NOVEMBER 2023

SOLOMON PARTNERS

ENVIRONMENTAL & INDUSTRIAL SERVICES

EXECUTIVE INSIGHTS: SUSTAINABLE WASTE SOLUTIONS

MICHAEL VINCIGUERRA

Managing Director

Environmental & Industrial Services

INTRODUCTION

If you don't change with the times, the times are going to change you. Aspects of sustainability have been around for decades, but the combination of societal and political influences in recent years has caused corporations to make significant changes. Accordingly, the conversations waste companies are having with customers is shifting as they offer a critical link in the transition to a more circular economy.

In the waste sector, change is the one constant. There has been an evolution across every aspect of the sector over time, from composition of volume to recycling economics, available processing and disposal technologies, and regulations. Even what is viewed as sustainability itself has changed; for example, moving from zero waste-to-landfill only a few years ago to a more comprehensive approach that includes carbon emissions. But while change is certain, businesses must also recognize that there is never one perfect answer—and they must, therefore, be nimble enough to reassess and recalibrate when needed.

Take plastic bags. Sixty years ago, they were invented to help reduce the need to cut down trees for paper bags. Plastic bag production also requires less energy and water than paper and reusable cotton bags. According to the UK Environmental Agency, we need to use a paper bag three times for it to be as environmentally friendly as one recycled plastic bag. Bags made of cotton—a crop that requires significant amounts of water to grow—need to be used at least 131 times to be as environmentally friendly as a plastic bag.

So, why are plastic bags being banned in certain municipalities? Because they are challenging to recycle and need to be specially sorted, which means that the bulk of the trillion-plus plastic bags produced each year are used just once before ending up in a landfill, or worse, as litter in the global ecosystem. But what happens when we make significant investments around plastic recycling (several of which are underway)? Will that change the narrative once again around plastic bags?

Advancements in processing technologies along with societal, political and corporate sentiment can have meaningful impacts on volume composition and margins within the sector. While companies value sustainability to varying degrees, ultimately, earnings get reported to shareholders, so waste companies that offer solutions that are both economically compelling and sustainability-driven will have a significant advantage and be well-positioned to achieve outsized growth.

Further, many businesses struggle with setting and tracking their sustainability goals. They contract with multiple service providers for different waste streams across multiple facilities, which creates disparity in data and uneven reporting. This can make it difficult for business leaders to gain a holistic view of a waste program and track and achieve progress toward meeting sustainability goals. Service providers that manage comprehensive waste programs are gaining favor, particularly among customers seeking out timely data used to track landfill diversion rates, recovered recyclables, and emissions.

When companies move closer to achieving their sustainability goals, they are more likely to place a premium on services that can help them achieve incremental progress. That creates an incentive for waste providers to take a more consultative approach and offer more advanced solutions that may require operational shifts or on-site investments.

At Solomon Partners, we believe that sustainability-oriented waste companies will command elevated attention from investors within the already attractive environmental services sector. Such providers offer both the opportunity to capitalize on changing customer behavior to yield out-sized organic growth as well as compelling M&A opportunities to build additional scale. Further, the emergence of new technologies and tech-enabled business models will also create opportunities for growth-oriented investors to deploy additional capital into the sector.

For these reasons, I recently convened a series of discussions with top executives from six leading waste and environmental service providers. Our conversations touched on a wide variety of topics, from shifting customer focus to customers balancing costs vs. achieving their sustainability goals, to emerging opportunities and technologies. We share highlights of these discussions to allow you to hear these leaders' insights in their own words.

We hope you enjoy these insights and welcome the opportunity to discuss these issues and opportunities in the waste sector with you.

Regards,

MICHAEL VINCIGUERRA

Managing Director

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PARTICIPATING EXECUTIVES

AZEEZ MOHAMMED

Chief Executive Officer

ABOUT COVANTA

Covanta is a leader in sustainable materials management, providing environmental services to businesses and communities. Through its network of facilities and state-of-the-art services, Covanta is a single-source partner in solving today's most complex environmental challenges.

PETER LUX

President

ABOUT ENVITA

Envita Solutions, formerly known as Heritage Interactive Services, is a leading total waste management partner. A division of The Heritage Group, the company is dedicated to fostering a healthier planet by transforming complex waste challenges into sustainable solutions. Headquartered in Indianapolis, Indiana, Envita Solutions operates in the U.S., Mexico, and Canada, and has over 300 employees and a network of over 3,000 supplier partners.

MICHAEL HESS

Executive Chairman

ABOUT KETER & WASTE HARMONICS

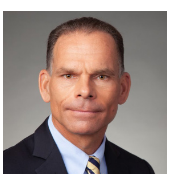
Keter Environmental Services ("Keter"), a leading recycling and waste management company, and Waste Harmonics, a national technology-enabled managed waste service provider, merged in October 2023. Both businesses leverage a national network of haulers and proprietary tech to coordinate, manage, and optimize customers' waste and recycling programs. Together, Keter and Waste Harmonics service nearly 70,000 business locations for 750 customers across a wide range of industries.

SETH GOODMAN

Chief Executive Officer

ABOUT NORTHSTAR

Northstar Recycling is a North American provider of sustainability-oriented recycling and waste solutions intended to serve food product, consumer goods, and furniture industries. The company is dedicated to utilizing consolidated reporting, cost-saving initiatives, and industry expertise to maximize value for their clients. Northstar provides services for business facilities across the U.S. and Canada.

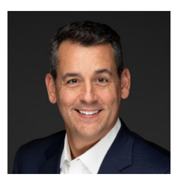


BOB CAPPADONA

Chief Executive Officer
North America
Environmental Solutions & Services

ABOUT VEOLIA NORTH AMERICA

Veolia North America is an international provider of water, waste, and energy solutions. The company is devoted to utilizing innovative technology solutions and unmatched industry knowledge to provide value-added services to improve the global environment. Veolia, with the help of its 179,000+ employees, supplies over 100 million people with safe drinking water.



KEITH CORDESMAN

Executive VP - Waste

ABOUT VLS

VLS Environmental Solutions is a provider of mission-critical, specialty cleaning, customized waste, and repair services to a variety of industries across North America. The company is committed to creating an eco-friendly environment within the consumer product, healthcare, and food industries (among others). VLS has over 1,000 employees and serves over 10 states.

EXECUTIVE INSIGHTS

DEFINING SUSTAINABLE WASTE SOLUTIONS

What does it mean to be a sustainable waste provider today? There isn't a simple definition because our understanding of what's sustainable is constantly evolving. Further, though businesses often tout their commitment to the environment, we know there is a gap between words and actions. According to a study, although 90% of executives believe sustainability is important, only 60% of companies incorporate sustainability in their strategy and just 25% have integrated it into their business model.

> To us, sustainability is about waste diversion as our No. 1 priority.
>
> — Seth Goodman, **CEO, Northstar**

"We describe sustainability as a journey," said Peter Lux, President of Envita Solutions. "To us, it's this never-ending commitment to continuous improvement and, ultimately, it benefits communities, the planet and drives profitability for our customers."

However, with every service provider in the broader environmental services arena touting "sustainability," it can be challenging to determine which solutions are truly having an impact. Companies with advanced solutions are helping to lead the charge on market education.

"People have made comments about how waste companies tend to greenwash, but we have the science behind us," said Azeez Mohammed, CEO of Covanta. "We beneficially reuse 300 million gallons of water every year. We extract over half a million tons of metal from waste and put it back into circulation, so it's a carbon-negative metal. We are also the market leaders in this concept called waste-to-fuel, which serves as a replacement to coal in cement production."

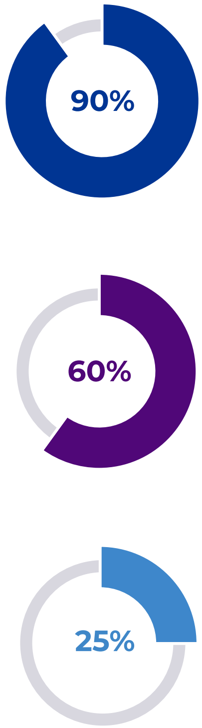
With the expansion of sustainable waste solutions, businesses are increasingly seeking holistic programs that consider the entire life cycle of the waste stream, from treatment to transportation.

"To us, sustainability is about waste diversion as our #1 priority," said Seth Goodman, CEO of Northstar. "How can we help our partners divert anything that is recyclable out of their waste stream to an end user that is either going to reuse that material or recycle it?"

But getting buy-in from businesses takes time. And waste service providers that prioritize relationship building will be well-positioned to advise and partner with companies in a meaningful way in the long term.

"We partner heavily with our customers," said Keith Cordesman, Executive Vice President, Waste, at VLS. "We have deep relationships with them. When we pitch, we are more focused on the relationship we are going to build and coming up with creative ways to handle their waste and keep it out of landfills."

INTEGRATION OF SUSTAINABILITY



90% of executives believe sustainability is important

60% of companies incorporate sustainability into their strategy

25% of companies integrated it into their business model

BCG/MIT

HIGH-TOUCH SERVICES ARE WINNING

To be competitive in today's changing environment, providers must think creatively and take a consultative approach to how they help customers reach their sustainability goals.

"Our engagement with the customer starts with a true understanding of what they do every day and the materials or environment they operate in, and then we gear our customer-specific solution from there," Veolia North America's CEO of Environmental Solutions & Services Bob Cappadona explained. "The agreements we have in place are structured such that we're rewarded by how we improve their environmental footprint, which is very different than a price-per-pound relationship. It allows us to operate in a better, more environmentally friendly, long-term way."

> We partner heavily with our customers... we are more focused on the relationship we are going to build and coming up with creative ways to handle their waste and keep it out of landfills.
>
> — Keith Cordesman, **EVP, Waste, at VLS**

Truly understanding a customer's needs and the environment they operate in is imperative to creating a customized solution that can deliver far more value than a provider offering a one-size-fits-all approach.

"We can substantially help customers by simply measuring their waste streams," said Michael Hess, Exec Chairman of Keter/Waste Harmonics. "That allows us to create insightful solutions because now we're seeing where waste is being generated, where it's not, and we can start implementing short-term actions to kick-start their long-term sustainability goals."

A growing number of service providers are focused on processing waste as an alternative fuel source for the cement kiln industry.

"Cement kilns are one of the top polluting industries, and they are on this journey to decarbonize themselves, and we are a critical solution," Mohammed of Covanta said. "These are the reasons why we consider ourselves sustainable, and we have the science to back it up."

Europe is a leader in the adoption of alternative fuel sources for cement kilns. According to Mohammed, European cement kiln operators can replace 550,000 tons of carbon dioxide for every million tons of cement production. Those figures dwarf U.S. adoption, which is at roughly 5%-10%. But U.S.-based waste providers are keenly focused on catching up to their overseas counterparts.

"We're focused on the portion of the waste stream that would otherwise be end-of-life, and we're finding a new purpose for that waste," Cordesman of VLS said. "We service companies such as BMW, Mercedes, Toyota. We're taking their end-of-life-waste and we put that into our shredding process, and we blend that waste. The whole thing is more art than science and, at the end, we have a homogeneous blend of alternative fuel that our cement kiln partners can utilize to displace coal, or the gasifiers can use to displace natural gas."

SHIFTING CUSTOMER FOCUS

In the sustainable waste sector, there is often a push and pull between competing priorities. As of 2022, 702 of the world's largest 2,000 companies have set net-zero carbon emissions targets across a range of time horizons. At the same time, companies have also set zero waste-to-landfill goals. Certain efforts to drive zero waste-to-landfill can impact emissions, so businesses committing to both targets must take a more holistic view of their sustainable business practices.

"For many years, most companies were very gung-ho that they were going to be zero waste-to-landfill," said Northstar's Goodman. "It's slow and still infrequent, but for the first time over the past six months or so, we're starting to hear comments like 'zero waste-to-landfill may not have been the best long-term strategy for us as it relates to sustainability' given impacts associated with certain disposal alternatives"

Peter Lux, President of Envita Solutions, says customers must always look at how transportation affects the total carbon footprint.

"Sometimes sending waste to a nearby landfill with methane gas capture versus waste-to-energy or some other solution several miles away is the more environmentally sustainable decision," he said. "Instead of a blind wholesale commitment to zero-waste-to-landfill initiatives, there is a growing desire for customers to better understand the holistic carbon impact of byproduct treatment decisions."

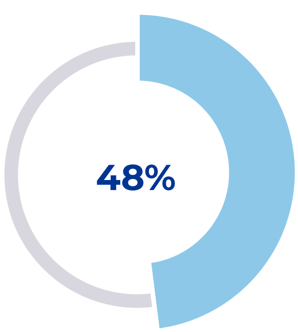
When it comes to shifting customer focus, culture plays an important role. It can be difficult for companies that have set certain goals to understand that they may have to adjust their targets to become more holistically sustainable.

"We have customers that regardless of the transportation, they are straight down the line zero waste-to-landfill," said Cordesman of VLS. "For those organizations that have ingrained zero waste-to-landfill in their culture, for them to evolve to consider something different, it's a slow turn of the ship."

> Our customers want to get to those zero waste-to-landfill and median-avoidance goals, so they're looking to us to come up with a holistic solution.
>
> — Azeez Mohammed, **CEO, Covanta**

Ultimately, businesses committed to sustainability will need to set high standards and seek solutions that help delivery and track progress. But like any major investment, it won't happen overnight, and waste companies seeking long-term partnerships with customers centered around sustainability must offer economically viable solutions that help customers achieve consistent, incremental improvement while working toward their larger goal.

"Getting to zero waste-to-landfill is a north star to shoot for, but we have to realize that it's a journey," Covanta's Mohammed said. "To be practical, these things are going to take decades to get to meaningful levels. Our customers want to get to those zero waste-to-landfill and median-avoidance goals, so they're looking to us to come up with a holistic solution."



Almost half, or 48%, of surveyed CEOs say increasing sustainability is a top priority — up 37% since 2021.

IBM Institute for Business

CAPITALISM VS. ALTRUISM

Though large businesses are widely embracing the "E" component of ESG, companies continue to evaluate their sustainability programs from a fiscal perspective.

In terms of cost vs. benefits, some waste providers say that price continues to rule the day, although sustainability is steadily gaining ground, with a small but growing number of Fortune 1,000 customers willing to pay a premium for a more sustainable option.

"Procurement folks are still very much cost driven, but what you can deliver in terms of sustainability impact for the customer is the next-most important thing," said Lux of Envita Solutions. "Organizations that are serious about achieving their sustainability goals understand the trade-offs, and they are willing to spend more when necessary to make the most sustainable choice."

Other providers say we've reached the tipping point, with a growing number of businesses willing to pay a premium for the more sustainable option, though a great deal of the decision-making is tied to locality. As customers in certain regions demand the more sustainable solution, businesses begin to follow their lead—and the scales start to quickly shift in favor of sustainability.

"Overall, we're seeing an elevated consciousness," commented Cordesman of VLS. "In regions of the country where you have low landfill costs, the willingness to pay for services is not as high, but at the same time, customers in those regions haven't fully evolved into that space yet. Necessity is the largest catalyst for innovation."

One reason certain companies are prioritizing sustainability is because they've made investments at the highest levels of their organizations, by bringing in sustainability leaders and giving them broad decision-making authority.

"When we start our discussions, we are speaking with facilities, procurement and sustainability," said Keter/Waste Harmonics' Hess. "We generally have those three groups in the room, and that is the right audience because there needs to be a balanced approach between what they can execute for the cost while still meeting the company's sustainability goals. Not only is the behavior changing, but who is in the room is changing."

> Altruism has been infused into capitalism. It becomes part of the product that they sell.
>
> — Bob Cappadona, **CEO, Environmental Solutions & Services, Veolia North America**

Though corporate America is quick to tout its commitment to sustainable practices, some providers say there is a disconnect between senior management and the facilities and procurement departments, the latter of which must wrestle more directly with budgetary constraints.

"At the corporate level, they are still very interested in solving the problem because the direction we want to go in requires significant shifts," said Covanta's Mohammed. "But in the same companies, when you go down to the facility levels, they are bound by short-term KPIs and objectives, which may not allow them to invest in the premium. Mature companies are mandating this at the corporate level, but they're also putting boots on the ground to help those facilities get it through a carrot-and-a-stick approach."

In time, all businesses must evaluate not only the cost of investing in more sustainable practices, but also the price of inaction, as customers are increasingly prioritizing environmental factors as part of their purchasing decisions.

"Altruism has been infused into capitalism," Veolia North America's Cappadona commented. "It becomes part of the product that they sell. Price does matter, but the difference now is that companies are asking: What is the negative impact of not achieving environmental performance in terms of the ability to sell my product and the market perception of my product?"

DATA, DATA, AND MORE DATA

Companies initiate sustainability programs for many reasons—to reduce costs, as a business/economic incentive, and to show customers and investors that they're doing right by the environment. Regardless of their motivations, it becomes impossible for businesses to properly assess their existing ecological footprint and reach their sustainability goals if they can't establish a baseline and track progress.

"We have 20 years of confidential granular data on all our customers' byproducts," said Lux of Envita Solutions. "It's a treasure trove that provides insights into the components of those streams, the cost of their treatment methodologies, as well as the carbon impact. As the market evolves, we can identify new and better opportunities for treatment to benefit our customers, from both a sustainability and cost mindset."

While comprehensive reporting is still at a nascent stage, waste service providers are leading the charge, bringing disparate data points into one place and using that information to create programs to measure both cost and effectiveness.

"We understand how important the data is for our customers," said Goodman of Northstar. "Our ability to get the data centralized, aggregated and accurate in a very timely way is hard to do, and it's critical that a company like ours can track progress. Big manufacturers can't do it on their own."

Instead of relying on lagging data, innovative waste providers are incorporating technology and sensors into bins and other equipment to provide real-time information.

"We use monitors and sensors to get real-time data on the program's performance," said Hess of Keter/Waste Harmonics. "We can see fill, diversion and recycling rates. And with our proprietary software, we have access to firsthand data, which we use to generate enterprise-wide sustainability reporting for each customer. Additionally, we have a field team stationed across the U.S., which puts a dedicated resource within a three-hour drive of each of our customer locations. This team works on-site to create and execute waste and recycling improvement programs because this is not our customers' core competency; they have other things they want to focus on."

When customers have easily digestible, reliable data, they can better set and meet targets.

"All our field teams operate with a laptop computer that provides access to the company's chemical database, as well as the customer's chemical database, so they have all the information when they're face-to-face with the customer," Cappadona of Veolia North America said. "We will spend $10 million-plus in the coming year, with continuous upgrades. It's quite the investment in our front-end IT systems, but it's a critical part of what we do, and it enables us to operate with a level of speed that I think is unique to the market."

EMERGING TRENDS & TECHNOLOGIES

With the emergence of many innovative technologies and processes, the sustainable waste sector is growing exponentially. The next decade will be transformative as businesses scale up to meet stringent goals.

"In a five- to 10-year horizon, it will be night-and-day different from what it is now," commented Covanta's Mohammed. "For 25 years, I used to be on the other side, and we had stated objectives, but to be honest, they were revised every year to make them more manageable. And people were OK with that. Now, there's no tolerance. The objectives are getting more reasonable because people are being held accountable. You can no longer punt it."

> Sometimes sending waste to a nearby landfill with methane gas capture versus waste-to-energy or some other solution several miles away is the more environmentally sustainable decision.
>
> — Peter Lux, **President, Envita Solutions**

Twenty years ago, the EV revolution promised to significantly reduce greenhouse gases. But the rise of modern battery-powered vehicles has placed urgent emphasis on developing an effective process for battery recycling. When perfected, the technology will not only reduce the amount of material waste; it will also cut down on pollutants associated with mining for lithium needed for batteries.

“As we transition to more dependence on batteries, the energy sector is going to feel very different 10 years from now,” Lux of Envita Solutions said. “We’ve watched battery technology and the battery supply chain evolve rapidly. It’s important that America takes a leading role in this sector, which is why The Heritage Group, Envita Solutions’ parent company, invested deeply in the space with the creation of Cirba Solutions, a leader in EV battery recycling.”

From battery circularity to windmill blade recycling and modular facilities, waste providers are investing in technologies to improve existing methods and tackle new and increasingly challenging waste streams.

“I’m excited about some of the new technologies, particularly how they relate to the last piece, the landfill,” Northstar’s Goodman said. “As an example, we’re working with a startup that’s developing a modular waste-to-energy unit that goes at a site’s facility as an alternative to hauling end-of-life waste to an off-site location.”

Beyond recycling and disposing of waste, providers are also developing processes for handling hazardous materials such as PFAs, also known as “forever chemicals,” which are everywhere and pose serious risks to humans and animals.

“What will be different than in the last 10 years is the impact of emerging pollutants—things like PFAs,” said Veolia North America’s Cappadona. “We have plenty of discussion about PFAs and their potential impact on the environment and on humans. And at what level do you regulate it, given that it is everywhere, in every part of life? How do we regulate that? Right now, it’s a question with no answer, but I think there will be an answer soon.”

NOTABLE PRIVATE EQUITY TRANSACTIONS

Increasing demand for sustainable solutions has made the waste sector one of the most attractive for private equity investment. In 2022, the waste sector was one of the rare industries to experience M&A growth, with activity among public strategics up over 34%, compared to 2021 . For private equity investors, interest in this category first took hold during COVID-19, which underscored the importance of non-discretionary services such as waste disposal.

“During COVID, we didn’t miss a beat,” said Mohammed of Covanta. “We didn’t take significant pricing actions either because we didn’t want

	TARGET	BUYER
Aug ‘23	Compost 360	The Sterling Group
Jun ‘23[1]	WasteHarmonics	Keter
Apr ‘23	Circon Environmental	Covanta
Jan ‘23	Texas Molecular	VLS Environmental Solutions
Dec ‘22	DTG Recycle	Macquarie
Nov ‘22	checksammy	ZIP
Oct ‘22	NaturalUpcycling	TrailCreek / Plexus Capital
Sept ‘22	101	Altamont Capital Partners
Aug ‘22	VLS Environmental Solutions	I Squared Capital
Jul ‘22	The Amlon Group	Heartwood Partners

	TARGET	BUYER
Jul ‘22	rts	citi
Dec ‘21	Roadrunner	General Atlantic
Dec ‘21	Covanta	EQT
Nov ‘21	Keter	TPG
Oct ‘21	Northstar Recycling	Ridgemont Equity Partners
Dec ‘20	Synagro	Goldman Sachs
Jan ‘20	Denali Water Solutions	TPG
Jul ‘19	Valicor Environmental Services	Pritzker Private Capital
Apr ‘19	Terra Nova	Calvert Street Capital Partners

1) Keter Environmental and Waster Harmonics agreed to a merger.

to take advantage of a humanitarian crisis. And with the sustainability objective, people are trying to enhance their processes, and that gives us a bit of pricing power. It's got the best of both worlds: a steady stream of stock, but it's also got the growth. That, to me, is unique."

Amid the past two years of high inflation, the waste industry has demonstrated both resiliency and strong pricing power. And PE firms have taken notice, drawn to a sector that provides a critical service at a relatively affordable price point.

"A well-run company provides great returns in the waste sector, be that industrial waste or solid waste," Cordesman of VLS said. "However, you also find a lot of companies where there is also alignment on sustainability within our infrastructure network."

With the definition of essential infrastructure changing to include energy transition and other climate-related services, the waste sector is further generating interest and investment from various non-traditional sources.

"What's interesting is that a lot of areas involving energy transition and climate change—those are getting characterized as infrastructure opportunities," said Peter Lux, President of Envita Solutions. "And because of that, it's attracting new types of capital outside of traditional LBO and private equity capital. I think new forms of institutional capital coming in will drive more innovation and growth opportunities."

As we look to 2024 and beyond, the sustainable waste sector remains highly attractive to both existing companies looking to build their share of wallet, along with new investors and entrants into the space.

"The white space out there is still extremely attractive," said Michael Hess. "If you look at the number of hospitals, convenience stores, manufacturing, logistics and distribution companies that still manage their own waste—it's amazing. Even within our own customer base, there's a large share of wallet still available. On the M&A side, you have regional players who would like to service a national account, but they don't have the reach. We're starting to bump into that national vs. regional dynamic. Especially now, with the combination of Keter and Waste Harmonics, we see the opportunity across the whole industry as being incredibly strong."

CONCLUSION

Looking to the next 10 years and beyond, Solomon Partners expects to see further evolution across the sustainable waste sector as changes in society are always reflected in our waste. Meanwhile, waste and environmental service providers will remain on the front lines, helping to create solutions for complicated and challenging waste streams while finding ways to help customers measure and demonstrate progress towards defined waste-related sustainability goals.

For these reasons, we continue to see a great deal of opportunity in the sector. The advent of sustainability and the drive towards enhanced transparency around waste program activity are creating pockets of opportunity for out-sized growth. Further, we believe that we are only in the early innings of large waste generators enhancing their overall waste programs through the lens of sustainability, and over time will be increasingly willing to pay a premium for incremental progress towards defined sustainability goals.

Companies that approach these enormous challenges with an eye toward creativity and innovation will be well-positioned to capitalize on these growing market opportunities. Economically competitive solutions that meet customers' sustainability objectives will help waste and environmental service providers be in an advantaged position to gain share for the foreseeable future.

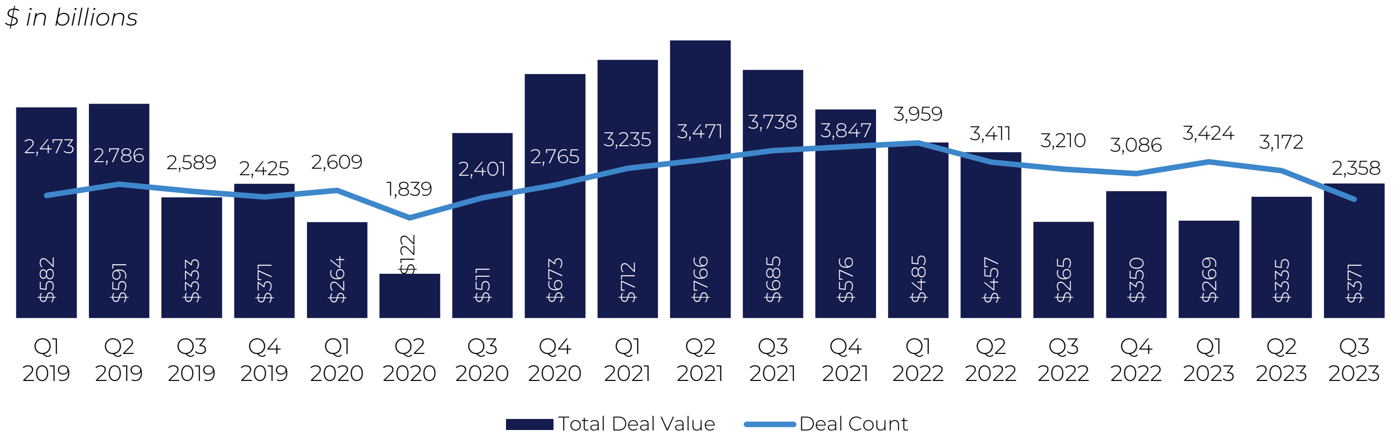
> "The white space out there is still extremely attractive.... if you look at the number of hospitals, convenience stores, manufacturing, logistics and distribution companies that still manage their own waste—it's amazing."
>
> — Michael Hess, **Executive Chairman, Keter/Waste Harmonics**

MARKET UPDATE

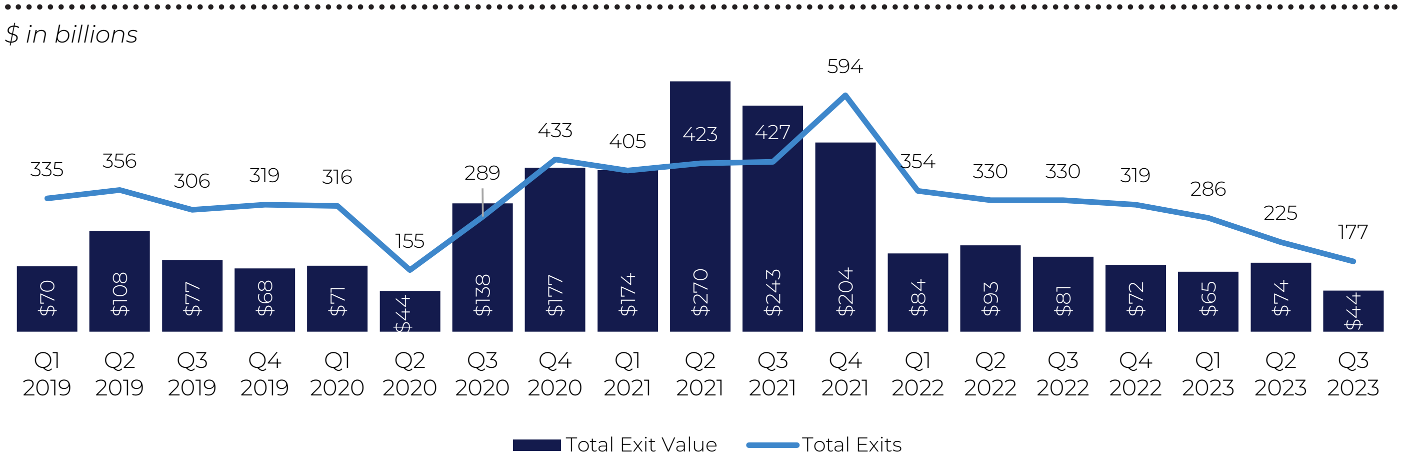
CURRENT STATE OF THE MARKET

- U.S. M&A deal volume continued to be slower than the prior two years - YTD deal volume was down 19.2% vs the same period in 2022(1)
- When compared to pre-pandemic levels and excluding the heightened level of M&A in 2021 and H1 2022, average quarterly US M&A deal volume was down only 7.6% compared to 2019(1)
- Moderating core inflation readings suggest an easing in upward consumer price pressure leading to the Fed's pause in rapid-fire rate hikes (fed funds rate at 5.25% today, highest in 22 years), which is creating a more certain economic and funding environment and as a result, CEOs and Boards are starting to see a "light at the end of the tunnel"
- Probability of recession continues to be reduced with latest estimated probability of a U.S. recession starting within the next 12 months being reduced from 20% to 15%(2)
- While the traditional syndicated leverage market has been fairly muted, private lending has filled the void to help buyers successfully complete transactions
- Private equity firms still have a healthy backlog of assets to exit (and ample dry powder to deploy) which may create pressure to transact and result in higher levels of deal volume over the next 12-18 months

U.S. M&A TRANSACTION VOLUME (1)



PRIVATE EQUITY PLATFORM EXITS (3)

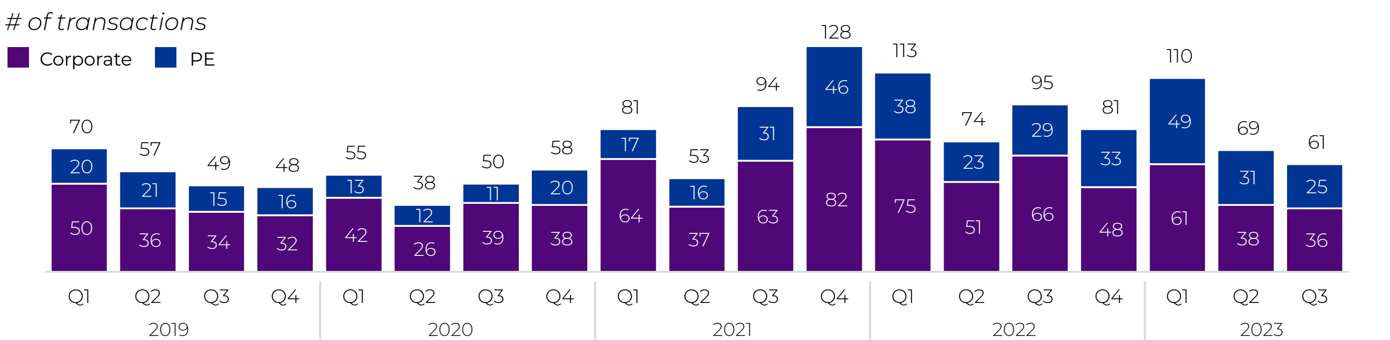


1) Dealogic; 2) Reuters; 3) Pitchbook.

M&A ACTIVITY WITHIN ENVIRONMENTAL & INDUSTRIAL SERVICES

- M&A volume within the environmental and industrial services sector has been a pocket of healthy activity in 2023 relative to the broader market despite volumes being slower than prior years
- We saw significant pre-marketing of transactions throughout the year as a way to test the market and gauge receptivity while also providing logical buyers additional time to clear increasingly high diligence hurdles
- Strategics, particularly within the waste sector, remained active on the M&A front although sizable deals have been limited given the difficulty in obtaining anti-trust clearance
- Leverage levels and increasing interest rates have forced certain strategics to slow down M&A and focus more on deleveraging, creating opportunity for the infrastructure fund and private equity community to be more competitive in processes
- Infrastructure funds have continued to make a big push into the sector with several completed platform transactions year to date and additional platforms under letter or near closing
- Given slower activity, high quality assets that hit market received outsized level of attention among investors. In particular, the increased competition helped several service businesses tied to durable end markets and with strong growth and margin profiles close little to no value degradation from the higher interest rate / lower leverage environment
- We expect the recently completed deals at premium valuations to provide confidence for sponsors on the sidelines and, as a result, an increase in PE exits in the sector in 2024

ENVIRONMENTAL & INDUSTRIAL SERVICES TRANSACTION VOLUME[5]



PUBLIC COMPANY TRANSACTIONS[2]

PUBLIC COMPANY	SECTOR	'21	'22	YTD '23
GFL	Solid Waste	11	16	27
Republic Services	Solid Waste	9	14	3
Casella	Solid Waste	7	4	12
WM	Solid Waste	2	5	3
Quanta	Infra Support	2	2	4
Waste Connections, Inc.	Solid Waste	9	15	15
Veolia	Special Waste	3	1	1
EMCOR	Plant Maintenance	2	1	7
Clean Harbors	Plant Maintenance	1	0	1
MasTec	Infra Support	5	2	1

PRIVATE EQUITY TRANSACTIONS[2]

PUBLIC COMPANY	SPONSOR	SECTOR	'21	'22	YTD '23
LRS	Macquarie	Solid Waste	6	12	4
DTG Recycle	Macquarie	Solid Waste	4	7	3
Covanta	EQT	Solid Waste	0	6	3
Meridian Waste	Warren Equity Partners	Solid Waste	7	4	2
CWS Capital Waste Services	Kinderhook Industries	Solid Waste	1	3	2
Sparus	Ridgemont Equity Partners	Infra Support	1	1	2
VLS Environmental Solutions	I Squared	Special Waste	3	3	1
United Fueling Solutions	KLH Capital	Infra Support	2	4	1
Keter	TPG	Solid Waste	1	1	1
WIN Waste Innovations	Macquarie	Solid Waste	3	6	0
OWL	Trive Capital	Infra Support	3	4	0
Denali Water Solutions	TPG	Organic Waste	4	2	0

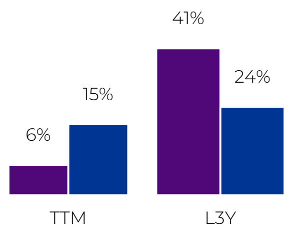
1) Transaction volume is reflective of U.S. and Canadian transactions in the sector; 2) Transactions announced in trade magazines, Capital IQ, Mergermarket, and Pitchbook.

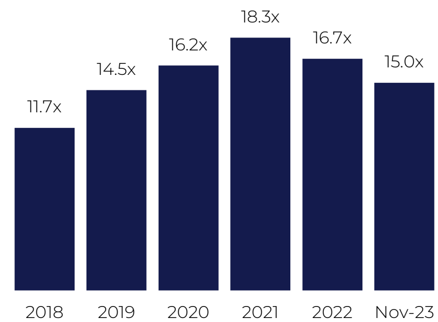
PUBLIC COMPANY PERFORMANCE BY SECTOR

SECTOR | COMPANIES | STOCK PERFORMANCE | EV/EBITDA

SOLID WASTE

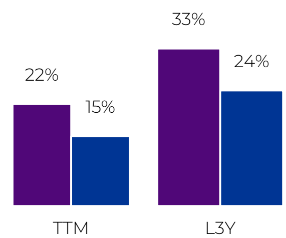
Casella
GFL
REPUBLIC SERVICES
WM

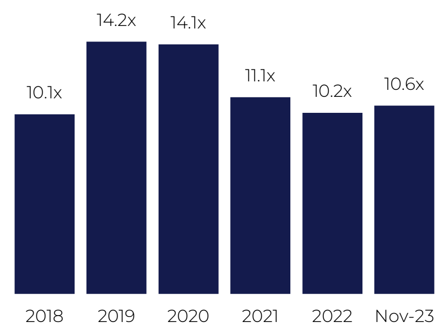




SPECIAL WASTE & FIELD SERVICES

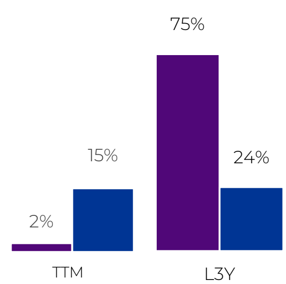
CleanHarbors
enviri
Stericycle
VEOLIA

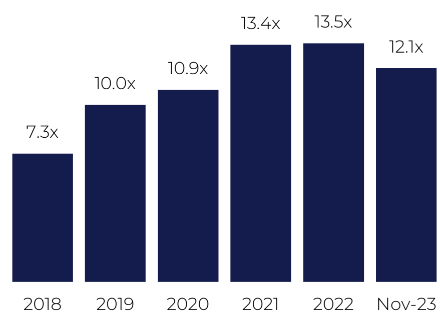




INFRASTRUCTURE SUPPORT

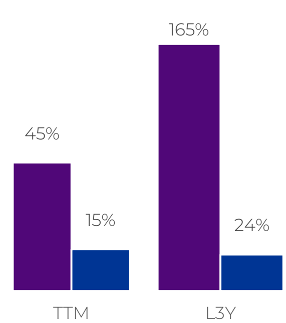
BADGER
CPI CONSTRUCTION PARTNERS INC.
DYCOM
GRANITE
MasTec
MYR GROUP
Primoris
QUANTA

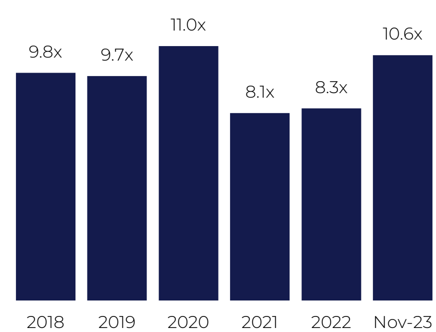




PLANT MAINTENANCE

APi GROUP
EMCOR
MISTRAS A World of NDT Solutions





Industry Avg. | S&P 500

Source: Capital IQ as of November 6, 2023.

PUBLIC COMPANY PERFORMANCE BY SECTOR

Sector	Company	EV/EBITDA	REVENUE GROWTH[(1)]	EBITDA MARGIN	ROIC
SOLID WASTE	casella	21.8x	11.6%	21%	4%
SOLID WASTE	GFL	13.4x	18.6%	24%	1%
SOLID WASTE	REPUBLIC SERVICES	14.3x	13.4%	29%	8%
SOLID WASTE		17.1x	12.8%	31%	6%
SOLID WASTE	WM	14.6x	3.6%	28%	10%
SPECIAL WASTE	CleanHarbors	11.1x	6.8%	18%	8%
SPECIAL WASTE	enviri	7.7x	6.7%	13%	3%
SPECIAL WASTE	Stericycle	13.3x	NMF	16%	3%
SPECIAL WASTE	VEOLIA[(2)]	8.3x	27.5%	11%	4%
TECH-ENABLED	Quest	11.7x	NMF	18%	7%

Sources: Capital IQ, Pitchbook for most recently reported TTM period.
1) Year-over-year TTM pro forma financials; 2) Latest reported period represents TTM Nov-23 performance;

PUBLIC COMPANY PERFORMANCE BY SECTOR

Sector	Company	EV/EBITDA	REVENUE GROWTH(1)	EBITDA MARGIN	ROIC
INFRASTRUCTURE	BADGER	11.0x	21.4%	16.3%	9.2%
INFRASTRUCTURE	CPI CONSTRUCTION PARTNERS INC.	20.3x	13.8%	8.3%	3.6%
INFRASTRUCTURE	DYCOM	7.6x	10.8%	10.6%	9.9%
INFRASTRUCTURE	GRANITE	12.3x	1.4%	4.8%	3.4%
INFRASTRUCTURE	MasTec	8.8x	36.7%	6.9%	2.2%
INFRASTRUCTURE	MYR GROUP	11.0x	25.6%	5.2%	11.3%
INFRASTRUCTURE	QUANTA	17.5x	17.7%	8.3%	6.6%
INFRASTRUCTURE	P=C Primoris	8.3x	32.9%	6.6%	6.7%
PLANT MAINTENANCE	APi GROUP	13.1x	15.2%	10.7%	4.6%
PLANT MAINTENANCE	EMCOR	11.1x	12.3%	7.3%	18.2%
PLANT MAINTENANCE	MISTRAS	7.7x	0.2%	7.7%	3.2%

Sources: Capital IQ, Pitchbook for most recently reported TTM period.
1) Year-over-year TTM pro forma financials; 2) Latest reported period represents TTM Nov-23 performance; 3) Non-meaningful statistic removed as company reported negative EBITDA.

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SEPTEMBER 2023
Tech24
a portfolio company of
HCI Equity Partners
received a growth investment from
Vestar
Served as financial advisor to Tech24 and HCI Equity Partners

FEBRUARY 2023
Pavement Partners
A portfolio company of
Shoreline Equity Partners
Has merged with
Brothers National
Served as financial advisor to Pavement Partners

JANUARY 2023
Legacy Service Partners
Received a growth investment from
Gridiron Capital
Served as financial advisor to Legacy Service Partners LLC

DECEMBER 2022
GTCR
Has made a strategic investment in
Sensible Services
Served as financial advisor to GTCR

DECEMBER 2022
Knox Lane
Has acquired
Ruppert Landscape
Served as financial advisor to Knox Lane LP

NOVEMBER 2022
A portfolio company of
AVALT
Has been acquired by
COBEPA
Served as financial advisor to Ned Stevens

AUGUST 2022
OMERS Private Equity
Has acquired
Pueblo
A portfolio company of
Huron Capital
Served as financial advisor to OMERS Private Equity

AUGUST 2022
Freeman Spogli & Co.
Has partnered with
NearU
Served as financial advisor to Freeman Spogli & Co.

JULY 2022
eden
Has sold
Alder
to
Orion
Served as exclusive financial advisor to Eden Technologies

JULY 2022
An affiliate of
Sun Capital Partners, Inc.
Has acquired
ACP Andersen Commercial Plumbing
Served as financial advisor to Sun Capital

JUNE 2022
Ridgemont Equity Partners
Has acquired
Crete Mechanical Group
Served as financial advisor to Ridgemont Equity Partners

JUNE 2022
Audax Private Equity
Has acquired
Thermogenics Intelligent Steam
Served as financial advisor to Audax Private Equity

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