CLAIRVEST COMPLETES SIXTH INVESTMENT IN SOLID WASTE & RECYCLING; LOOKS TO REMEDIATION AND C&E NEXT

Interview with Michael Castellarin, Managing Director at ***Clarivest Group Inc.*** *(Toronto) and Dan Spiers, of* ***2020 Environmental Group*** *(San Francisco & Seattle) in April 2020.*

2020: Please give us a quick background on yourself and Clairvest?

MC: Founded in 1987, Clairvest is a private equity investment firm and we are currently investing from our sixth fund, launched this year, which is capitalized at $850 million. Clairvest has been investing in the waste management and environmental services industry for the past 15 years, and we have recently completed our sixth platform investment in the sector. We have not made an investment yet but have been diligently studying the environmental consulting, engineering and remediation sectors and looking to find a terrific company and management team with which to partner. In terms of size, we tend to focus on companies generating $5-$25 million of pre-tax earnings and we are targeting to invest at least $25 million per transaction.

In terms of my background, I am Managing Director and I have been with Clairvest since 2002. I oversee industry research, investment origination, and transaction execution with a focus on environmental services sector. I am currently a Board member for our two investments in the solid waste management sector. I earned my M.B.A. from Northwestern University's Kellogg School of Management and a Bachelor of Commerce with honors from Queen's University at Kingston.

2020: A pressing question on everyone's mind is how the COVID-19 pandemic has impacted M&A activity, particularly for private equity (PE) investors?

MC: As a healthcare crisis, Covid-19 is unprecedented in our lifetime in its global impact. As an economic event, it raises many unknowns about how the sudden demand shock will affect business activity and consumer behavior—especially if the lockdown persists for an extended time. Therefore, due to significant uncertainty, the short-term impact has been to materially slow M&A activity for the next 30 days except for deals which were very far along in the process. While I am not an epidemiologist or macro investor, I have read some of the writings of Tomas Pueyo who provides a framework on how the next eighteen months may look. Right now, we're in the hammer phase where we're dealing with the rapid and dramatic shutdown of our economy and the uncertainty that it is causing. The good news is that this phase is temporary - once the curve in one's region begins to flatten or the pace of the virus' growth slows, governments will start to gradually open up the economy. Such gradual re-opening will kick-start the dance phase.

2020: What do you see as being the longer term implications of COVID-19 on M&A activity?

MC: for private equity firms, they will be motivated to make investments in, or acquire, strong companies that are positioned well to come out of the crisis and gain market share.

History has shown private equity managers that transactions completed in an economic downturn or shortly afterward, tend to perform very well. It is important to note that the private equity industry has significant capital to invest and when thinking over the mid to longer term, that should help M&A activity to return.

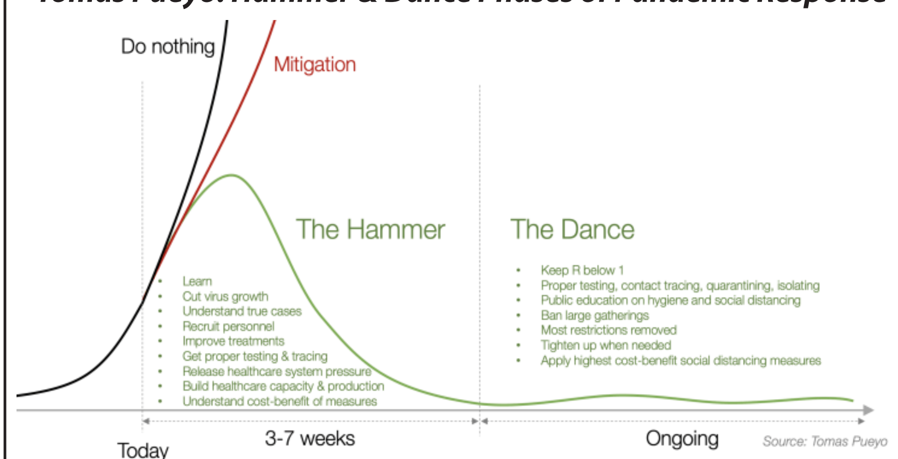
Further, there remains a significant amount of debt capital from private lenders that will be available to fill the gap left by regulated banks if they back away from financing M&A over the medium term.

2020: We know that you have been investing a lot of time tracking the various environmental markets. Are there any particular services or markets in the environmental space that are of high interest to Clairvest? And that you think are going to be the more attractive services in the wake of COVID-19?

MC: Clairvest is open for business and we remain keen on several sectors within the overall environmental industry. Speaking specifically about environmental consulting, we think that there may be several trends – some which may now accelerate due to Covid-19 - that are positive for well positioned companies.

As part of heightened risk management, for example, the demand for indoor air testing and industrial hygiene services should increase. Also, as we move past the lockdown and into more of a recovery, we anticipate companies will accelerate efforts to nearshore supply chains. This should

Tomas Pueyo: Hammer & Dance Phases of Pandemic Response



lead to growth opportunities for environmental consulting companies with a presence in production and manufacturing.

It is also possible that as part of a longer term economic stimulus plan post Covid-19, there is the passing of an infrastructure bill spurring significant investment spanning many years. This of course would benefit many consulting and remediation firms with expertise across numerous verticals and geographies.

But stepping back from Covid-19, we are enthusiastic in terms of the long term prospects for well positioned environmental consulting firms. There are key signs in society of continued tailwinds behind environmental trends. In the past year, we have seen oil companies commit to new environmental targets and technologies from clean power to hydrogen fuel, banks withdraw from coal financing and automakers releasing a swathe of new electric cars onto the market, while renewable energy – particularly solar energy - and storage continue to become increasingly competitive with fossil fuels.

2020: Considering that Clarivest is experienced with minority positions with its investments, does COVID-19 change that strategy, or reinforce your approach to investing in companies?

MC: Winston Churchill is credited with saying, "Never let a good crisis go to waste", but he may not have been the first. As investors, we certainly want our portfolio companies to approach the current situation with this frame of mind and for new investments, we seek to find business owners and management teams who believe that coming out of this crisis, great opportunities will present themselves to improve the competitive position and growth prospects of their business. So, a time like this reinforces our approach to investing alongside heavily invested management teams who want to aggressively expand.

Across many industries and sectors the past few years, we have met with owners and management teams who have expressed a desire to execute acquisitions but haven't closed deals because either their valuation expectations were too high and/or they didn't have the financial horsepower to support continued growth. It is possible that this health crisis and resultant economic recession is the straw that breaks the camel's back for some business owners, and hence causes some, who've been delaying the decision, to pull the trigger and sell. At a time like this, interested buyers should have well financed balance sheets prepared to fund deals.

At Clairvest, we're at the beginning of our sixth fund, which is a 12 year fund; so for us, an economic recession may present a very good time to try and partner with a best in class environmental consulting/remediation firm interested in deepening its competitive advantages and growing.

2020: Many of prospective sellers are assessing their options and wondering if this is the right time to go out to market. What advice would you give them in terms of what a prospective PE buyer is going to look for, and how to approach the market?

MC: As we enter the dance phase and economic activity picks up, then I imagine sellers are going to take a more nuanced position in how they present their company. For instance, how well positioned are they to add talent and grow? For some, this is an opportunity to show where the positives might be. For example, did the COVID-19 crisis create new revenue streams or win you new clients? Do you have an exciting acquisition opportunity?

As a long term investor, we're more focused on the characteristics of the markets being served by a prospect company, the competitive positioning of the company, the strengths, weaknesses and depth of our prospective management partners, and lastly, what the 5+ year growth and strategic outlook is, rather than focusing on the short term. ☐

Clarivest Current Portfolio Companies in Solid Waste

DTG Recycling Group (DTG) is the leading construction and demolition (C&D) debris recycler in the Seattle/Tacoma region. DTG owns and operates eight transfer and recycling facilities plus a landfill - hard to replicate assets which serve the densely populated, strongly growing and sustainability-focused greater Seattle region. Over the past few years, DTG has leveraged its unique assets to forward integrate and grow its collection operations and further develop end markets for the profitable diversion of recyclable commodities. Since 2017, the Company has grown its revenue over 4x. DTG has a proven track record of developing new markets for recycled products and implementing innovative sorting techniques to deliver sustainable waste solutions to its customers and to municipalities. In January 2020, Clairvest made a $29 million equity investment for a minority ownership position to back the principal owner, Dan Guimont, and his experienced management team in their aggressive growth strategy.

Winters Bros. Waste Systems of Long Island (WBLI) is the leading non-hazardous solid waste collection and disposal company based in Long Island, New York. WBLI's operations include a diverse set of collection services, eight MSW and C&D transfer stations and a dual stream recycling facility - all serving the densely populated Long Island market. WBLI's collection operation serves approximately 15,000 commercial and 9,000 residential customers in Nassau and Suffolk Counties. Since acquiring the assets from Progressive Waste in 2015, WBLI has made three tuck in acquisitions and doubled its earnings as part of a turnaround of the operations. In March 2015, Clairvest invested $28 million for a minority ownership position backing Joe and Sean Winters and their deep management team to execute the turnaround and regional consolidation.