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CLH - Clean Harbors Conference Call to Acquire Safety-Kleen, Inc.

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PRESENTATION

Operator

Greetings and welcome to the Clean Harbors analyst call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. (Operator Instructions). As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, David Musselman, General Counsel for Clean Harbors. Thank you, you may begin.

David Musselman - *Clean Harbors - General Counsel*

Thank you, Rob and good morning, everyone. Thank you for joining us this morning on such short notice. On the call with me are Chairman and Chief Executive Officer, Alan S. McKim; Vice Chairman and Chief Operating Officer, Jim Rutledge; and Chief Financial Officer, Robert Gagnon.

We have posted some slides today to Clean Harbors' website that we will be reviewing during today's call. These slides can be found on the Investor Relations section of our website. We invite you to take a moment to open the file and follow the presentation along with us.

Turning to slide 2, before we get started, I would like to remind everyone that matters we are discussing this morning and the information contained in the press release issued by the Company this morning announcing our acquisition of Safety-Kleen, Inc. that are not historical facts are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Participants are cautioned not to place undue reliance on these statements, which reflect management's opinions only as of this date, October 29, 2012.

Information on the potential factors and risks that could affect the Company's actual results of operations is included in our filings with the SEC. The Company undertakes no obligation to revise or publicly release the results of any revision to the forward-looking statements made in today's press release or this morning's call other than through SEC filings.

Before I turn the call over to Alan, I would like to point out to our participants that we will not be discussing Clean Harbors' third-quarter or year-to-date operating or financial results on the call this morning. As we announced last week, we will be holding a separate call to discuss our quarterly results on Wednesday, November 7. So with that, I would like to turn the call over to Alan for our discussion. Alan?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Okay, thanks, David and good morning, everyone. We are really excited to announce the signing of a definitive agreement to acquire Safety-Kleen. This $1.25 billion transaction is a landmark event for Clean Harbors. We believe this is a major win for our team and our shareholders as we combine with a peer company that we view as a true leader in environmental and recycling services.

Safety-Kleen is well-established with a corporate history that dates back 50 years centered around a strong service culture. We are very familiar with the Company. We have had a long and positive relationship with them that includes our acquisition of their Chemical Services Division back in 2002.

Their customer service approach, commitment to sustainability and business philosophy mirrors ours in many ways. Our two companies have both been pioneers of the industry. In a market where brand equity, safety record and reputation for quality are critical, Safety-Kleen is a highly respected name. In fact, we intend to maintain the Safety-Kleen brand going forward and operate its network of branch locations as a subsidiary.

We are confident that we are acquiring a first-class organization led by a strong management team consisting of industry veterans. From a service perspective, the addition of Safety-Kleen's re-refining and recycling capabilities with our current broad offerings will greatly enhance the options available to our existing customers and significantly expand the range of services we can offer customers in both companies.

Safety-Kleen customers will now have direct access to our industry-leading network of disposal facilities. This is a unique opportunity to acquire a high-quality company that will not only greatly enhance our long-term prospects, but further solidifies our well-established leadership position in the marketplace.

So let's move to slide number 3. Let me lay out the agenda for today's call. I will begin with a review of the series of slides that will provide you a better sense of Safety-Kleen's lines of business, as well as their overall value proposition. And I will discuss why we believe this is such a compelling acquisition for us, our shareholders and our employees. Rob will then briefly review the details of the transaction and after that, we will open up the call for Q&A.

So let's turn to slide 4 and begin. Here is a quick snapshot of Safety-Kleen. The Company provides a comprehensive range of environmental and recycling services to a variety of customers. These include customers in both the public and private sectors. Safety-Kleen maintains the number one position in three particular markets -- small quantity waste generators, parts cleaning and used oil collection and re-refining -- and has significant scale in each area.

Due to their focus on the small quantity generator, they service more than 200,000 customers. Within parts cleaning, they have a strong competitive advantage as the largest collector, recycler and servicer of parts cleaning equipment and used solvents in North America. They are North America's largest collector of used oil and they also have the largest re-refining capacity in the world and their collection network gives them a certainty of feedstock and output. They also provide a number of other environmental services, but it is these three lines of business that form the backbone of Safety-Kleen's success.

As you can see on slide 5, Safety-Kleen has an extensive infrastructure and comprehensive network of locations. They operate for more than 200 locations in their network that includes two re-refineries, one in the US and one in Canada. They have nine recycling centers, 19 oil collection processing terminals strategically located throughout the US. Their network has been built on a route-based customer service model, which they support with an extensive transportation fleet consisting of more than 2300 vehicles and over 1000 railcars. We are excited about the prospects of integrating these assets into our waste disposal network.

Moving to slide 6, Safety-Kleen brings to Clean Harbors a diverse customer base, many of whom have relationships extending back for decades. Whether it is a small quantity generator or a large corporation, Safety-Kleen is a trusted advisor to a variety of companies. They serve more than 80% of the Fortune 500 and work with a broad range of industries. Their lack of customer concentration is another positive with their top customers representing only 8% of their 2011 revenue and their top 10 representing only 25%. The Company has a long history of regulatory compliance and adherence to the strictest industry standards.

Turning to slide 7, I would like to spend the next series of slides discussing Safety-Kleen's two main businesses -- environmental services and oil re-refining. So let's begin with a snapshot of the environmental business. Environmental services is the larger of the two businesses for Safety-Kleen. It consists of more than 3300 employees. They handle over 2 million service calls a year and serve more than 20 end markets, including commercial, industrial and automotive. The business has demonstrated strong growth for the past several years, increasing more than $100 million from $667 million in 2010 to $716 million in 2011.

The environmental group consists of six primary lines of business with parts washing being the largest and I will talk about that more in a moment. Containerized waste is the second-largest and it is similar to the services we provide in that area. Safety-Kleen collects and transports containerized liquid and solid hazardous and industrial waste that are either recycled or disposed of. Safety-Kleen's focus has been on customers that are generating waste quantities of 20 drums or less. Clean Harbors' disposal facilities currently handles some of these waste streams, but we now will be able to drive more of these volumes into our existing network. Their vacuum services remove liquid and solid waste from oil water separators, trenchers and collection tanks. These waste volumes will be another area for Clean Harbors to leverage its disposal network.

Total project management is Safety-Kleen's equivalent to our Field Services segment. It encompasses a wide range of on-site environmental project management activities. They handle emergency response, spill containment cleanups and remediation. The Company's Allied Products business consists of the sale of complementary products to the company's customers. These products, which carry the Safety-Kleen brand, include a variety of items ranging from degreasers, cleaners, hand cleaners and absorbents and spill kits. They also sell windshield washer fluid and recycled antifreeze. And within their recycled fuel oil business, Safety-Kleen has established a channel to profitably sell its used oil collected that are in excess of its re-refining capacity, which is approximately 20% of its used oil collection.

Turning to slide 8, as I mentioned, the company's primary line of business within environmental group is parts washing. This is a high-volume business with a reliable recurring revenue stream. The company services more than 200,000 parts cleaners on a routine basis and provides more than 1 million parts cleaning services annually to its 30 different models of washers.

Currently, Safety-Kleen is the largest collector and recycler of solvents in North America. They recycle used solvents and to clean new solvents through their closed loop system, which represents a lower cost environmental responsible solution.

Turning to slide 9, shows a snapshot of the oil re-refining business and as I mentioned, Safety-Kleen is the recognized leader in the collection and re-refining of used oil, which they convert into base and blended lube oils. Customers of this business include distributors, retailers, government agencies, fleets, railroads and industrials.

In terms of facilities, the Company has two re-refineries and a number of blending locations. In terms of volume, this business handles 160 million gallons of used oil a year [from that produces] 120 million gallons of base and blended lubricating oil. The business grew significantly from 2011 -- excuse me -- from 2010 to 2011, increasing by 40% to $568 million.

Turning to slide 10, you can see here Safety-Kleen's two re-refining locations. Its facility in East Chicago, Indiana with its annual throughput of 120 million gallons of used oil is the largest re-refinery in the world. It has on-site blending capabilities and has been successfully operating for more than 20 years. Its Breslau, Ontario re-refinery is the largest of its kind in Canada. It currently has an annual throughput of 40 million gallons of used oil, but there are expansion plans underway to add another 10 million gallons of throughput in Q4. This location has been in operation since 1983.

Moving to slide 11, slide 11 provides a thorough overview of how Safety-Kleen recycles used oil. They collect the used oil from customers, job sites and other inputs. The used oil then goes through a blending and re-refining process to generate finished product, which are then sold to customers. Across the bottom portion of the slide, you can see more detail on that process, as well as the overall market opportunity.

The US currently generates 1.4 billion gallons of used oil each year and of that total, approximately 1 billion gallons of oil of that is recovered. Safety-Kleen then captures about 20% of that total, or 200 million gallons, which are fed into its network. Those 200 million gallons are then divided into two components. 160 million gallons are directed into its two re-refineries for processing and from that 160 million, 20 million gallons consisting of water and other contaminants are removed. The remaining 140 million gallons of base oil, blended lubes and byproducts are what is then sold.

The second component of the original 200 million gallons is 40 million gallons that are processed for recycled fuel oil or RFO. RFO is used oil that has been dehydrated, chemically treated and filtered to remove contaminants. Customers in this business include asphalt plants, blenders, pulp and paper companies, and vacuum gas, oil and marine diesel providers.

So turning to slide 12, just to give you a sense of Safety-Kleen's financial performance, here is a look at their results for the past two years. They added more than $200 million in revenue from 2010 to 2011, reaching nearly $1.3 billion in sales in 2011. That is a growth rate of 20%.

Over that same time period, they grew their adjusted EBITDA at an even faster pace, increasing it by 45% to $161 million. And management of Safety-Kleen estimates EBITDA in 2012 of approximately $172 million. That gives you a sense of the leverage that exists in their business.

Similar to Clean Harbors, with its extensive network of locations and assets, Safety-Kleen has a highly leverageable business model. And I should point out that to get a full reconciliation of Safety-Kleen's adjusted EBITDA, which is a non-GAAP metric, please refer to the company's Form S-1 filing with the SEC.

Moving to slide 13, the acquisition of Safety-Kleen represents the largest acquisition in our history. We believe it has the potential to deliver the same high rates of return and build shareholder value the same way that our previous acquisitions have. It aligns perfectly with our acquisition strategy and there are many reasons why we are excited about this deal. And a number of them are listed on this slide.

First and foremost, as I mentioned, Safety-Kleen is the number one operator in the small quantity generator market. This represents a major source for growth for us both in terms of new customer exposure and additional waste volumes.

The acquisition broadens our waste treatment capabilities to include re-refining waste oil and expanded solvent recycling capabilities. Our strategy has always been to build a one-stop approach for customers and with this transaction, we have again broadened our portfolio.

Safety-Kleen handles a substantial amount of waste volumes that we will certainly be seeking to direct those into our existing waste disposal treatment network. There is a growing demand for recycled products, including re-refined oil and this deal enables us to capitalize on those trends in a meaningful way.

Sustainability has been a focus of Clean Harbors and the addition of Safety-Kleen with its closed loop recycling approach to many of its businesses greatly enhances our commitment in that area. We envision extensive cross-selling opportunities between our two organizations and we will leverage our combined salesforce to drive revenue.

This transaction clearly enables us to add an immediately accretive business to accelerate our growth. We have proven through acquisitions we have completed in recent years that we have an outstanding integration team here at Clean Harbors, which will help us to achieve operating efficiencies for the combined company. We have built a business model at Clean Harbors that generates strong cash flow that enables us to continuously reinvest and grow our business. We view Safety-Kleen as a company in much the same way and the merger of our two businesses should only enhance our cash flow generation going forward.

And even though it is not on the slide here, I would like to conclude by saying another reason why I am personally excited about this acquisition is the quality of the Safety-Kleen team and the strong cultural fit we see for our two companies. Having worked with Safety-Kleen for years, we are very familiar with many of their employees. Like our team here at Clean Harbors, their employees consist of a group of talented and extremely hard-working individuals who share many of our corporate values. We see this as an ideal fit for our two organizations and we are proud to welcome the Safety-Kleen employees to the Clean Harbors family.

We expect this deal to deepen our existing talent base as we gain skilled employees and management strength. All told, these factors provide the foundation for a very successful transaction. We look forward to completing the acquisition and moving ahead with the combined company. Our Chief Financial Officer, Rob Gagnon, is now going to spend just a few moments talking about some of the acquisition details. Rob?

Robert Gagnon - *Clean Harbors - CFO*

Thank you, Alan and good morning, everyone. Turning to slide 14, as you read in this morning's release, we intended to purchase Safety-Kleen in an all-cash transaction valued at $1.25 billion. We have already received a firm financing commitment from Goldman Sachs Bank USA, so we know we have the financial backing already in place to complete the deal.

With that said, we are currently considering a number of financing options for the transaction that may include a combination of existing cash, debt and equity. We ultimately will determine the best mix of financing for Clean Harbors based on market conditions and the capital needs of the business going forward.

The deal, which we expect to close by year-end, is subject to regulatory approvals both in the US and Canada, along with customary closing conditions. We expect this transaction to be immediately accretive once you exclude one-time fees and any acquisition-related expenses. At this time, we are not committing to any revenue or EBITDA guidance for the combined company or any specific level of cost synergies. That will come later when we have had more time to finalize our plans for the combined entity.

Before we take your questions, I would like to echo Alan's enthusiasm as we believe that this will prove to be a milestone acquisition for Clean Harbors and a win for our shareholders, customers and employees. So with that, let's open up the call for questions. As a reminder, please limit your question to those related to the Safety-Kleen acquisition. We will not be answering any questions regarding our Q3 financial performance, 2012 guidance or expected guidance of the combined company today. Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Matt Duncan, Stephens, Inc.

Matt Duncan - *Stephens Inc. - Analyst*

Congrats on consummating the transaction.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Thank you.

Matt Duncan - *Stephens Inc. - Analyst*

Alan, I heard you mention that their EBITDA this year is tracking around $172 million. How is their business doing on the top line this year?

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

This is Jim. I think they are forecasting roughly in the $1.38 billion area for the full-year 2012.

Matt Duncan - *Stephens Inc. - Analyst*

Okay. And Jim, is the growth coming from both segments or is one outgrowing the other? Is the oil re-refining business still growing faster?

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

I believe it is coming from both, Matt.

Matt Duncan - *Stephens Inc. - Analyst*

Okay. And then last thing, and I will hop back in the queue, I can certainly appreciate that it is early, so it is hard to identify the exact amount of cost synergies, but clearly you are expecting some. I don't know if you're willing to kind of give us a ballpark big range where it may come in, and then also if you could talk a bit about sort of, Alan, maybe what you see the revenue cross-selling opportunities being here.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Rob?

Robert Gagnon - *Clean Harbors - CFO*

Yes, so it's Rob here, Matt. Just in terms of cost synergies, we are basically modeling in the near term a fairly -- what we think is a fairly conservative number of about $20 million in cost synergies, but clearly we would look to far exceed that.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes, and I think in regard to the cross-selling opportunities, Matt, we really look at this as a platform for us to grow our business across their platform and vice versa. So whether it is expanding geographically some of our lines of business or adding new lines of business to their existing platform that we have been looking at expanding into, I think, over the next six months or so as we work together to integrate the businesses and work together with the two management teams, we see some real nice opportunities there. They have well over 500 sales professionals, everything from national account programs to service sales representatives in the field. So we see some real opportunity to leverage both salesforces.

Matt Duncan - *Stephens Inc. - Analyst*

Stay safe with the storm coming.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes.

Operator

David Manthey, Robert W. Baird.

David Manthey - *Robert W. Baird - Analyst*

Hi, good morning, guys. And yes, best of luck to you guys and everyone on the East Coast. First of all, the question in terms of revenue and EBITDA volatility here, could you talk about what the peak to trough organic revenues did into the great recession? And just maybe to put some of this in context, could you talk about what their organic revenue and EBITDA CAGRs have been over the past 10 years just to give us an idea of what the kind of longer-term secular growth is here?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes, I think, during the great recession, I mean clearly they had decreased profitability, but their EBITDA was in the high -- not quite $100 million. I think it was in the high $70 million to $80 million range roughly. There is an S-1 out there that they filed that shows the specifics where you can go right into the financials if you like there.

David Manthey - *Robert W. Baird - Analyst*

Okay. Second, I know you have taken a run at this company before and I am wondering if you could talk about valuation and how you thought about that this time around. And again, I want to touch on -- if you could talk about the key areas specifically of synergies and future value that may not be obvious in year one. You talked a little bit about the selling opportunities, but are there cost side things as well?

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

Yes, definitely, there is opportunities on the cost side. The synergies that Rob just talked about, the $20 million, clearly there are some nice synergies in there as far as internalizing waste streams as Alan talked about and certainly savings in our overall network and combining our forces there. But I think looking down the road, some of those synergies involving our systems and how we deploy systems working together, leveraging off each other's strengths and also in the procurement side in consolidating vendors and having key relationships with vendors and leveraging each other's relationships should be able to provide other cost savings going forward.

David Manthey - *Robert W. Baird - Analyst*

Great, thanks, Jim. And again, best of luck to you all.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Thank you.

Operator

Al Kaschalk, Wedbush Securities.

Al Kaschalk - *Wedbush Securities - Analyst*

Good morning, guys. Alan and the team, Rob, Jim, could you talk a little bit about maybe sort of the base or the growth of the business from the standpoint of sort of pre-cross-selling opportunities? In other words, is the collection business, the environmental service business, where do you see as some of the growth there?

And then secondly, if I am not mistaken, they are clearly not processing, RFOing as much as they are collecting and so there is some growth opportunities there that I think you can help accelerate. Maybe you could just touch a little bit on that opportunity.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

I think Safety-Kleen's management has been looking at adding additional re-refining capacity and I think there is also opportunity to add more processing capabilities on the back end so that they are manufacturing more base and re-refined lube products. So that certainly helps in taking out the volatility in the business.

I think, as you know, Al, we are also expanding quite a bit on our incineration capacity. So we look at both companies certainly in the growth mode where we can add more capacity, bring in more waste volumes into our network and we believe that Safety-Kleen with its collection network will allow us to get more volumes and gain more share to drive more volumes into our existing facilities.

They are still the market leader in parts washing and there is a movement to move and transition part of that service to Aqueous and Safety-Kleen has got the technology and the know-how to do that and so we will continue to be in that business and grow that business with them. But I think it's too soon really to kind of lay out the overall growth strategy without combining our two organizations together first and getting their buy-in and getting their input into this discussion.

We are just able to start meeting with them literally this week. The deal won't close until the end of the year. We together will lay out our 2013 plan and as you know, in the past, the Company has been growing north of 10% a year organically and we want to continue to do that as we have said on the calls in the past. So we are going to continue to grow the business. The Safety-Kleen business is going to continue to grow and to get to that $5 billion and beyond is certainly in our goals here.

Al Kaschalk - *Wedbush Securities - Analyst*

Certainly gets you a nice step along that path. On the end-market side in terms of selling the blended and base products, I believe it is a little bit more tied towards an oil index. Is there opportunities there to take the volatility out of that variable or are there things to think about from an investor's perspective about maybe a little bit more business tied to oil?

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

Al, I will start and then if certainly Rob or Alan want to add anything to that, but I think Safety-Kleen has done a great job in taking some of the volatility out already. Roughly half of their contracts are already indexed, which they have been working on and then what they do for the other half is basically use some hedging where they essentially have costless collars with a put and a call that they extend out to be able to give some insurance that if the -- if prices fall below a certain level on those contracts that they would be subsidized for that. So I think they have done a good job and the tentative plan right now is to kind of continue that and as Alan pointed out to work with them and see what makes the best sense going forward.

Al Kaschalk - *Wedbush Securities - Analyst*

And my final question, if I may, I realize you are not done with this transaction, but the financing component, would you need to use equities simply from a leverage calc perspective or why would you need to think about an equity component here, whether that is keeping management, incentivizing them or maybe just talk a little bit about the components of the financing?

Robert Gagnon - *Clean Harbors - CFO*

Yes, it's Rob. Let me talk about the financing for a moment, if I may. We currently, as of September 30, have about $530 million of cash on our balance sheet because of the financing that we went through over the summer. And we are looking to use probably about $400 million or leave roughly about $100 million of cash on the balance sheet.

And so in terms of how we think about debt to equity, when we did the Eveready transaction back in 2009, we had about 25% of the financing come in the form of equity and that is roughly I think how we are thinking about the Safety-Kleen transaction. And that would leave us with leverage of a little bit higher than 2 times, but less than 2.5, certainly closer to probably the 2 times in terms of leverage. And we think, as a business, we like to be around 2.5 times debt is sort of how we think about it, certainly not higher than through 3 times and we think that if we structure this transaction that way, that will position the Company nicely going forward to continue to execute on its acquisition strategy.

Al Kaschalk - *Wedbush Securities - Analyst*

Great, thanks for the time and thanks for having the call.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Okay, Al. Thank you.

Operator

Michael Hoffman, Wunderlich Securities.

Michael Hoffman - *Wunderlich Securities - Analyst*

Hey, good morning and congratulations. I am embarrassed to admit that I am old enough to have covered the old Safety-Kleen, so that is one of my first questions. Its parts washers business has been under a bit of a siege by another competitor and as such, the margins are down significantly from what they used to be. And how do you think about your ability to at least directionally move those margins? I am not sure they can go back to where they used to be, but what is the opportunity there to improve those margins?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

I think combining our two companies together and looking at the strong cash flow and working together with the management team at Safety-Kleen, Bob Craycraft and his team have done a great job over the last year and a half. And I think under a new combined management structure and new ownership structure, I think we will be able to unleash a lot of capabilities that the team has that they may have been constrained up to this point in executing.

And as you know, this business has weathered a lot of storms and has gone through a lot of challenges in its 50-year history and has come out here now in 2012 with a great year. It continues to have a real strong brand, has some long-term hard-working people that have been there that we know from years and years now, just like you as you talk about. So calling on this account or knowing this account for 25 years ago, Michael, we also too know a lot of the same players there. So we are really excited that unleashing the power of that brand and investing into the parts of that business will help them get back on a growth trajectory.

Michael Hoffman - *Wunderlich Securities - Analyst*

Okay. And then as you think about the HSR filing, how do you think about the complementary versus overlapping aspects of the companies, the two companies?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Our feeling is both in the US and Canada that there should not be an issue here, that we are very much complementary here.

Michael Hoffman - *Wunderlich Securities - Analyst*

Okay. And then used oil in that business, there has been three major oil company capacity additions offshore, one in Qatar, one in Bahrain, another in South Korea and it has put some pressure on the base oil pricing. From about a year ago, it was about $5.50 a gallon. Now we are down to around $4. So how do you think about that number in the context of their S-1 because they don't actually really talk about that in the S-1? What is the pressure that was on their business related to that pricing differential?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

I think Bob would probably be much more -- he is not on the call here, but he would be much more capable of handling the very detailed side of that. But we feel very confident that the team there is dealing with that spread business and with some of the hedging that they have put in place, coupled with the contracts that they have, I think -- and the fact that they have such a large collection network, that they really can control that volume. I feel very confident that we can deal with the market issues as they exist.

Michael Hoffman - *Wunderlich Securities - Analyst*

Okay. And then there is a pretty sizable NOL, it's about $175 million in the US, another $35 million in Canada. What is your thoughts about how much of that do you get to keep?

Robert Gagnon - *Clean Harbors - CFO*

Yes, so we, of course, have looked at the NOLs as part of the due diligence process and at this point, we think that the cash value of those NOLs to us would be approximately $30 million to $40 million, in that range, $30 million to $40 million range.

Michael Hoffman - *Wunderlich Securities - Analyst*

Okay. And that is going to be captured pretty much in year one then given your own profitability?

Robert Gagnon - *Clean Harbors - CFO*

Well, it is subject to some past limitations, so it would come in over a number of years. So it wouldn't be all upfront.

Michael Hoffman - *Wunderlich Securities - Analyst*

Okay. And then as you did your due diligence, can you give us a sense of what you think the cash from operations as a percent of the EBITDA should be of the new businesses just so we can get a feeling for what we think the cash flow is going to look like?

Robert Gagnon - *Clean Harbors - CFO*

If you just look at the history, which is in the S-1, they had very good cash flow. In 2011, they had $130 million roughly of cash flow from operations and I think in 2010, it was $60 million to $70 million and the same in 2009. But that is all listed there, Michael, if you want to take a look at that.

Michael Hoffman - *Wunderlich Securities - Analyst*

And so you think that that is -- well, that $130 million versus $160 million in adjusted EBITDA, that is a pretty good ratio. Do you think that is sustainable?

Robert Gagnon - *Clean Harbors - CFO*

There are some items in there and again, it is all spelled out in the S-1. But we really need to have more detailed meetings with management to go through the forward-looking nature of what you're asking about there, Michael. So we still need to do that.

Michael Hoffman - *Wunderlich Securities - Analyst*

Okay, well, congratulations. It is going to be kind of neat to see this old company put back together again.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Absolutely, yes. It's very exciting. Thank you.

Operator

Larry Solow, CJS Securities.

Larry Solow - *CJS Securities - Analyst*

Hi, good morning. Congratulations. Just a couple follow-ups. Jim, from your commentary, is it fair to say that basically half of the volatility in the pricing is sort of washed away with the hedging? And then just a follow-up to that, can you kind of give us what the gross just on a volume basis has been over like the past 10 years or so on the oil collection side, excluding price? A ballpark figure?

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

Yes, I don't have a figure that I could give you, but I did see that it certainly has been growing in terms of volume. They have been growing and adding to capacity and growing that business. As far as the hedging that you describe, that is half of it, but the other half is the contract indexing that the Company has been doing that both Alan and I mentioned before.

Larry Solow - *CJS Securities - Analyst*

Right, okay. And I clearly don't want -- you can't discuss specifics, but it seems to me that the motivation behind the acquisition -- obviously, there were some cost synergies, but it just seems like the revenue opportunities, cross-selling, getting into new markets over the next several years could dwarf the actual cost synergies. Is that fair to say?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes, absolutely, I would say.

Larry Solow - *CJS Securities - Analyst*

Lastly, not trying to get ahead of you guys. I realize this is a large acquisition, but you have been looking at a lot of stuff. With this big acquisition now, fair to say that this sort of quenches at least your immediate appetite for other stuff?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Go ahead, Jim.

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

Larry, I would just point out that clearly this is a big acquisition and we are certainly going to put a lot of effort into the integration and to really capitalize on the strategic strength of bringing these two companies together. So that is certainly a focus. But as Rob pointed out before, and the way we are contemplating financing this, we want to make sure that we exit this transaction with a nice strong balance sheet that if we did see something that is a good bolt-on acquisition or as we integrate this acquisition get into other potential opportunities that they are still there. So that is how I would summarize it. I don't know, Alan, if you wanted to add anything?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

No, that's perfect. Thank you.

Larry Solow - *CJS Securities - Analyst*

That makes sense. Great, thanks very much, guys.

Operator

Rich Wesolowski, Sidoti & Company.

Rich Wesolowski - *Sidoti & Company - Analyst*

Thank you, good morning. I am wondering if management will move ahead with Safety-Kleen's planned construction of a Gulf Coast re-refinery.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

We are certainly going to talk with them and get a better idea of what their plan is there, but probably too soon to tell one way or the other at this point.

Rich Wesolowski - *Sidoti & Company - Analyst*

Okay, maybe more broadly, on one hand, there has been a substantial expansion of the North American re-refining fleet during the last three or four years, as you know. But on the other, it is still dwarfed by the traditional refiners and supplying the base lube. Is there a limit to how large this industry can get in North America without ushering pricing pressure?

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

Well, I think when you look at the volume of oil and that will continue to grow, there is a real desire, I think, for green initiatives, sustainability initiatives. And I think Safety-Kleen has created a real differentiation in the market with the way that they are marketing and selling their recycled products. So I think that continues to have a lot of opportunity for growth and so I don't see anything right out in front of us here, Rich, that would prevent us from continuing to grow.

Rich Wesolowski - *Sidoti & Company - Analyst*

Great. And on the environmental side, I was wondering if you could bring the cross-selling discussion maybe to a more micro level. Safety-Kleen's customers are dominated by auto repair shops and quick lubes and what have you and maybe also what kind of services Clean Harbors could offer a single customer that they are not receiving from Safety-Kleen already.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Well, certainly their existing -- the 20 or so different industries that they serve, they serve very well with the lines of business they currently provide. Their vacuum services business, their Field Services business is something that we think we can continue to expand. That is certainly the business that Clean Harbors also does in that small area -- in a small way I should say.

But I think the real opportunity is taking that branch network and looking at expanding some of their capabilities with some of the Clean Harbors lines of business and it is early to talk about those things. We will wait until we combine our two companies, but I think you'll see this as a real nice platform for us. Our Technical Services offices around North America are predominately going after a different industry, handling large volumes of waste streams, but we do have over 60 hubs that manage waste and then transship those materials and internalize those wastes into our plants. That is where we see the real leverage first and foremost. But then leveraging that network they have with expanded lines of business that Clean Harbors currently offers, as well as new lines of business to our customers is something that we are really excited about. And we will be talking more about that as we close the deal.

Rich Wesolowski - *Sidoti & Company - Analyst*

Great. And then last one, would you discuss whether a potential energy entry into the medical waste field colored your drive in beefing up the container services?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

That is certainly one line of business that we are in today in a small way. We do have a lot of work or service work going on with hospitals and universities on the chemical side. It is certainly a demand that we have seen and certainly that will be something we will be looking at here.

Rich Wesolowski - *Sidoti & Company - Analyst*

Great, best of luck and best of luck with the storm as well.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes, thank you. You too.

Operator

Rodney Clayton, JPMorgan.

Rodney Clayton - *JPMorgan - Analyst*

Hi, good morning, gentlemen and congratulations on the transaction.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Thank you.

Rodney Clayton - *JPMorgan - Analyst*

So first, is there -- are there any seasonality aspects to the revenue stream here? I mean we have kind of gotten accustomed to your, I guess, current business with the environmental and the energy seasonality being a little bit different, kind of a natural hedge to one another. But how does this, if at all, how does this change the seasonality aspect?

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

Rodney, this is Jim. I would say that the seasonality is not as strong as it is say in our energy business here. But I would think -- I do believe it is patterned more against the environmental business where clearly the winter months, when you are moving waste streams, is just a little more difficult, but I don't think it is huge seasonality.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes, much more tailored. This is really an environmental deal. This will be in our environmental segment and you will -- I think you'll see it probably very similar to that.

Rodney Clayton - *JPMorgan - Analyst*

Okay, good. And I guess picking up on your comment to Al, are you going to create a new segment or is this going into Technical Services?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes, it is really in that environmental business that we have and whether we add another segment -- but today, we have, as you know, Tech Service and Field Service. There may be a need to add one more segment within that, but a lot of what Safety-Kleen does today fits nicely into those two segments already. But we will be looking at that and Jim and Rob will kind of be determining what is required for us from our reporting segment moving forward.

Rodney Clayton - *JPMorgan - Analyst*

Okay, got it. All right, secondly, could you talk a little bit more specifically about cross-selling? I know it has been somewhere where you thought you had a lot of opportunity really with the cross-selling and the Environmental Services to your energy industrial customers. And obviously with this transaction, it would seem that you have additional opportunities there. Are there any specific initiatives that you are thinking about in order to accelerate that process?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Well, certainly, on the Field Services side, there is a lot of opportunity here to cross-sell and to leverage the Safety-Kleen network. And Safety-Kleen began moving into that area several years ago and that project management side of the business has been growing. So we see some real nice opportunity there to continue cross-selling just in that area alone.

But they also have a large national account program. They service, as we've said, over 400 Fortune 500 companies, probably not the kinds of services that we are currently delivering. So those relationships that they have with those accounts would be looking at leveraging with some additional services that we are currently -- that maybe we could currently provide them out of the Clean Harbors network.

Rodney Clayton - *JPMorgan - Analyst*

Okay, all right. And then, finally, obviously, you're picking up a good SK network here and as I think about medical waste, obviously, a different group of customers for that business. But does this change your approach a little bit? Do you maybe go after more of an SQ component on your med waste side or does this not really affect that strategy at all?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

I certainly think that that is going to be part of our planning and integration work with the team, to work with the SK team, work with Bob and his organization as we look at combining the businesses and what are those opportunities and how do we roll out new programs and initiatives off that platform. So stay tuned on that for sure.

Rodney Clayton - *JPMorgan - Analyst*

Okay, got it. I appreciate it, gentlemen and stay safe in the storm.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Okay, you too.

Operator

Sean Hannan, Needham & Company.

Sean Hannan - *Needham & Company - Analyst*

Yes, good morning. Thanks for taking my question. So actually a few here and there are some aspects of some of the questions that I think in ways you have addressed this morning, but just trying to bring some of it up to either a 100-foot level or try and dive into it from different angles.

First, when you look at the Environmental Services side of the business, as well as then the oil business, the margins there, how similar are they performing at least at current time and then to what degree are you aware of any notable efforts underway in order to try and adjust those margins even ahead of where you are in terms of the transaction and bringing some of that up in synergies, etc.?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes, well, I guess, as you know, they are operating at a much lower EBITDA margin than our business and a lot of that has got to do with the nature of the businesses that we are both in certainly. But also when we start thinking about systems and processes and internalizing waste, there is a lot of opportunity and leverage that we see against our infrastructure, whether it is driving more waste volumes into our network of disposal facilities, which would maybe lower transportation costs and lower their shipments of waste to greater distances than they are currently doing for example.

We see some real opportunity to improve the margin of the business moving forward and again, I think because we haven't had the pleasure of really working with their team on laying out all of the ideas that both organizations have on improving margin, I think it would be premature to talk about that. But our goal has always been how do we get to that 20% EBITDA margin and we believe that this transaction is just another way for us to continue to grow our business, leverage our business model and continue to drive that margin improvement moving forward here.

Sean Hannan - *Needham & Company - Analyst*

Okay, Alan, just to clarify on that just thematically given the 20% focus that you have today, this transaction, there is no reason to think that this isn't, at least in the context in your mind, that perhaps the business can either get there or shouldn't ultimately distract from your larger corporate goals to those levels?

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

Yes, I would just add a point, if I could, to your question, Sean, this is Jim, that clearly I think it is going to take a number of years to get the Safety-Kleen or that segment that it will be to get it right up to the 20%.

Sean Hannan - *Needham & Company - Analyst*

Sure.

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

All of the synergies that Alan talked about are certainly the stepping stones to getting there. Some take longer than others. I mean there is some low-hanging fruit that we will be doing right away that is certainly going to improve the margins, but to work it in and of itself up to the 20% is going to take a number of years to do.

Sean Hannan - *Needham & Company - Analyst*

Fully understood. Okay. And then in terms of the waste streams, you have alluded to a number of times through the conversation today where are their waste streams handled today? Where do you and how quickly do you see the opportunity for legacy Clean Harbors to be more involved there? Just some more discussion around that would be helpful.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Sure. I mean we continue to be a major supplier, one of their top suppliers for them, but we are not certainly getting all of their materials. We also have a number of overlapping treatment facilities out there. So we can definitely see some cost savings in that area in the mid to longer term.

I think it goes without saying that we have got several competitors on the incineration front, on the fuels blending side and on the wastewater treatment side. Our hope would be that we can internalize as much as we possibly can that customers allow and that makes most economical sense, but Clean Harbors today also does business with third-party disposal facilities. They are our partners as well, so very much like the chemical industry, we compete and we also do business with one another and our goal would be to try to maximize our profitability by internalizing what makes sense into our network.

Sean Hannan - *Needham & Company - Analyst*

Okay, and then last question if I could, there is a very small amount of oil collection, I believe, that you do today. Can you talk about how that feeds into ultimately their network for the re-refined base lube oil?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Sure, our waste oil business is both a waste oil collection business, as well as an oil treatment and disposal business for our Field Services business. So we leverage our Field Services business off those disposal assets. And again, that would be a way for us, we hope, to continue to expand and grow our Field Services business. That oily wastewater capacity is very important for our Field Service business.

So that is the business we have today. It is about a -- if you look at it purely on a stand-alone business, it is about a $15 million business, so it is not huge. It is predominately in the Northeast and in Eastern Canada. So we will look at how do we combine some of those parts of that business together. But again, I think the real synergy and the opportunity is how do we grow our Field Services with those oil and water disposal capabilities that Safety-Kleen has.

Sean Hannan - *Needham & Company - Analyst*

Thank you very much for the color.

Operator

Jamie Sullivan, RBC Capital Markets.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Hi, good morning. Is there any way you could quantify for us roughly how much you are doing today and maybe what the internalization of opportunity is with cutting over some of the volumes of the waste streams to your assets?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

I think it is probably too soon to talk about the cutover. I don't think we have enough color or should we kind of share that. I would tell you that it is -- Safety-Kleen is a $15 million, $20 million kind of account for us today in our environmental business, so it is a significant customer for Clean Harbors today and so we will be internalizing that. That will impact our revenue that we report certainly because we will be intercompanying that in the future. So that might be helpful for you to have.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Okay, that's helpful. Thanks. And then maybe if you could talk about the asset network a little bit. Will you be able to co-locate Field and Technical assets and does that accelerate your expansion to geographies and locations where you are not located today?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Certainly. That is one of those real opportunities and maintenance is another area. They really perform all maintenance through third party and we have been internalizing more maintenance and we can really leverage our maintenance capabilities as a way of managing their assets. They own most of their rolling stock, which is exciting for us because we do as well and we can manage the lifecycle I think extremely well as it cascades through our various businesses. So another exciting part of our business there.

Jamie Sullivan - *RBC Capital Markets - Analyst*

And then maybe you can just talk a little bit more about how the pricing power works for the Safety-Kleen business. You touched on it a little bit earlier, but maybe more broadly you can talk about how they get price and what the trends have been there.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Probably premature for us to talk about pricing and things like that until we get more color and combine the companies moving forward. We are still going through some filings and certainly we have not had access to any of that data to this point. So I think it would be premature at this point if that is okay.

Jamie Sullivan - *RBC Capital Markets - Analyst*

Okay, thanks a lot.

Operator

James Duplessie, Citibank.

James Duplessie - *Citibank - Analyst*

Good morning, gentlemen and congratulations on the transaction. I just had one brief factual question with respect to transaction value. The purchase price of $1.250 billion for Safety-Kleen, I assume that is inclusive of financial debt of the company of approximately $220 million. Is that correct?

Robert Gagnon - *Clean Harbors - CFO*

That is correct. So at closing, we would pay -- essentially that debt would be paid off.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

It's excluding it.

Robert Gagnon - *Clean Harbors - CFO*

It's excluding it. I'm sorry.

James Duplessie - *Citibank - Analyst*

Excluding the debt?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes, that will be paid off by the time the closing is that will have been paid off.

James Duplessie - *Citibank - Analyst*

But the purchase price is inclusive of the financial debt on the balance sheet currently at Safety-Kleen, correct?

Robert Gagnon - *Clean Harbors - CFO*

No, it is not.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

They have the cash to be able to pay off that debt. That debt will be paid.

James Duplessie - *Citibank - Analyst*

Oh, so the consideration of the $1.25 billion is solely for Safety-Kleen shares then -- as shareholders to put it another way?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Exactly. It includes --.

James Duplessie - *Citibank - Analyst*

Thank you very much.

Robert Gagnon - *Clean Harbors - CFO*

Cash-free.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Yes.

Robert Gagnon - *Clean Harbors - CFO*

Debt-free.

Operator

James Kitchell, Goldman Sachs.

James Kitchell - *Goldman Sachs - Analyst*

Good morning. I wanted to clarify, I haven't had an opportunity to spend a lot of time with the Safety-Kleen S-1, so I just wanted to make sure is the transaction value for Safety-Kleen, it doesn't involve the assumption of a significant amount of environmental liabilities or anything like that, nothing of significance. Is that accurate?

Alan McKim - *Clean Harbors - Chairman, President & CEO*

No, that's right. There is roughly about $60 million of environmental liabilities at this point and that is essentially the number that we are thinking.

James Kitchell - *Goldman Sachs - Analyst*

Okay. The other question I had was just following up on the comments that you made earlier in the call with respect to leverage and future acquisition opportunities. I mean I think basically you said on a pro forma basis for this transaction you would like to keep leverage close to 2 times, but that your sort of longer-term comfort level was more in like the 2.5 times kind of ZIP code. And I guess I was just curious if you could characterize maybe what's the upper end of the Company's comfort zone with respect to leverage in the context of contemplating possible future acquisitions?

Jim Rutledge - *Clean Harbors - Vice Chairman & COO*

Yes, absolutely. And so I think we think about that in terms of not more than about 3 times leverage. So I think 2.5 times is probably our comfort zone, but we would consider taking up to 3 at this point.

James Kitchell - *Goldman Sachs - Analyst*

Okay, that's great. Thank you for clarifying that. Good luck.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Thank you.

Operator

Thank you. There are no further questions at this time. I would like to turn the floor back to management for closing comments.

Alan McKim - *Clean Harbors - Chairman, President & CEO*

Okay, well thank you all for joining us today on short notice and we look forward to speaking with you again on Wednesday, the 7th, when we will present our Q3 results and hope everybody stays safe here over the next couple days with this storm coming. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
