



Waste Management Strategy



Market Overview

Total revenue in the waste management industry stood at \$86.8 billion in 2017 and is expected to increase to \$93.4 billion over the next five years.^{1,2,3}

The waste management industry is comprised of companies engaged in the collection, treatment, and disposal of waste materials. Waste management companies provide a wide array of services to both public and private entities, as can be seen in Figure 1 (on the following page). During the collection stage, waste is picked up at residential, commercial, industrial, or construction sites by waste vehicles. During the post-collection stage, trash is taken to a transfer station if needed, while recyclable materials are diverted to facilities that sort and segregate the raw materials to maximize re-use of the recovered commodities. Transfer stations consolidate and transport waste in larger vehicles to final disposal locations when other disposal options are not economically available. The disposal / re-use stage completes the waste management life cycle. During this stage, recyclable materials are sorted and sold as commodities to be reused, while trash is disposed of in landfills or other waste disposal facilities. Where available, certain trash is diverted to waste-to-energy facilities to be used as a fuel to generate electricity. Increasingly, organic waste, like food and yard waste, is being diverted from the traditional disposal outlets to be used as fuel for waste digesters that produce gas or other valuable industrial materials, or for compost.

Key drivers of growth in the industry include population growth, increased construction activity, growth of recycling services, and privatization of municipal waste services. Per capita municipal solid waste (MSW) generation has remained steady since 1990. Today, the average American produces about 4.4 pounds of MSW per day.⁴ The population of the United States is expected to expand at an annualized rate of 0.8% over the next five years, which will create additional demand for waste collection services.⁵

Additionally, the construction sector produces waste in the form of wood, concrete, rubble, and other bulky debris. Construction activity is expected to expand in the near term, with non-residential construction expected to grow at an annualized rate of 4.6% through 2022 and residential construction expected to grow 3.4% over the same period.⁶ We believe that this construction growth should lead to a marked improvement in construction and demolition (C&D) waste collection.

1 IBISWorld, *IBISWorld Industry Report 56211: Waste Collection Services in the US*, July 2017.

2 IBISWorld, *IBISWorld Industry Report 56221: Waste Treatment & Disposal Services in the US*, October 2017.

3 IBISWorld, *IBISWorld Industry Report 56292: Recycling Facilities in the US*, April 2017.

4 US Environmental Protection Agency, *Advancing Sustainable Materials Management: Facts and Figures Report*, November 2016.

5 US Census Bureau, *2014 National Population Projections Datasets*, April 2017.

6 IBISWorld, *IBISWorld Industry Report 56211: Waste Collection Services in the US*, July 2017.

Figure 1

Life Cycle of Waste

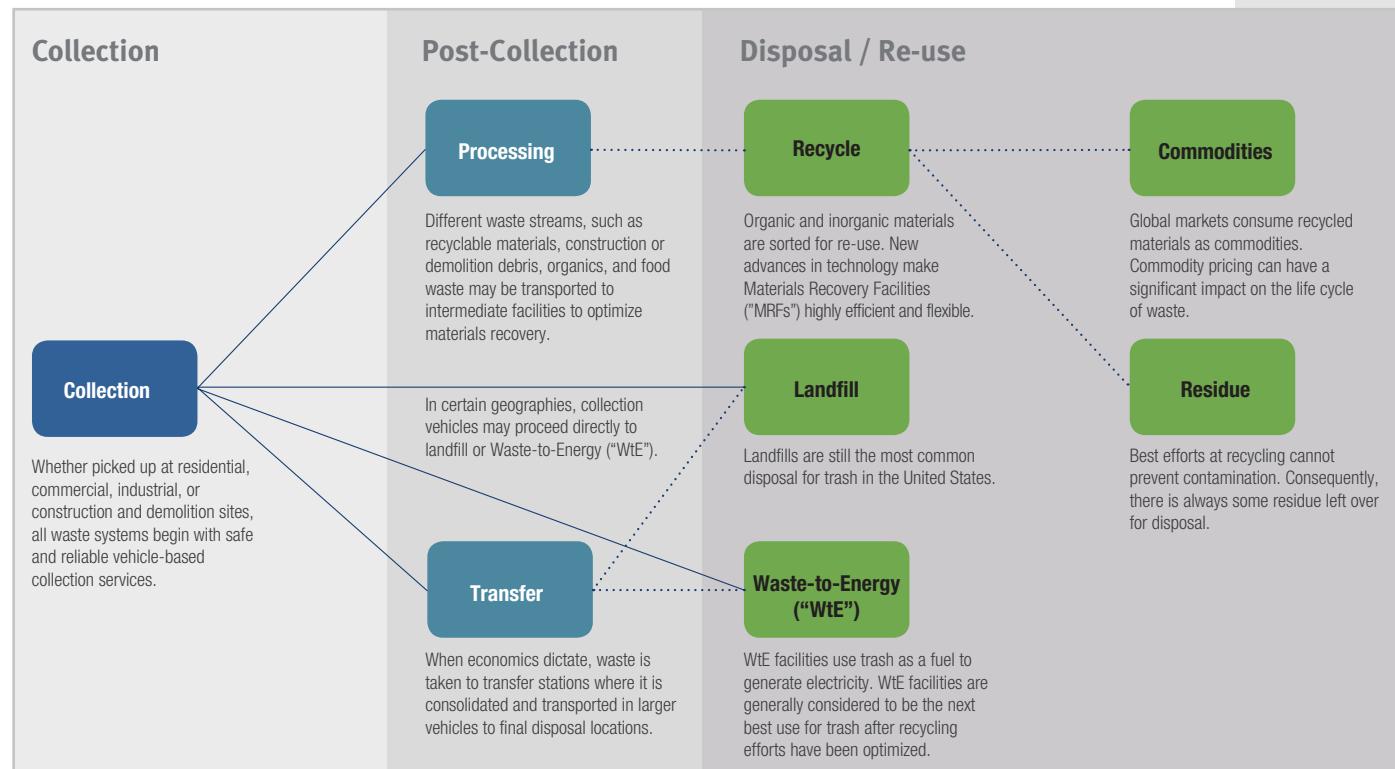
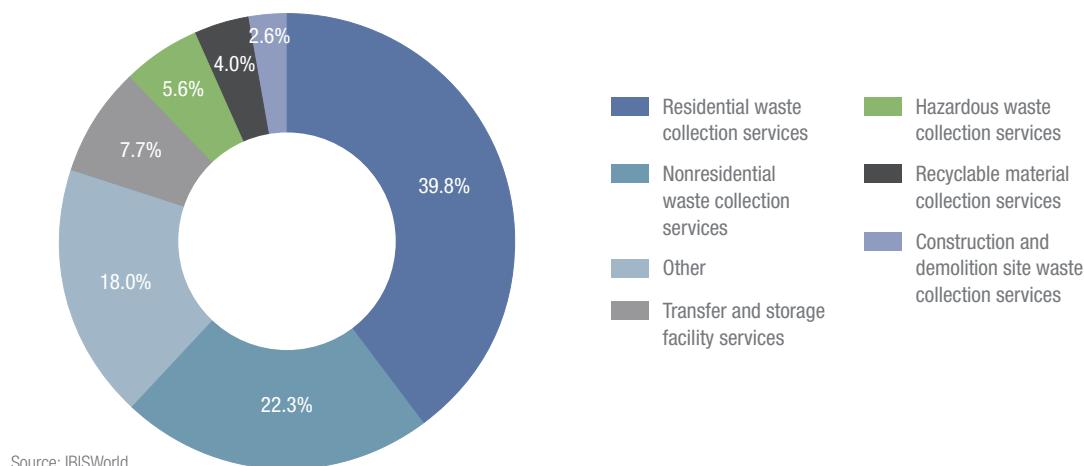


Figure 2
Waste Collection Products and Services Segmentation



We expect that increased demand for recycling services and the outsourcing of municipal waste collection services will benefit the waste management industry going forward. Demand for recycling services has steadily increased over the years, as consumers have become more environmentally conscious and increased regulations have been put in place to reduce the volume of landfill-destined waste. The percentage of MSW that is recycled grew from a rate of 16.0% in 1990 to 34.6% in 2013.⁷ Industry operators are typically able to charge more for recycling services, potentially boosting revenue and improving the bottom line in coming years.⁸ It is important to note that recycling markets are more prone to volatility as commodity markets are global in nature and can be affected by a variety of market forces and are ultimately subject to end-market demand for raw materials. Finally, many municipalities across the U.S. have found themselves in dire financial positions after the Great Recession.

As these municipalities have tightened their budgets, one of the first services to become a candidate for privatization has been waste collection.⁹ We believe that this trend has created a large opportunity for private waste collection companies to win municipal contracts and expand operations.

GPB Capital Acquisition Strategy

GPB Capital plans to acquire approximately 40 profitable waste management companies in its target markets. GPB Capital will seek to acquire and operate platform companies and subsequently aggregate portfolio companies that add infrastructure, capability, capacity or other operating or financial efficiencies to the platform company (also known as tuck-in acquisitions), rebranding under one corporate identity when appropriate. GPB Capital has targeted a portfolio with aggregate revenues of \$750 million and EBITDA of \$135 million and will seek to acquire companies at 4x–7x EBITDA multiples.

⁷ US Environmental Protection Agency, *Advancing Sustainable Materials Management: Facts and Figures Report*, November 2016.

⁸ IBISWorld, *IBISWorld Industry Report 56211: Waste Collection Services in the US*, July 2017.

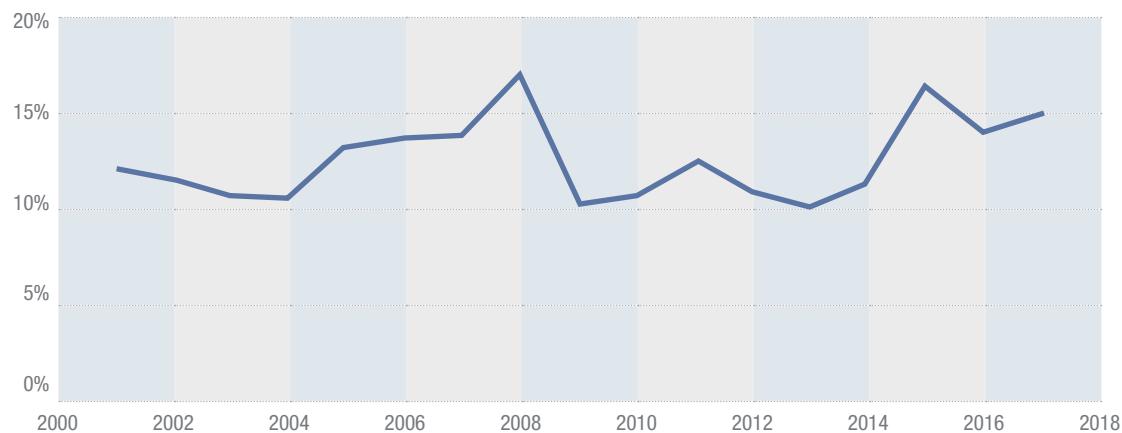
⁹ IBISWorld, *IBISWorld Industry Report 56211: Waste Collection Services in the US*, July 2017.

Why Waste Management?

GPB Capital's overarching acquisition philosophy is to seek to purchase companies with strong, consistent cash flows and proven operating partners / management teams that operate in recession resilient industries with defined barriers to entry. GPB Capital believes that the waste management industry demonstrates these four fundamental criteria.

Figure 3

Return on Equity: Public Waste Management/Environmental Services Industry



Source: FactSet Market Aggregates

Current and Sustainable Yield

The waste management industry has historically demonstrated consistent cash flows and strong returns. As shown in Figure 3, from 2001 – 2017 public companies in the waste management industry averaged a return on equity of 12.2%, and during the economic downturn of 2008 and 2009, the average return on equity was 16.4% and 10.3%, respectively.¹⁰ Consolidation of multiple waste management companies provides GPB Capital the opportunity to improve operational efficiencies across the portfolio in order to seek to drive additional profit to the bottom line.

Recession Resilient

To seek to ensure consistent cash flow throughout the economic cycle, GPB Capital targets industries that in GPB Capital's opinion have demonstrated recession resilient traits. As shown in Figure 3, the waste management industry saw annual double-digit returns on equity, even during the financial crisis of 2008 – 2011. Steady demand from the residential market helped to preserve industry revenue during the Great Recession, as changing economic conditions typically do not have a major impact on the amount of waste produced by households.¹¹ GPB Capital anticipates that revenue derived from residential waste collection will continue to increase as municipalities outsource waste collection services, which serves to provide further insulation from fluctuations in the economy.

¹⁰ FactSet Market Aggregates, *United States Environmental Services*, February 2018.

¹¹ IBISWorld, *IBISWorld Industry Report 56211: Waste Collection Services in the US*, July 2017.

High Barriers to Entry

By focusing on industries with high barriers to entry, GPB Capital can target companies that have a certain level of protection from revenue and profit erosion by new competitors. Major federal regulation of the waste management industry began in the 1970s, which coincided with growing environmental concerns around the U.S. The level of regulation at the federal, state, and local levels has only increased since then, with the intended goal of reducing the volume of waste destined for landfills. Smaller companies are typically at a greater disadvantage to comply with these regulations, which could create acquisition opportunities for GPB Capital. Additionally, contracts at the municipal and commercial level are typically multi-year deals, making it difficult for new and undercapitalized entrants to quickly enter a market.¹²

Proven Operating Partners/Management Teams

In most cases, GPB Capital will seek to acquire a majority interest in companies, generally acquiring around 70% of the target company while keeping the existing operating partners in place. Given the complex regulatory framework in place at the federal, state, and local levels, as well as the difficulty in entering new markets, GPB Capital will seek to partner with operators that have the expertise to navigate the complex and highly localized waste management industry. GPB Capital will provide these operators with the guidance and capital to execute our shared vision.

GPB Capital

GPB Capital is a New York-based alternative asset management firm focusing on acquiring income-producing private companies. GPB Capital provides their portfolio companies with the strategic planning, managerial insight and capital needed to enable strong businesses to work towards the next level of growth and profitability. GPB Capital seeks to take advantage of the large opportunity in the private U.S. middle-market by investing in companies that have a track record of current and sustainable yield, are recession resilient, have proven operating partners/management teams and are in industries which have high barriers to entry. GPB Capital's strategies include, but are not limited to, Automotive Retail, Technology-Enabled Services, Debt Strategies, Waste Management, and Special Situations.

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