



# Crystal Clean®



**HCCI Presentation**  
**Q3 2015**

# 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," "synergies," "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 FCCE and achieve the anticipated synergies from the acquisition within the expected time period, or at all; our ability to enforce our rights under the FCCE 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; our ability to successfully complete our used oil re-refinery expansion and realize the anticipated benefits therefrom within the expected time period, or at all; 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 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 17, 2015 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 – 83 Branches
  - Efficient Rollout Model
- ◆ Large and Highly Diverse Customer Base
- ◆ Experienced Management Team

## **Numerous Growth Avenues**

- ◆ Same-Branch Sales Growth
- ◆ Expanded Service Offerings
- ◆ Expansion of Re-Refining Capacity
- ◆ Geographic Expansion
- ◆ Selectively Pursue 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 its customers
  - Provide strong recurring revenue business with substantial majority of revenues under automatically renewing service contracts

## Oil Business

- ◆ Includes used oil collection, re-refining and RFO and base oil sales
- ◆ 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
  - Indianapolis re-refinery constructed for capital cost of approximately \$1.00 per gallon of feedstock capacity
  - Initial re-refinery feedstock capacity of 50 million gallons
  - Current annual capacity of 65 million gallons
  - Expanding to 75 million gallons of annual re-refinery feedstock capacity
- ◆ Re-Refinery expansion is leveraging existing fixed costs, the oil collection business and driving revenue growth



# 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

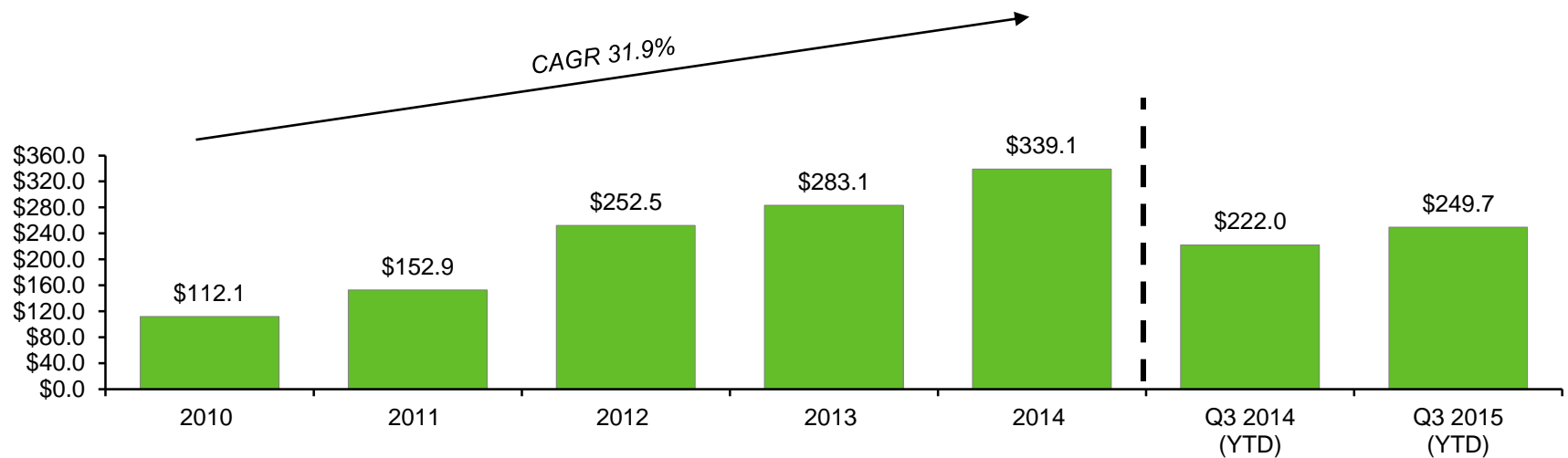
# Highly Experienced Management Team

Name	Position/Experience	Years at Company	Years of Industry Experience	Years of Used Oil Experience
Joseph Chalhoub	<ul style="list-style-type: none"> <li>♦ President, CEO and Director, Founder of Heritage-Crystal Clean</li> <li>♦ Former President of Safety-Kleen</li> </ul>	16	32+	30+
Greg Ray	<ul style="list-style-type: none"> <li>♦ Chief Operating Officer</li> <li>♦ Former Heritage-Crystal Clean CFO</li> <li>♦ Former VP of Business Management at Safety-Kleen</li> </ul>	15	29+	20+
Mark DeVita	<ul style="list-style-type: none"> <li>♦ Chief Financial Officer</li> <li>♦ Former Vice President of Business Management</li> </ul>	15	19+	10+
John Lucks	<ul style="list-style-type: none"> <li>♦ Senior VP of Sales and Marketing</li> <li>♦ Served as the VP of Industrial Marketing and Business Management at Safety-Kleen</li> </ul>	15	32+	13+
Tom Hillstrom	<ul style="list-style-type: none"> <li>♦ VP of Operations</li> <li>♦ Formerly responsible for the Management of Several Recycling Plants and Strategic Planning and Acquisitions at Safety-Kleen</li> </ul>	13	29+	20+
Ellie Bruce	<ul style="list-style-type: none"> <li>♦ VP of Oil and VP of Sales</li> </ul>	9	18+	16+

# Strong Track Record of Sales Growth

(\$ in millions)

## Sales





# Investment Highlights

## Well Positioned in Large, Growing Market

- ◆ \$11.0 billion estimated market opportunity
- ◆ Significant market position - #2 in full-service parts cleaning and #2 in used oil collection & re-refining
- ◆ Focused on underserved small and mid-sized business market

## Highly Experienced Management Team

- ◆ Proven team, deep bench strength
- ◆ Management possesses deep knowledge of the oil re-refining industry
- ◆ Executive team comprised of same individuals who played a major role in building Safety-Kleen into a \$2.0 billion market cap company prior to its sale to Laidlaw in 1998

## Superior Value Proposition

- ◆ Non-hazardous and product reuse programs reduce regulatory burden on customers and provide cost savings
- ◆ Patented aqueous parts cleaning equipment & superior cleaning chemistry
- ◆ Differentiated customer service focus creates long-term client relationships

## Multiple Avenues for Growth

- ◆ Large used oil industry re-refining opportunity – 945 million gallons per year (only 34% re-refined)
- ◆ Further growth from existing branches (market penetration, products and services)
- ◆ Geographic expansion; still expanding in the northeastern and western U.S. and eastern Canada
- ◆ New product and service extensions

## Compelling Financial Model

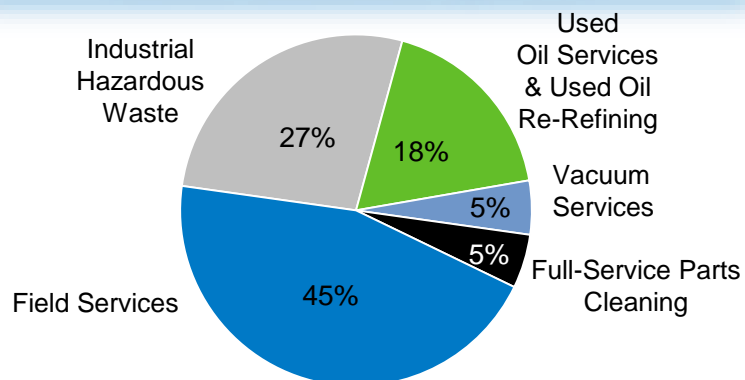
- ◆ Recurring revenue model; substantial majority of parts cleaning service revenues under automatically renewing service contracts
- ◆ Historical compound annual growth rate of 24.1% (2000-2014)
- ◆ Improving route density and overhead leverage drive earnings growth
- ◆ Re-refinery expansion expected to improve profitability



Industry

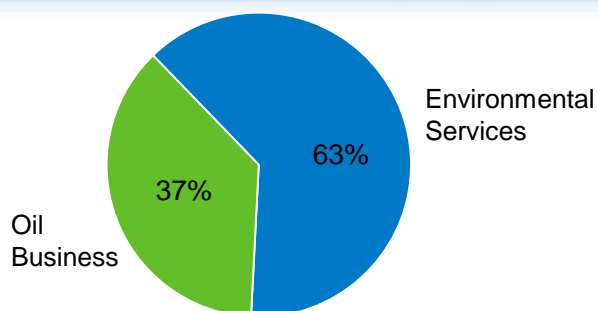
# Large, Attractive Market

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



**Total Market = \$11.0 billion**

## Q3 2015 HCCI Revenue by Segment



**Q3 2015 Total Revenue = \$82.7 million**

## 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 solvent
- ◆ Establishments generate used oil or waste paint 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

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

<sup>(2)</sup> Source: U.S. Census Bureau 2012.

# 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 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, used oil re-refining and vacuum truck services**

- 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

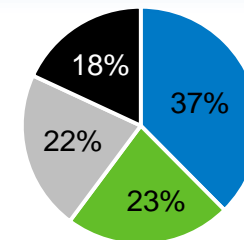
- Parts Cleaning
- Containerized Waste
- Vacuum Services

- ♦ Early-Stage Businesses

- ♦ ES Businesses Leverage

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

**2015 YTD HCCI Environmental Services Revenue**



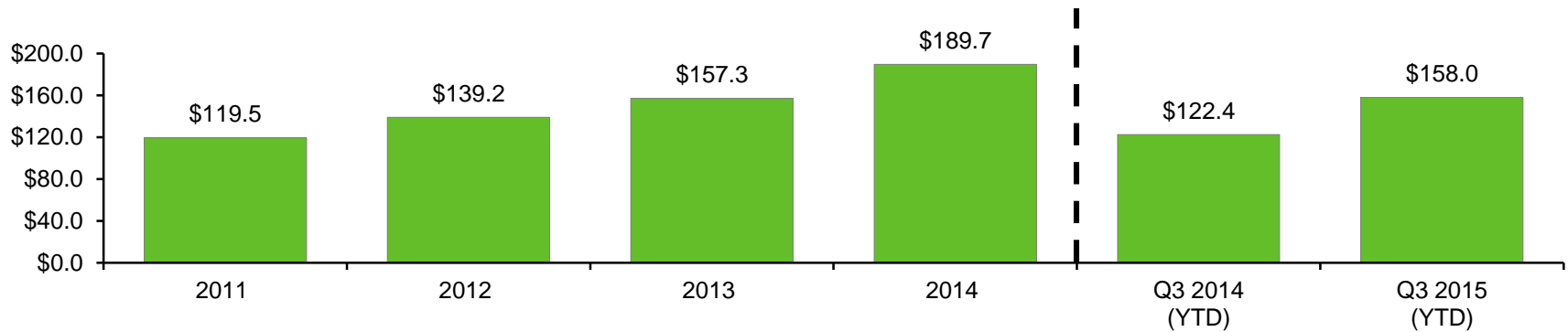
- Parts Cleaning
- Containerized Waste
- Vacuum
- Other

**2015 YTD Total ES Revenue = \$158.0 million**

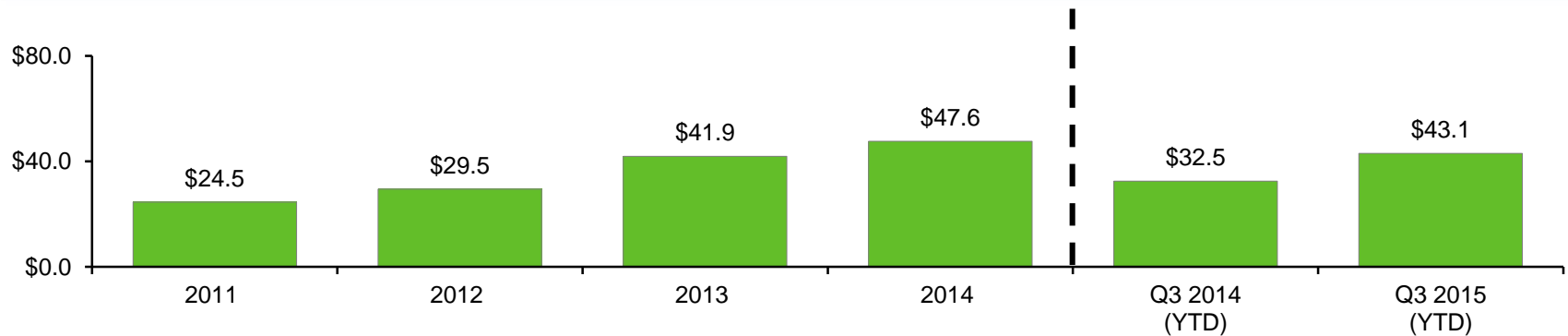


# Environmental Services Sales Growth

## Sales



## Operating Margin



# Parts Cleaning Service Offer

- ◆ Provide customer's the ability to remove dirt & grease from parts
- ◆ Differentiators
  - Aqueous parts cleaning
    - Patented equipment technology
    - Proprietary chemistry formulations
  - Reuse & non-Hazardous program
- ◆ Automatically renewing service agreements
- ◆ Strong revenue growth for over a decade



# 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



# Customers and Operations

## Customers & Value Proposition

- ◆ **Large and highly diversified base**
  - ◆ Conducted over 318,000 parts cleaning service calls in 2014
  - ◆ During 2014, top ten Environmental Services customers represented only 3% of revenue
- ◆ **Focus on small to medium-sized waste generators**
  - ◆ 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
  - ◆ Model structured for successful cross-selling of additional services

## 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 83 branches; hubs located in Indianapolis, Shreveport, Philadelphia, and Atlanta
  - ◆ Consolidation of administrative and other functions that are not critical to sales / service

# Growth Strategies – Environmental Services

## **Same-Branch Sales Growth**

- ◆ Legacy FCC Environmental customers provide a great opportunity for growth
- ◆ Obtain new customers in existing markets
- ◆ Cross-sell multiple services to existing customers
- ◆ Increase route density to further expand operating margins
- ◆ Annual same branch sales growth rates were 13 -14% from 2010 -2012, and 10 - 11% during 2013 - 2014 and 19.5% in the first three quarters of 2015
- ◆ Accelerate growth through integrated sales and service approach; utilize incentives, such as commission and awards to drive sales

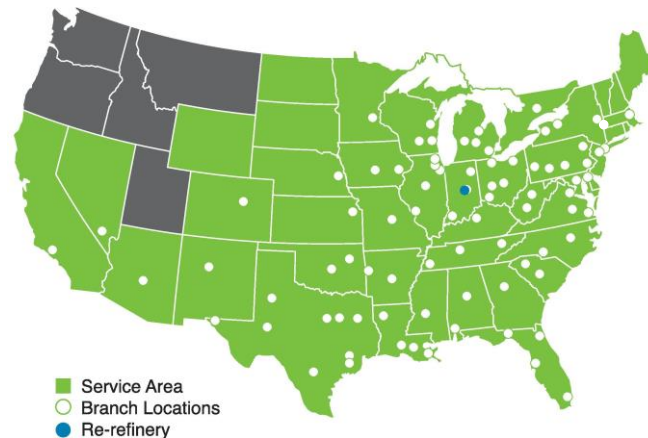
## **Expanded Service Offerings**

- ◆ All branches offer parts cleaning and containerized waste services
- ◆ Only two-thirds of branches offer vacuum truck services, presenting significant opportunity for further market penetration
- ◆ New business programs in development to be offered through branches

# Growth Strategies – Environmental Services (cont'd)

## Geographic Expansion

- ◆ Operate from 83 branches servicing 43 states and parts of Canada; typically open 3-5 branches per year
- ◆ Opportunities for expansion within the Northeastern and Southeastern U.S.
- ◆ Long term opportunity exists to develop Western U.S. and Eastern Canada



## Potential Acquisitions

- ◆ Integration of FCCE acquisition essentially complete
- ◆ Additional acquisition opportunities exist
- ◆ Growth plans don't depend on acquisitions; more than 90% of historic revenue growth before FCCE acquisition has been organic

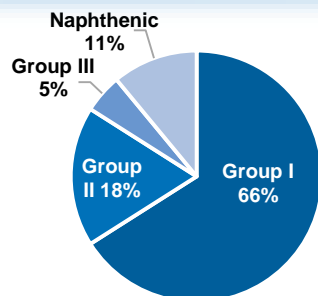




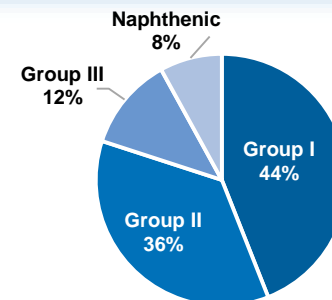
Oil Business

# Base Oil Production & Re-Refining Opportunity

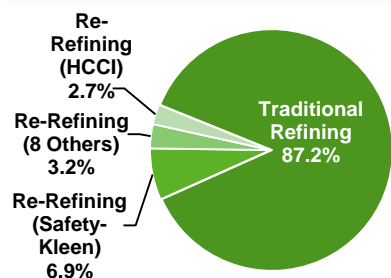
2005 Global Base Oil Produced - by Type



2015 Global Base Oil Produced - by Type



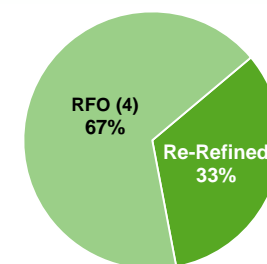
U.S. Paraffinic Produced by Source<sup>(1)</sup>



Total Volume: 2.5 BB GPY<sup>(2)</sup>

- 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 2.5 BB
  - Production rose 1% in 2014
  - 1.1 billion gallons exported in 2014
  - Approximately 13% of base oil is produced at re-refineries

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



Total Volume: 945 MM GPY

- 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
- Most used oil collected is sold for use as fuel, 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. (2015, July 29). 'Snapshot' Captures Base Oil Supply. Retrieved from [www.lubesngreases.com](http://www.lubesngreases.com)

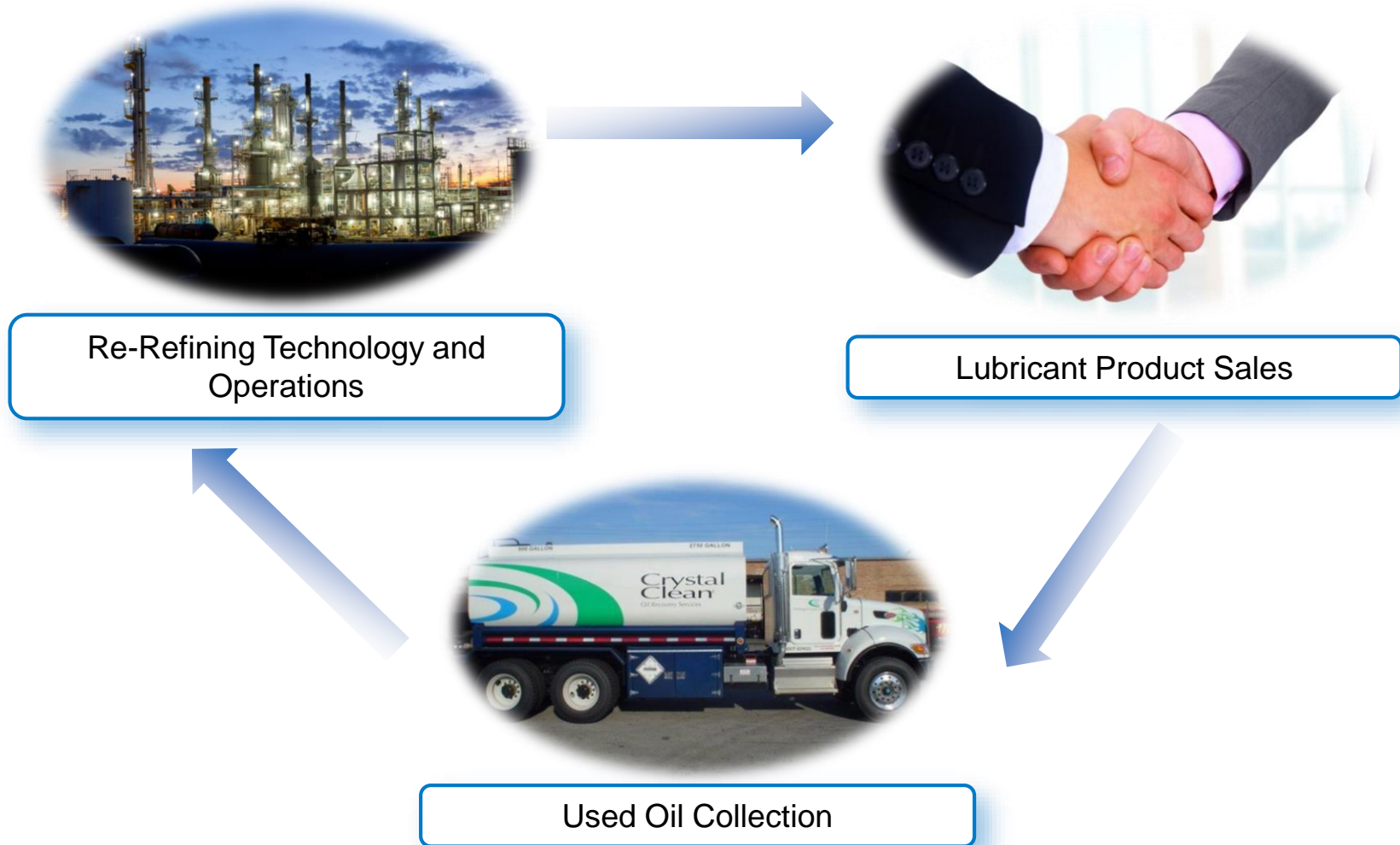
(1) Source: EIA website ([www.eia.gov](http://www.eia.gov))

(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 33%. "Fuel Use" segment consists of asphalt plant fuel, space heater fuel, boiler fuel, steel mill fuel and other burning.

(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 Success Triangle



Source: J. Chalhoub presentation to Fifth International Conference on Recovery and Reuse, November 1983, Las Vegas, NV.

# Oil Business Components



- ◆ Collection volumes are affected by seasonality (lower in winter months)
- ◆ HCC significantly increased route density with FCC Environmental acquisition
- ◆ In Q1 2015, experienced some volume loss due to aggressive reduction of pay-for-oil (PFO)



- ◆ Increasing capacity to 75 million GPY by the end of 2015
- ◆ Production of top quality lubricant base oil requires hydrotreating, a process practiced at major refineries that adds significant complexity and capital cost
- ◆ Low capital cost per gallon equals competitive advantage



- ◆ Our re-refinery is producing primarily Group II base oil
- ◆ Longer term opportunities to go downstream and sell blended and packaged lubricants

# Oil Business Growth Strategies

## **Increase Used Oil Collection**

- ◆ Continue to increase oil collection route density

## **Increase Re-Refining Capacity**

- ◆ Continue to sell out Indianapolis, IN re-refinery production
- ◆ Complete capacity expansion at existing facility

## **Potential Acquisitions**

- ◆ Acquisition opportunities exist, particularly in used oil collection due to fragmented nature of industry and in the finished lubricants industry



# Financial Overview



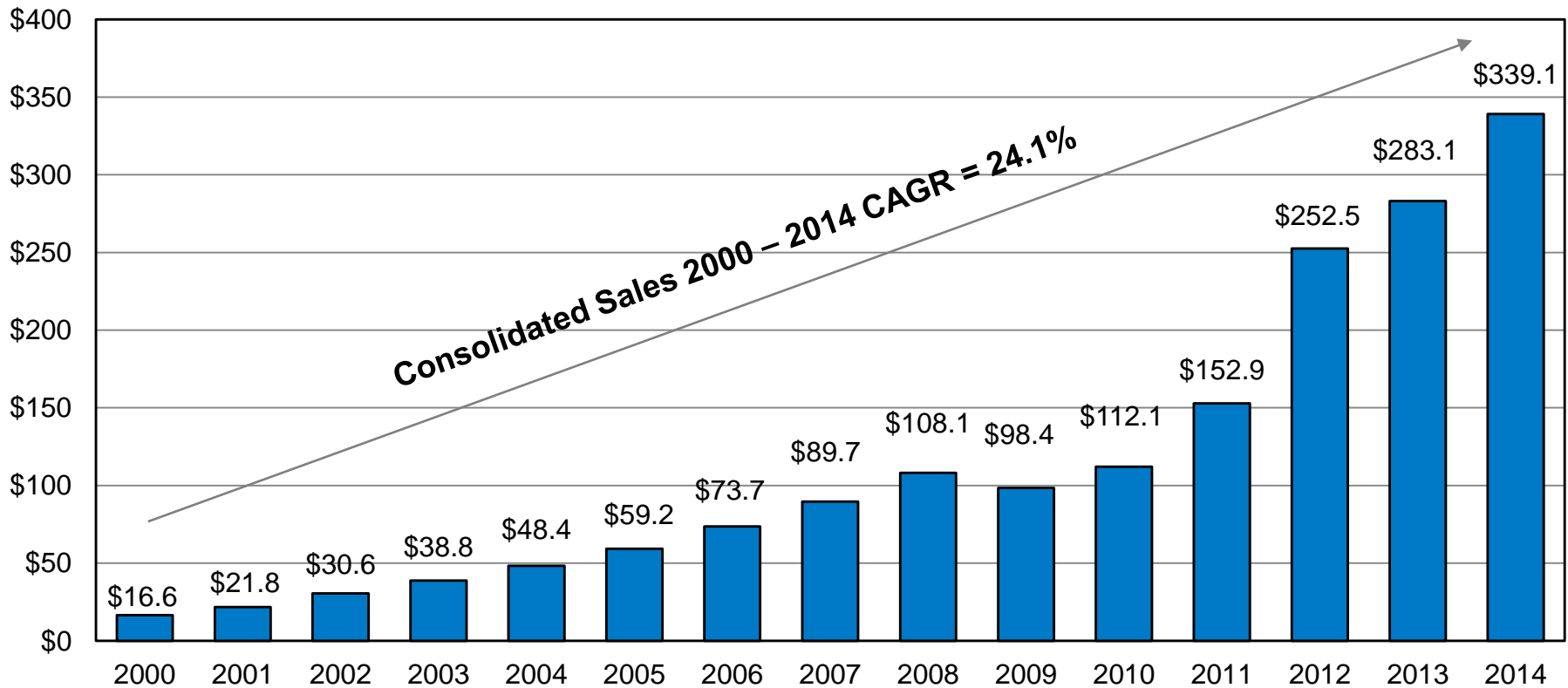
# Financial Highlights

- ◆ Demonstrated strong growth in financial performance from 2006 to 2014
  - Sales CAGR of 21%
- ◆ Emerged from difficult economic environment during severe recession in 2008-2009 to show strong revenue growth from 2010-2014
- ◆ 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

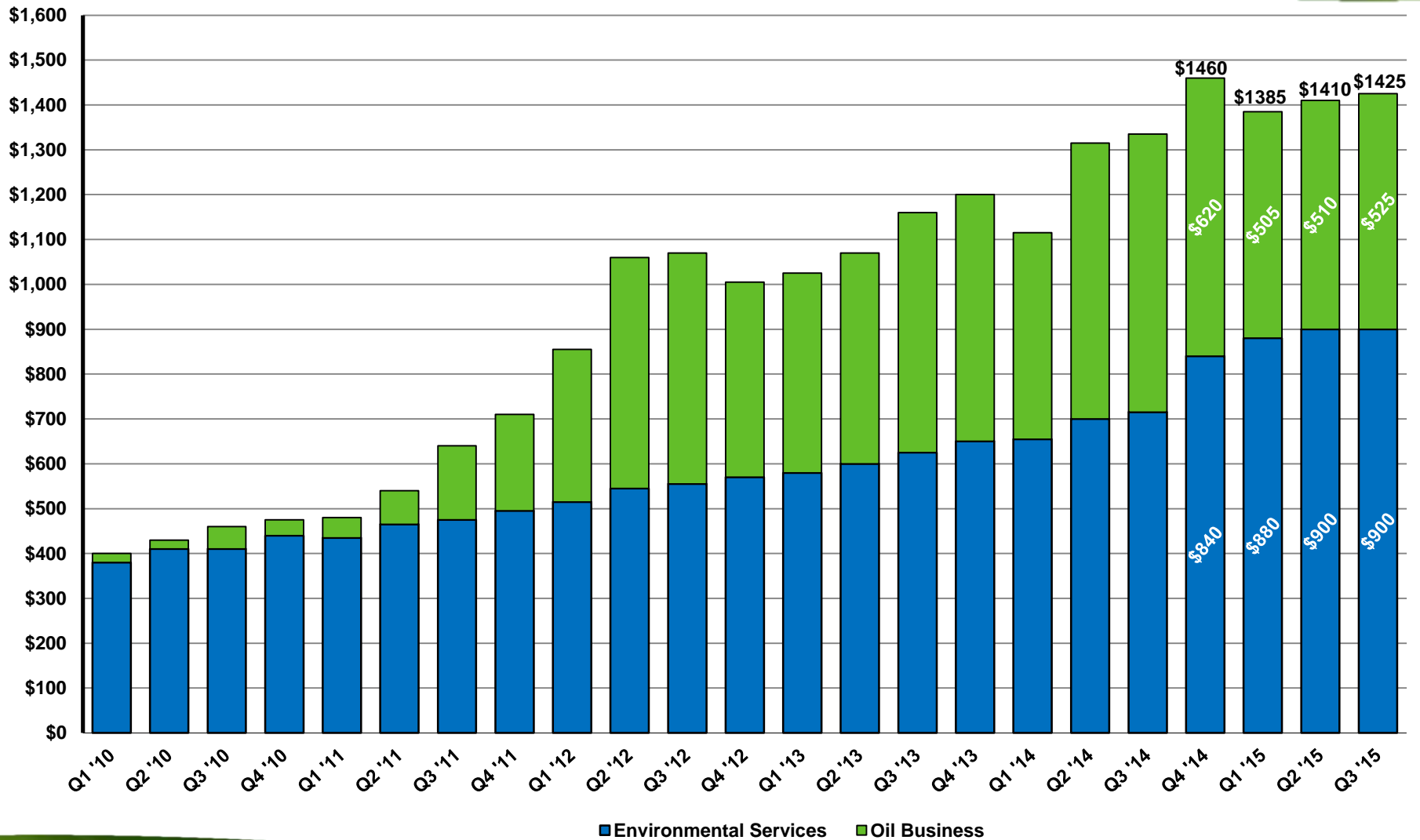
- ◆ Oil Business (2006-2014) - CAGR 108.5%
- ◆ Environmental Service (2006-2014) - CAGR 16.2%

(\$ in millions)



# Average Sales Per Working Day

(\$ in thousands)





Conclusion

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**For more information, please contact:**

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