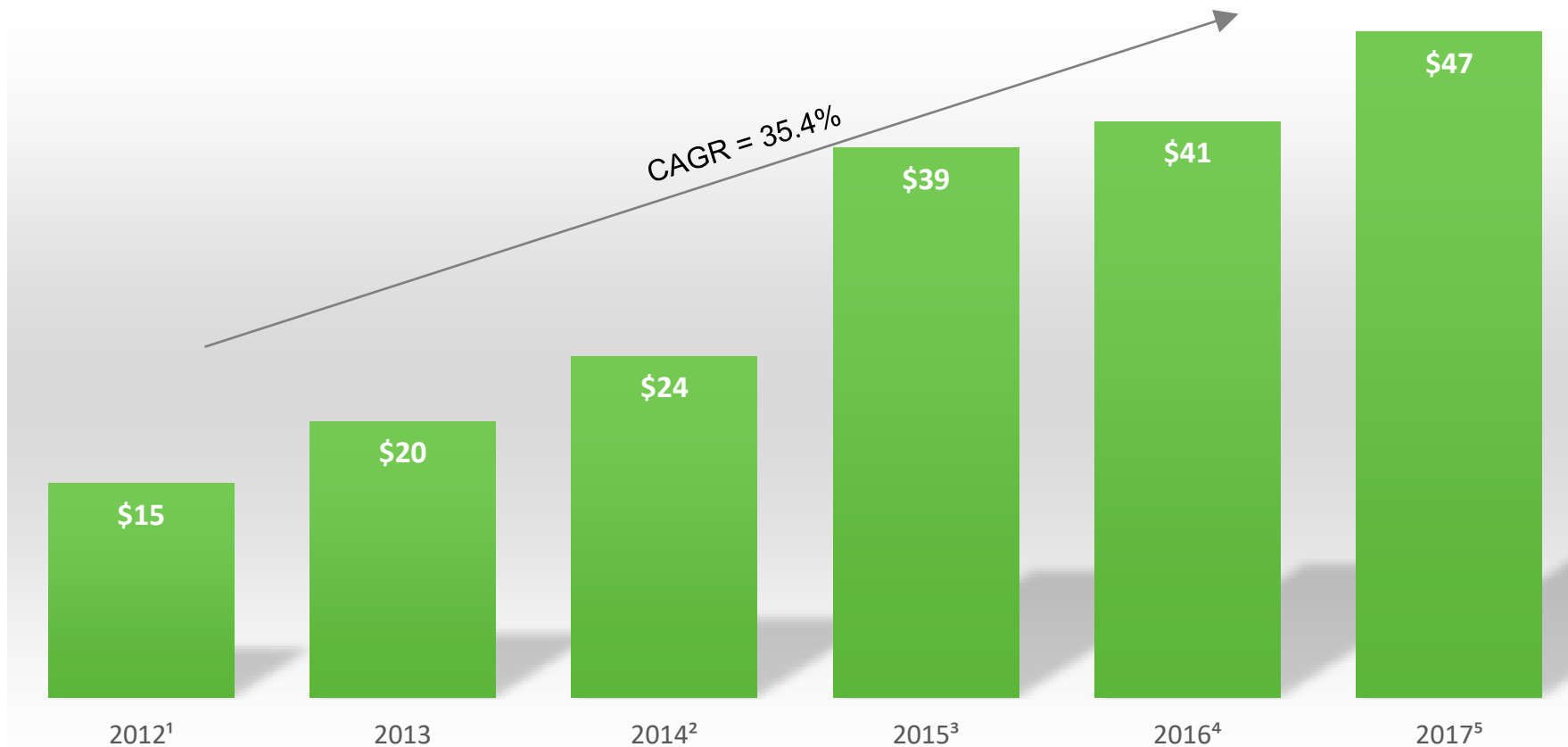
**Note – All years exclude non-cash compensation**

There is a reconciliation between Net Income and EBITDA and the end of this presentation



# Adjusted EBITDA Growth Trend

(\$ in millions)



(1)- Includes an add-back unrecognized deal expenses (\$1.1 MM)

(2)- Includes add-backs for FCCE acquisition & integration costs (\$7.4 MM), inventory write-down (\$6.1MM), unreimbursed loss from refinery fire (\$0.3 MM) and FCCE stub period losses (\$5.9 MM)

(3)- Includes add-backs for Legal Fees (\$1.5MM), FCCE acquisition & integration expenses (\$1.8 MM), inventory write-down (\$9.2MM) and goodwill impairment (\$4.0 MM)

(4)- Includes add-backs for Legal Fees (\$5.6MM), inventory write-down (\$1.7MM), fines & restitution (\$1.6 MM) and severance (\$1.2MM)

(5)- Includes add-backs for Legal Fees (\$0.7MM), severance (\$1.2MM) and site closure costs (\$0.6MM)

Note – All years exclude non-cash compensation

There is a reconciliation between Net Income and AEBITDA and the end of this presentation



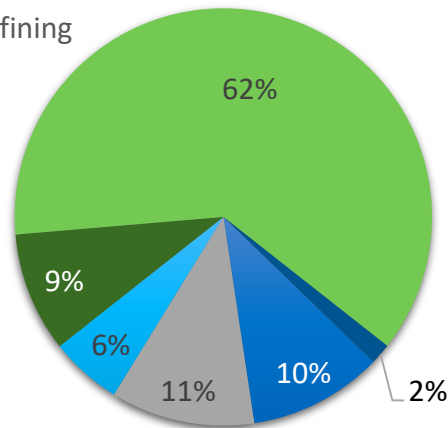
# Industry

# Large, Attractive Market

## Market Addressed by HCCI<sup>(1)</sup>

- Industrial & Hazardous Waste
- Used Oil Services & Used Oil Re-Refining
- Vacuum Services
- Parts Cleaning Services
- Field Services
- Anti-freeze

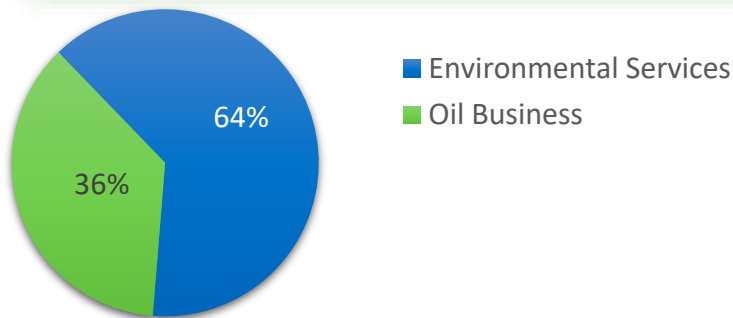
**Total Market = \$8.1 billion**



## Key Characteristics

- ◆ Approximately 800,000 establishments in the U.S. engaged in manufacturing or vehicle maintenance <sup>(2)</sup>
- ◆ Establishments need to remove grease and dirt from parts with industrial cleaning solutions
- ◆ Establishments generate used oil, waste paint, etc. which cannot be poured down the drain
- ◆ For small- and medium-sized generators, it is far more cost-effective to outsource to HCCI than manage themselves

## Q3 2018 HCCI Revenue by Segment



**Q3 2018 Total Revenue = \$99.7 million**

<sup>(1)</sup> Source: Management estimates.

<sup>(2)</sup> Source: U.S. Census Bureau 2013.

# Competitive Landscape

- ◆ Highly fragmented
  - Competitors typically include smaller regional firms or companies operating in a single city
- ◆ Significant barriers to entry
  - Route density is needed before profitability can be achieved
  - Significant capital is required to provide parts cleaning equipment for customer use
  - A used oil re-refining plant can cost tens of millions of dollars to build
  - Obtaining permits for transportation and operating sites is time consuming and expensive
  - Extensive branch service and supporting transportation network is costly and may take a long time to develop
- ◆ Clean Harbors/ Safety-Kleen is a competitor in parts cleaning, containerized waste management, used oil collection & re-refining, vacuum truck services, antifreeze recycling and field services businesses
  - HCCI believes that it competes favorably based on customer service and a broad service offering, and HCCI can depend on the depth of experience of its management team



# Environmental Services

# Environmental Services Offer

- ◆ Majority of Revenue from Three Businesses

- Parts Cleaning
- Containerized Waste
- Vacuum Services

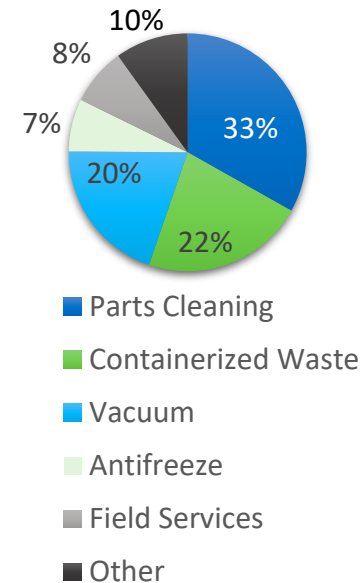
- ◆ Early-Stage Businesses

- Antifreeze
- Field Services

- ◆ ES Businesses Leverage

- Common customer set
- Facilities (i.e. branches)
- Branch management

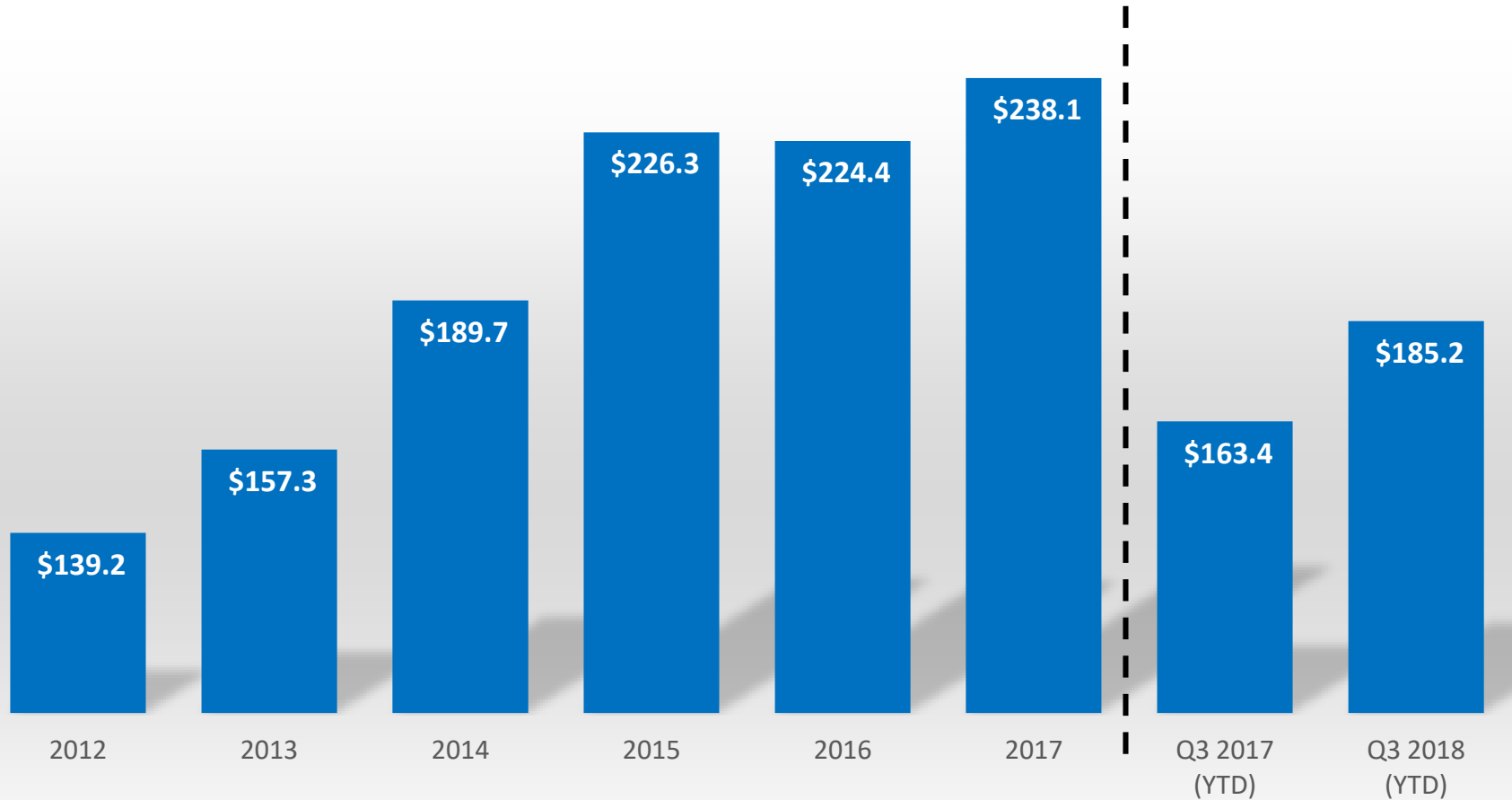
**Q3 2018 HCCI Environmental Services Revenue**



**Q3 2018 Total ES Revenue = \$63.3 million**



# Environmental Services Sales Growth



# Environmental Services Operating Margin



# Parts Cleaning Service Offer

- ◆ Provide customers the ability to remove oil, dirt, grease and other contaminants from parts
- ◆ Differentiators
  - Aqueous parts cleaning
    - Patented equipment technology
    - Proprietary chemistry formulations
  - Reuse & non-Hazardous program
- ◆ Automatically renewing service agreements
- ◆ Strong revenue growth for almost two decades



# Containerized Waste & Vacuum Service Offer

## ◆ Containerized Waste Service

- Manage hazardous and industrial waste
- Full Service
  - Waste profiling, analysis and regulatory support
  - Loading & labeling of containers
  - Provide proper shipping documentation
- Peace of mind



## ◆ Vacuum Service

- Remove and dispose of non-hazardous waste liquid and solid-liquid mixtures
- Capabilities to service small & large volume customers
- Wastewater treatment capabilities in some markets
- Peace of mind



# Early Stage Businesses

## ◆ Antifreeze

- Complete closed-loop antifreeze service
  - Remove waste antifreeze
  - Recycle waste via distillation process
  - Create re-manufactured product using high quality inhibitors/additives
- Offer full antifreeze product line
  - Conventional
  - Extended Life (OAT)
  - GM licensed Dex-Cool
  - Heavy Duty Product Line
    - ◆ Regular Heavy Duty
    - ◆ Heavy Duty Extended Life (NMOAT)
    - ◆ Heavy Duty NAPS Free Extended Life (OAT)
- Market approach
  - Dedicated route sales & service reps in some markets
  - Add-on service for existing parts cleaning/waste drum service reps in other markets



# Early Stage Businesses (cont.)

## ◆ Field Services

- Types of services offered
  - Tank cleaning
  - Lab Packs
  - Remediation (small scale)
- Asset light – Primarily use subcontractors to perform service work
- Focused on existing HCC customers



## ◆ ESP

- Offered to potential customers on the large-end of our target market
- Provide sole-source environmental program covering all environmental activities at target companies
- Leverage several services lines simultaneous which drives:
  - Greater average revenue per customer – AND-
  - Improved margins
- Currently offered in only 20% of HCC branches





# Customers and Operations

## Customers & Value Proposition

- ◆ Large and highly diversified base
  - Conducted over 300,000 machine service calls in 2017
  - During 2017, top ten Environmental Services customers represented less than 3.7% of revenue
- ◆ Focus on small to medium-sized waste generators
  - Model structured for successful cross-selling of additional services
  - Of the size and scale where internal capabilities not effective or cost efficient
  - Generally less price sensitive than larger customers
  - Services reduce regulatory burden
  - Allow customers to focus on their business

## Operations

- ◆ Route-based economic model
  - Route density is a significant profit driver
- ◆ The same HCCI representative provides both sales and service functions for each customer
  - Entrenched relationships with customers
  - Highly incentivized to provide excellent customer service and cross-sell additional products / services
- ◆ Cost efficient branch model
  - Operate a network of 89 branches; 5 hubs located in Indianapolis, Shreveport, Philadelphia, Atlanta and Kansas City
  - Consolidation of administrative and other functions that are not critical to sales / service

# Growth Strategies – Environmental Services

## Same-Branch Sales Growth

- ◆ Adding Branch Sales Managers
- ◆ Obtain new customers in existing markets
- ◆ Cross-sell multiple services to existing customers
- ◆ Increase route density to further expand operating margins
- ◆ Continue growth through integrated sales and service approach and cross-selling; utilize incentives, such as commission and awards to drive sales

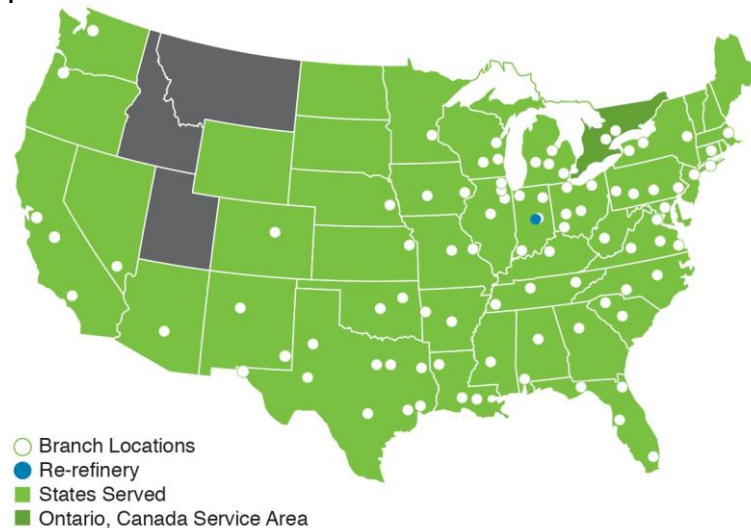
## Expanded Service Offerings

- ◆ All branches offer parts cleaning and containerized waste services
- ◆ Only about two-thirds of branches offer vacuum truck services, presenting significant opportunity for further market penetration
  - Adding Vacuum Sales and Service Representatives in 2018
- ◆ New business programs in development to be offered through branches.
  - Antifreeze Sales & Service Representatives
  - Field Services Representatives

# Growth Strategies – Environmental Services (cont'd)

## Geographic Expansion

- ◆ Operate from 89 branches servicing 45 states and parts of Canada; Have added 3 new locations so far during 2018
- ◆ Some opportunities for expansion within the Northeastern and Southeastern U.S.
- ◆ Larger opportunities exist in Western U.S. and Eastern Canada.



## Potential Acquisitions

- ◆ Additional acquisition opportunities exist
  - Tuck-in and Bolt-ons
  - Leverage our network and relationships
- ◆ Growth plans don't depend on acquisitions; more than 90% of historic revenue growth before FCCE acquisition was organic

# Environmental Services Segment Update

## Q3 2018

### Revenue

- Growth Rate – 15.0% from Q3 2017 to Q3 2018

### Margin

- Operating margin up by 10 basis points from Q2 2018 to Q3 2018

### Margin Outlook

- We expect operating margin to return to H2 2017 levels (~27%) by Q1 2019

### Inflation Pressures

- Solvent Costs up 28% (per unit basis) in Q3 on a year-over-year basis
- Transportation fuel surcharges up 8% in Q3 on a year-over-year basis



# Oil Business

# Oil Business Components



## ◆ Used Oil Collection

- Volumes affected by seasonality (lower in winter months)
- Volume loss is expected during periods of reduction of pay-for-oil (PFO)/increase in charge-for-oil program
- If collections volumes decrease beyond normal seasonality, used oil collection fleet size is adjusted to maintain route efficiency
- Growth opportunity – results in increased route efficiency



## ◆ Re-Refining

- Nameplate capacity of 75 MM gpy; Base oil capacity of 47 MM gpy; Produces primarily Group II base oil
- Production of top quality lubricant base oil requires hydrotreating, a process practiced at major refineries that adds significant complexity and capital cost
- Focused on reducing operating costs

## ◆ Product Sales

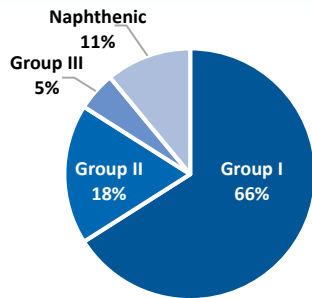
- Our re-refinery has been sold-out since inception
- Used oil collected far from re-refinery sold as RFO
- Longer term opportunities to go downstream and sell blended and packaged lubricants



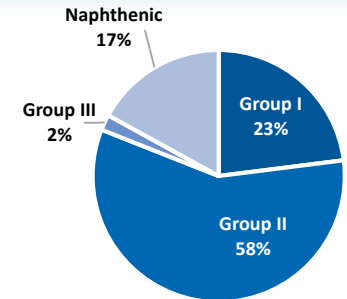


# Base Oil Production & Re-Refining Opportunity

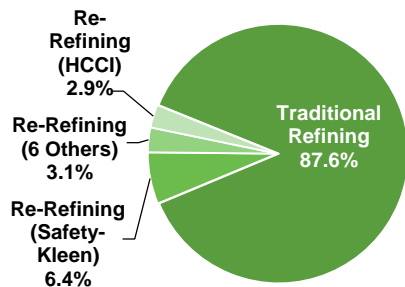
2005 Global Base Oil Produced - by Type



2017 Global Base Oil Produced - by Type

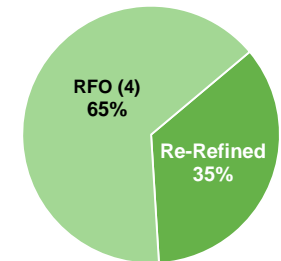


U.S. Paraffinic Produced by Source <sup>(1)</sup>



Total Volume: 2.6 BB GPY <sup>(2)</sup>

Used Oil Disposition in the U.S. <sup>(3)</sup>



Total Volume: 925 MM GPY

- ◆ Global nameplate base oil capacity is over 1 million barrels per day
- ◆ For decades base oil supply has shifted from lower quality Group I to higher quality Group II and Group III product
- ◆ Overall U.S. base oil produced is approximately 2.6 BB
  - Production increased 7% in 2017
  - 1.7 billion gallons exported in 2017
  - Approximately 12% of base oil is produced at re-refineries

- ◆ Production of re-refined base oil limited by lack of used oil re-refining capacity – industry currently operating near capacity
- ◆ Re-Refined oil is preferred from environmental perspectives <sup>(4)</sup>
- ◆ Most used oil collected is sold into the RFO market, at lower value than re-refined base oil

Sources: Used Oil Re-refining Study to Address Energy Policy Act of 2005, Section 1838, U.S. Department of Energy, Office of Fossil Energy, Office of Oil and Natural Gas, July 2006, page 5-1 & 5-2, and Tocci, L. (2017, August). Lubricants Industry Factbook

(1) Source: EIA website(www.eia.gov)

(2) GPY is defined as gallons per year

(3) Company estimates (data reported by DOE as of '95 and '96). Management estimates the "Re-Refined" segment to be 35%.

(4) RFO includes: burning for energy, feedstock for VGO production, and as use as a cutter stock, blend stock and other non-base oil feedstock uses.

# Oil Business – Managing The Spreads Are Key

- ◆ The Oil Business is a Spread Business
- ◆ Profitability is dependent on managing the difference between the cost to obtain feedstock and the price at which we sell our oil products
- ◆ As the price of crude oil moves, so does the price of the oil products we sell (typically)
  - ◆ Lubricating Base Oil
  - ◆ RFO
  - ◆ Etc.
- ◆ We are price takers when selling our oil products
- ◆ Managing what we charge or pay for used oil feedstock largely determines our spread
  - ◆ We have limited control; markets are very competitive
  - ◆ Price for feedstock varies regionally and sometimes even locally
  - ◆ Moving from pay-for-oil to charging for oil collection is a slow process

# Oil Business Segment Update

## Q3 2018

### Revenue

- Revenue increased 28.6% from Q3 2017 to Q3 2018
- Due to stronger base oil pricing and sales volume of base oil gallons sold

### Re-refinery

- Record Production for a third quarter – 11.2 MM gals in Q3 2018

### Base Oil

- Base oil netback up \$0.39/gal compared to Q3 2017 but flat sequentially

### Used Oil Collection

- Route efficiency up by almost 9.5% in Q3 2018 vs Q3 2017
- PFO increased by \$0.07/gal from Q2 2018 to Q3 2018



# Financial

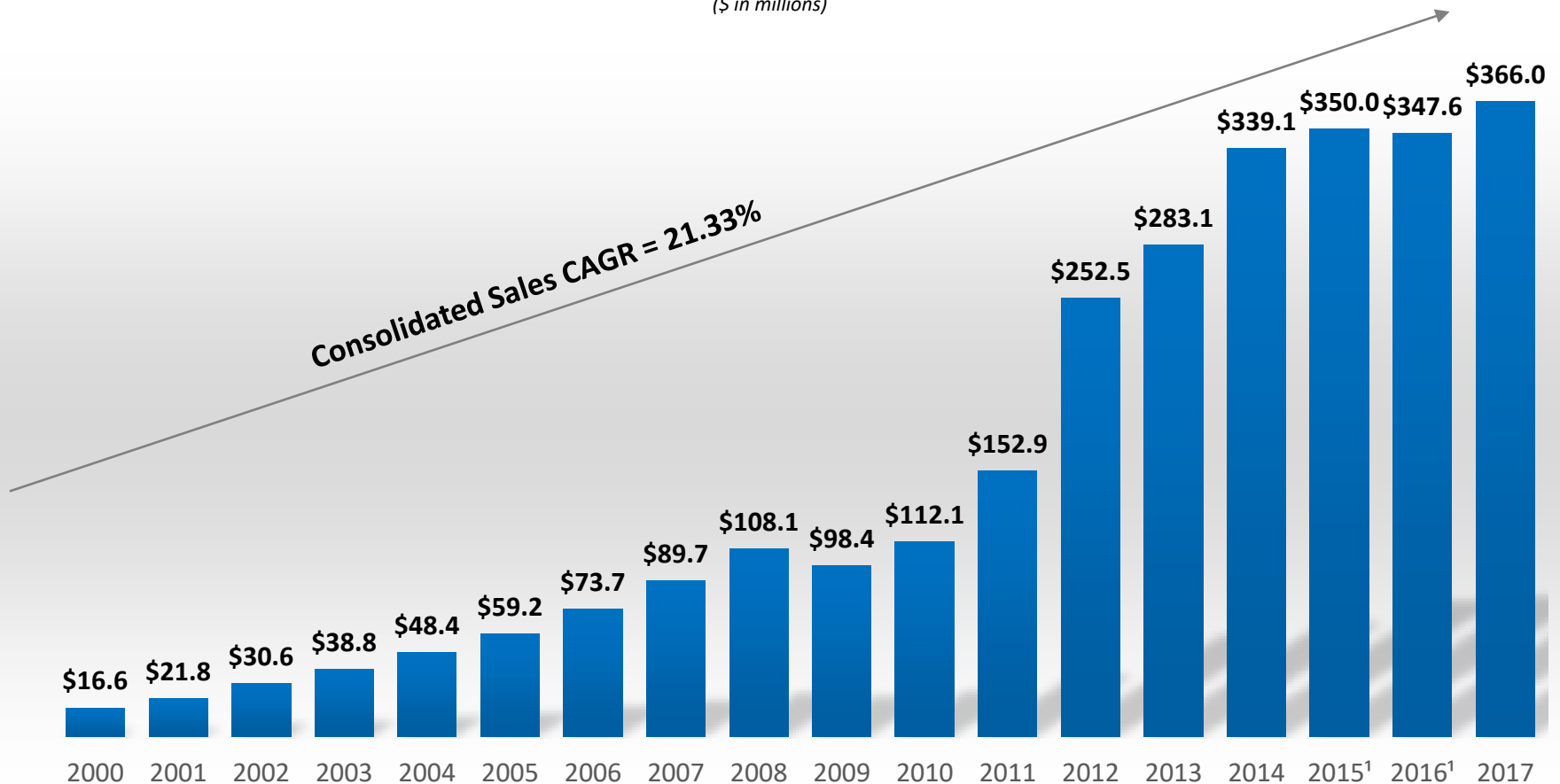
# Financial Highlights & Information

- ◆ Demonstrated strong revenue growth from 2006 to 2017
  - Sales CAGR of 12.87%
- ◆ After new branch developed, target breakeven within 36 months and free cash flow after Year 3
- ◆ Profitability enhancements over time include leveraging SG&A and other fixed costs and implementing price increases
- ◆ First 3 quarters consist of 12 weeks; fourth quarter consists of 16 or 17 weeks

# Long History of Strong Revenue Growth

- ♦ Oil Business (2006-2017) - CAGR 46.7%
- ♦ Environmental Service (2006-2017) - CAGR 12.9%

(\$ in millions)

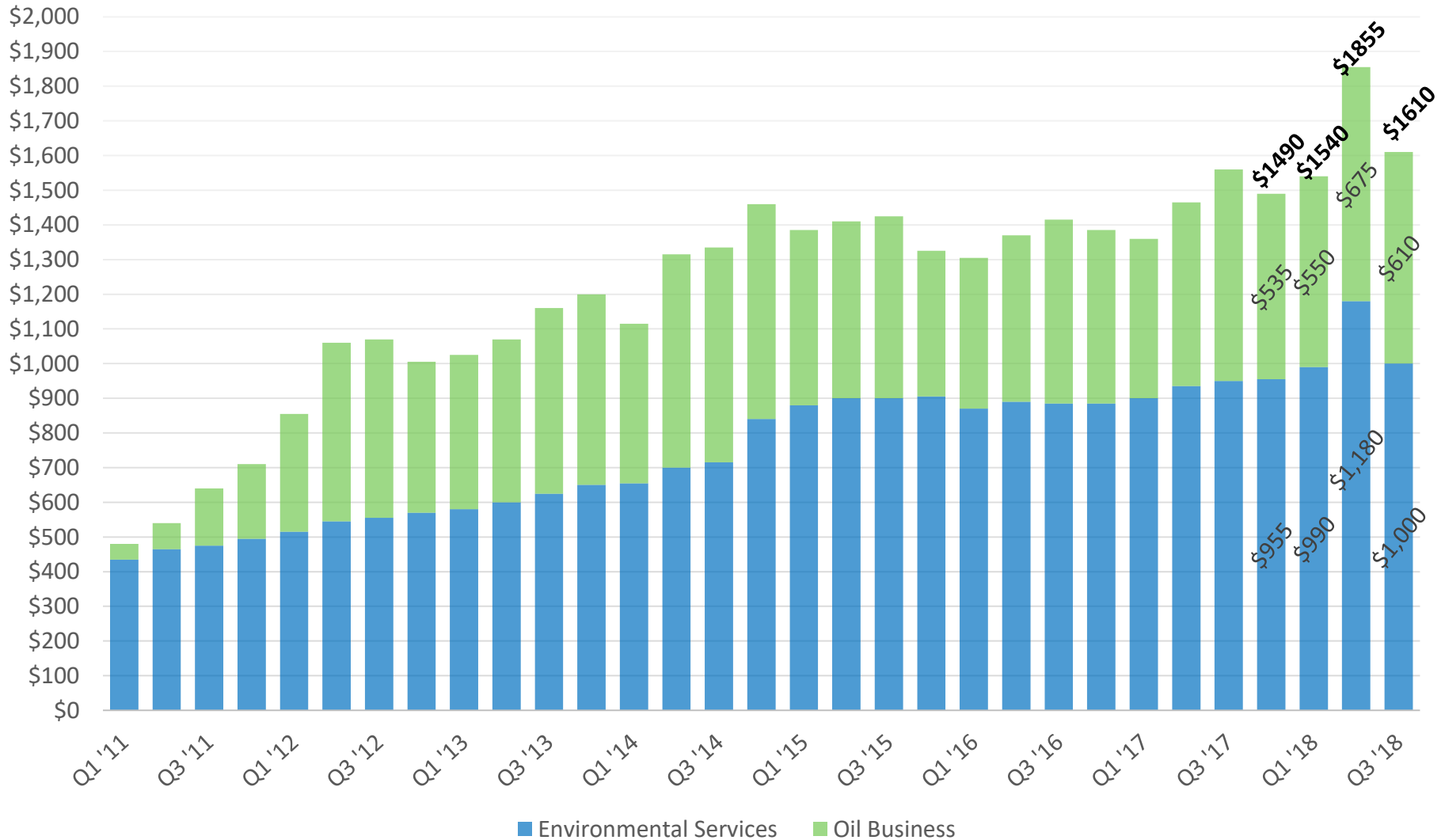


(1) Revenue negatively impacted by dramatic decline in commodity prices



# Average Sales Per Working Day

(\$ in thousands)





# Appendix

# EBITDA & Adjusted EBITDA Reconciliation

(\$ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Net (loss) Income	\$ 2.3	\$ 4.6	\$ (6.9)	\$ 1.4	\$ 6.0	\$ 28.4
Interest Expense - net	\$ 0.6	\$ 0.4	\$ 0.7	\$ 1.9	\$ 2.1	\$ 1.1
(Benefit of) Provision for Income Taxes	\$ 1.7	\$ 3.5	\$ (3.5)	\$ 0.9	\$ 2.8	\$ 5.9
Depreciation & Amortization	\$ 8.1	\$ 9.5	\$ 12.9	\$ 17.2	\$ 18.0	\$ 18.0
EBITDA	\$ 12.7	\$ 18.0	\$ 3.2	\$ 21.4	\$ 28.9	\$ 53.4
Non-Cash Compensation	\$ 1.2	\$ 1.6	\$ 1.3	\$ 1.1	\$ 1.9	\$ 3.0
EBITDA + Non-Cash Compensation	\$ 13.9	\$ 19.6	\$ 4.5	\$ 22.5	\$ 30.8	\$ 56.4
Legal Fees	\$ -	\$ -	\$ -	\$ 1.5	\$ 5.6	\$ 0.7
Fines & Restitution	\$ -	\$ -	\$ -	\$ -	\$ 1.6	\$ -
Inventory write down	\$ -	\$ -	\$ 6.1	\$ 9.2	\$ 1.7	\$ -
Severance	\$ -	\$ -	\$ -	\$ -	\$ 1.2	\$ 1.2
Gain on Sale of Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3.1)
Gain from Arbitration award and FCC Settlement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (8.7)
Site Closure Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.6
Impairment of Goodwill	\$ -	\$ -	\$ -	\$ 4.0	\$ -	\$ -
Acquisition & Integration Costs	\$ -	\$ -	\$ 7.4	\$ 1.8	\$ -	\$ -
Unrealized Acquisition Costs	\$ 1.1	\$ -	\$ -	\$ -	\$ -	\$ -
Additional Costs due to Unplanned Re-Refinery Shutdown	\$ -	\$ -	\$ 0.3	\$ -	\$ -	\$ -
FCCE Stub Period Losses	\$ -	\$ -	\$ 5.9	\$ -	\$ -	\$ -
Adjusted EBITDA	15.0	19.6	24.2	39.0	40.9	47.2

# EBITDA & Adjusted EBITDA Reconciliation – Q3 2018

*(\$ in millions)*

	Q3 2018
Net Income	\$ 6.4
Interest Expense - Net	\$ 0.3
Provision for Income Taxes	\$ 2.3
Depreciation & Amortization	<u>\$ 3.8</u>
EBITDA	\$ 12.7
Non-cash Compensation	\$ 1.2
EBITDA + Non-cash Compensation	\$ 13.9
Adjusted EBITDA	\$ 13.9



**For more information, please contact:**

**Mark DeVita, CFO**

**Heritage – Crystal Clean, Inc.**

**2175 Point Blvd., Suite 375**

**Elgin, Illinois 60123**

**(847) 836-5670**

**Mark.DeVita@Crystal-Clean.com**

**Or visit our company website at: [www.crystal-clean.com](http://www.crystal-clean.com)**