



# 1Q20 Conference Call

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*May 14, 2020*

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## 1Q20 Business Update

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# COVID-19 Business Response

## Sufficient Liquidity On Hand, Focused on Business Continuity

### Covid-19 Mitigation Actions

- > We have adopted all U.S. CDC guidelines on virus-prevention to help ensure the continued welfare and safety of our employees and contractors
- > We have executed on business contingency plans, consistent with our emergency response protocols

### Balance Sheet Optionality

- > At 3/31/20, we had \$20.3 million in cash and available liquidity under our revolving credit facility maturing in February 2022; and we remain in compliance with all bank covenants
- > We have introduced targeted cost reductions, including significant reductions to full-year capital expenditures; and anticipate \$1.8 million in cost savings between now and year-end 2020
- > We have applied for and received approximately \$4.2 million of funding under the SBA's PPP Loan program

### Operational Continuity

- > Our business is deemed essential critical infrastructure by the U.S. Department of Homeland Security; we remain fully operational at this time
- > Given reduced economic activity, travel has declined, resulting in lower availability of UMO (used motor oil), our primary feedstock
- > Given reduced feedstock availability, we have chosen to conduct planned maintenance at our Marrero facility that began on 5/10/20

# 1Q20 Performance & Outlook

## Executive Summary

### Strong Operational Performance

- > Total UMO collections increased 12% y/y to 8.9 million gallons
- > Marrero and Heartland both operated at peak nameplate capacity in 1Q20
- > 15% y/y increase in middle distillate (marine fuel) production at Marrero
- > Continued to leverage relationship with Bunker One USA

### Record Financial Results

- > Record net income to Vertex Energy of \$2.8 million
- > Results benefited from a \$4.2 million realized gain on derivatives instruments
- > Generated TTM free cash flow of \$5.5 million vs. \$2.6 million in year-ago period
- > Adjusted EBITDA of \$1.6 million vs. (\$0.5) million in 1Q19

### Key Performance Drivers

- > Bunker One USA continues to purchase the entirety of our middle distillate production
- > Long-term base oil contracts offset near-term volatility in base oil demand/pricing
- > Built inventories of UMO in 4Q19 – allowed us to operate our refineries into April 2020
- > Expect to see a recovery in travel exiting 2Q20, bringing additional UMO supply into the market

### Near-Term Strategic Priorities

- > Focused on growing collections to support anticipated post-COVID-19 resumption in demand
- > Managing operating expenses to conserve liquidity and enhance profitability
- > Maintain balance sheet optionality – net cash positive at 3/31/20

# Key Financial Metrics

First Quarter 2020

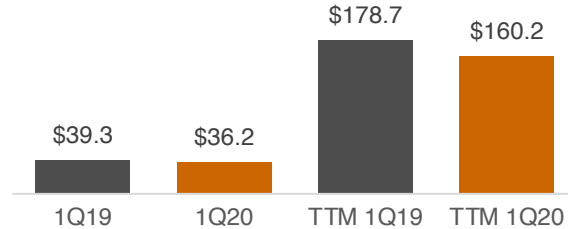
## Significant Margin Growth

- > Gross profit margin of 25.8% in 1Q20 vs. 11.4% in 1Q19 driven by both spread and volume growth

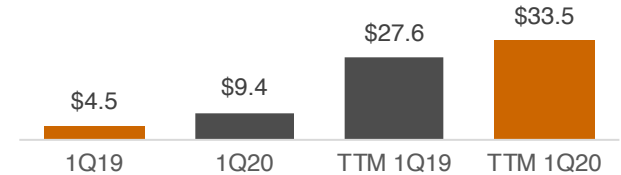
## Improved Profitability

- > \$7.6 million y/y improvement in profitability between 1Q19 and 1Q20

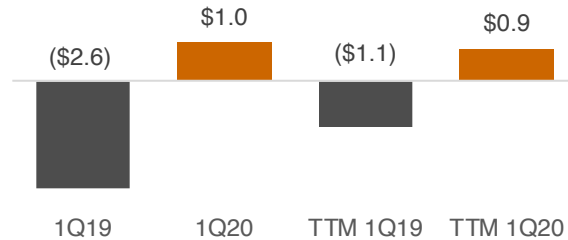
**Total Revenues**  
(\$MM)



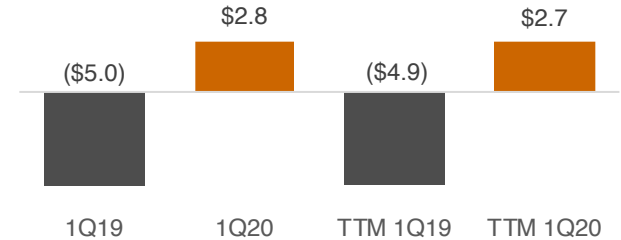
**Gross Profit**  
(\$MM)



**Operating Income (Loss)**  
(\$MM)



**Net Income (Loss) Attributable to Vertex<sup>(1)</sup>**  
(\$MM)



(1) First quarter 2020 and TTM 1Q20 results exclude the impact of the Tensile transaction

# Key Financial Metrics (Continued)

First Quarter 2020

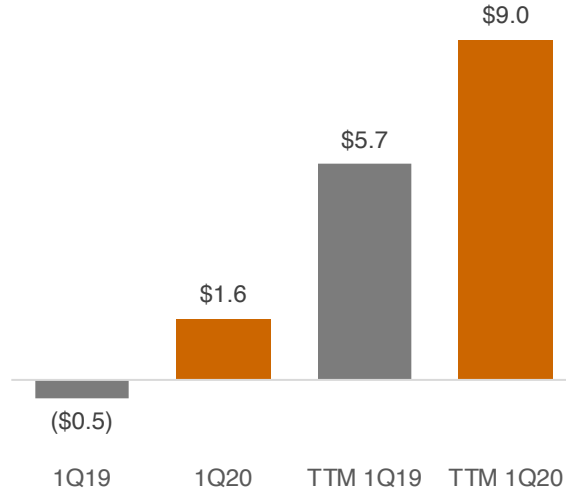
**TTM Adj. EBITDA +58% y/y**

- > Broad-based demand at both Marrero and Heartland refineries; derivative gain not included in Adj EBITDA

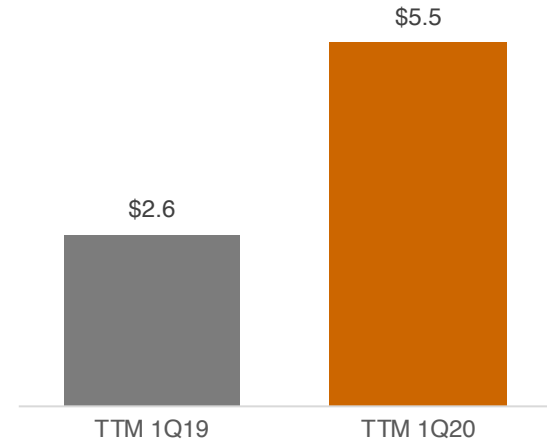
**TTM FCF +111% y/y**

- > Growth in Adjusted EBITDA and continued CAPEX discipline drove the TTM increase

**Adjusted EBITDA**  
(\$MM)



**Free Cash Flow<sup>(1)</sup>**  
(\$MM)



(1) Free cash flow defined as Adjusted EBITDA less total capital expenditures in the period

# Exceptional Operating Performance in 1Q20

Began Extended Turnaround at Marrero on 5/10/20

## Marrero Update

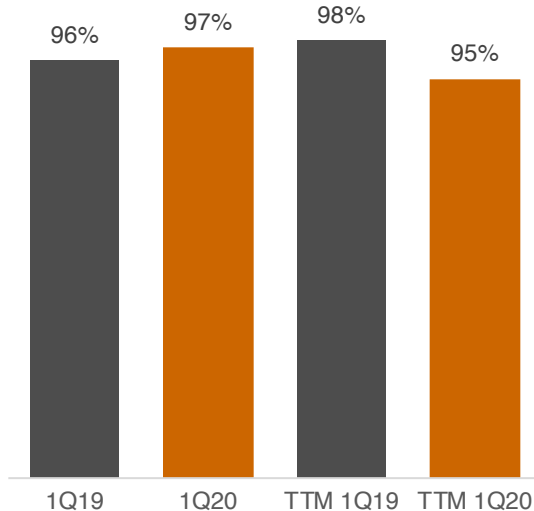
- > Near-record production of middle distillates in 1Q20; Bunker One USA taking 100% of production under 9-year supply agreement

## Heartland Update

- > Base oil spread improved in the period on Group I and II+; Group III supply contracts lend stability in volatile market

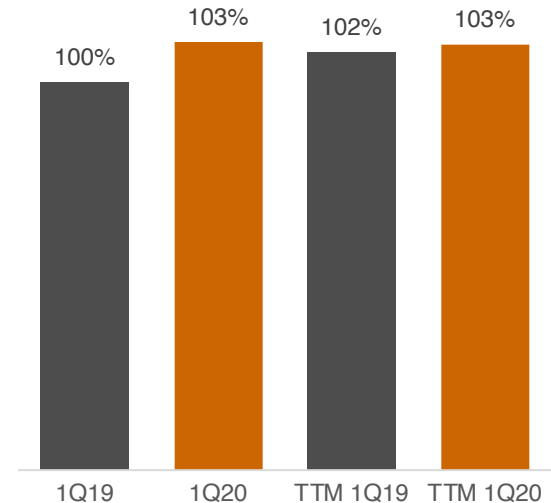
### Marrero Refinery

Capacity Utilization Rate(1)



### Heartland Refinery

Capacity Utilization Rate(1)



(1) Utilization defined as total refinery throughputs divided by nameplate capacity of the refinery



# UMO Collections Strong in 1Q20, Challenged in 2Q20

COVID-Related Decline In Travel Has Reduced Supplies of UMO at Generators

## Direct Collections

- > Total direct collections increased 12% y/y to 8.9 mm gallons in 1Q20

## Charge-For-Oil Market

- > We have moved to a charge-for-oil model in response to lower oil prices

## UMO Supply Improving

- > Starting to see early indications of recovery in UMO supply on the street as regional economies reopen

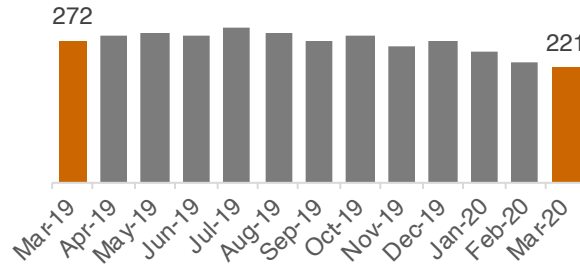
## Total UMO Collections

Solid Collections Growth in 1Q20 and on a TTM Basis (UMO Gallons in Millions)



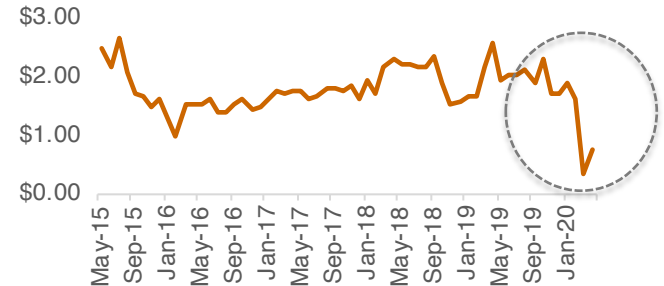
## U.S. Vehicle Miles Traveled Declined Nearly 20% y/y in March 2020<sup>(1)</sup>

(Billions of Road Vehicle Miles Traveled)



## Low Gasoline Price Expected to Stimulate Travel As Shelter-In-Place Orders Are Lifted

(Avg. Monthly Gasoline RBOB LA \$/gal)<sup>(2)</sup>



(1) Source: US DOT (May 2020)

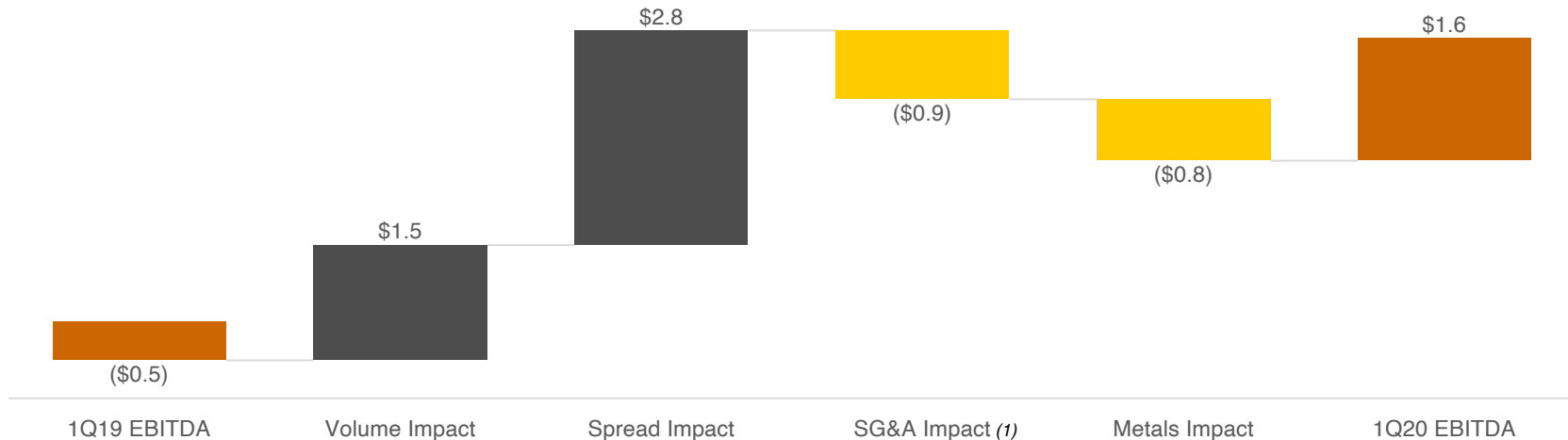
(2) Source: Factset

# Bridging To Improved Performance

## Positive Spread/Volume Impact More Than Offsets SG&A and Metals

### 1Q19 vs. 1Q20 Adj. EBITDA Bridge

Results Benefited From Higher Utilization at Marrero and Heartland



(1) \$0.5 million of y/y increase in SG&A is related to the implementation of an enterprise resource planning (ERP) solution under the Company's digital transformation initiative that is expected to reach completion at the end of 2Q20



# MANAGEMENT OUTLOOK

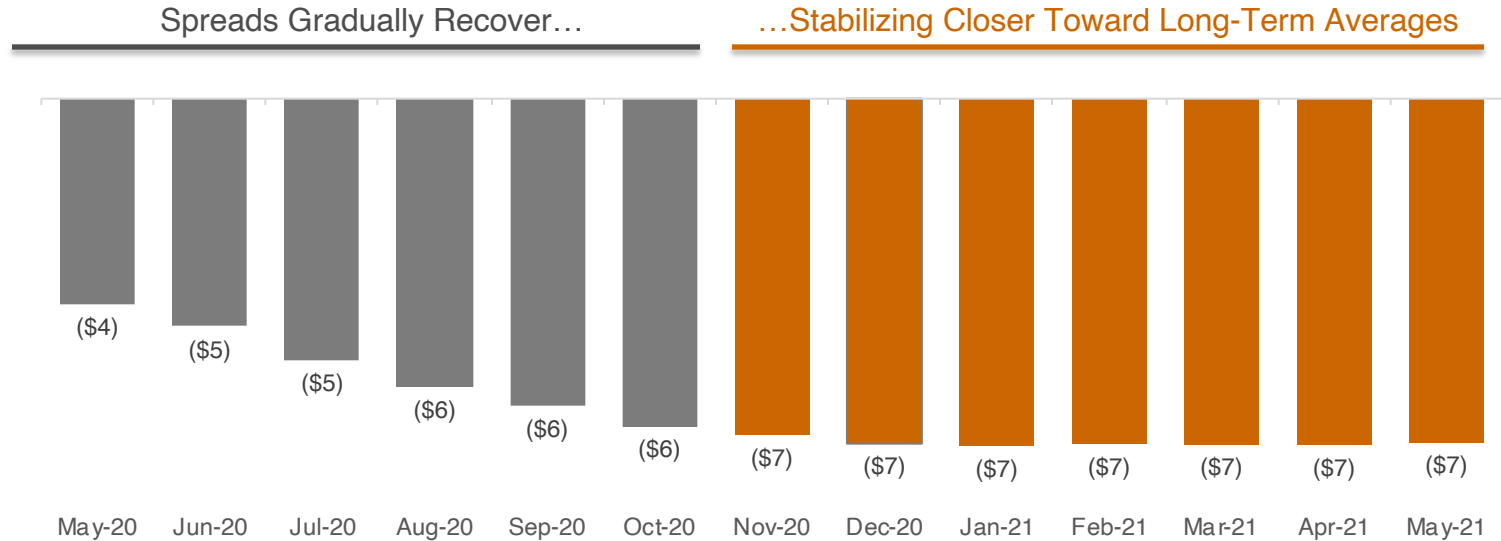
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# Futures Strip Implies A Return To Normal By Early 3Q20

## High Sulfur Fuel Oil Continues To Trade At a Discount Below WTI NYMEX

USGC 3% High Sulfur Fuel Oil Less West Texas Intermediate (WTI) Crude Oil (\$/Barrel)

High Sulfur Fuel Oil is a Proxy for UMO Price; WTI is a Proxy For Product Prices



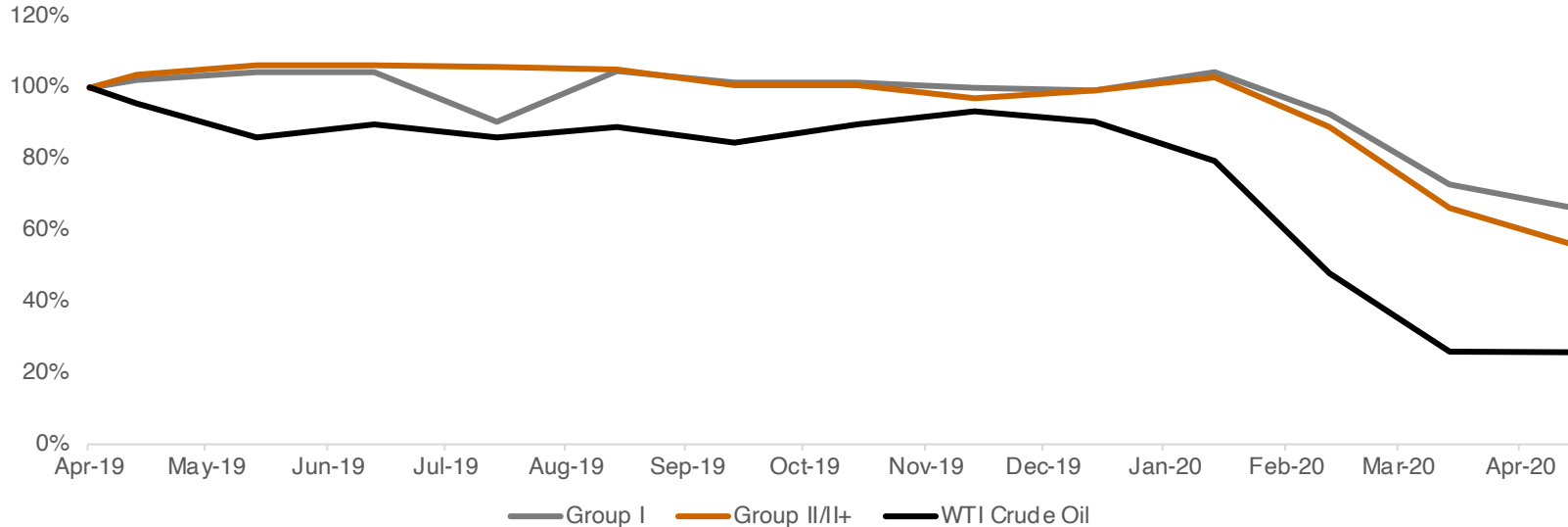
Source: CME Group (May 2020)

# Base Oil Prices Have Tracked WTI Lower YTD 2020

Our Long-Term Base Oil Supply Contracts Help To Offset Some Volatility

## Group 1, Group 2 Base Oil Prices vs. WTI Crude Oil<sup>(1,2)</sup>

COVID-19 Created a Short-Term Demand Shock; OPEC Production Levels Created a Short-Term Supply Shock



(1) Source: Argus; Group 1 and Group 2 base oil prices are the average across all grades

(2) Source: Platts

# Balance Sheet Update

More Than \$20 Million In Cash And Availability On Term Loan

## Adequate Cash & Liquidity

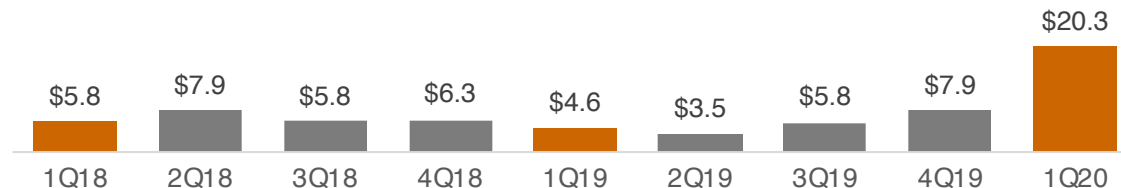
- > 1Q20 cash and available liquidity does not include \$4.2 million in PPP funding received 5/5/20

## Net Cash Positive

- > Total cash of \$20.3 million, total term debt of \$6.1 million; net cash positive

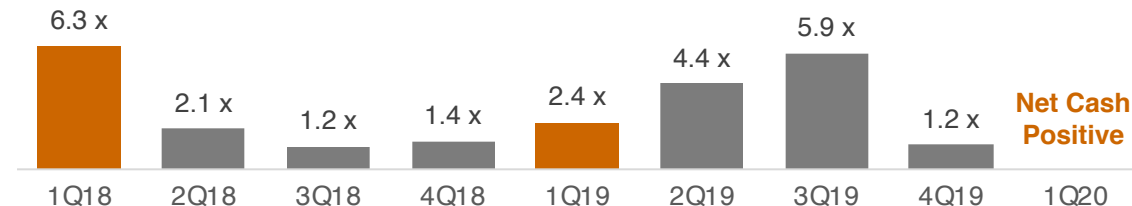
### Cash & Available Liquidity

\$MM<sup>(1)</sup>



### Net Debt vs. TTM Adj. EBITDA

<sup>(1)</sup>



(1) Utilization defined as total refinery throughputs divided by nameplate capacity of the refinery

(2) Net Cash Positive reflects the difference between Cash on Hand and Term Debt

# Investment Catalysts

## Near-Term Management Focus Exiting COVID-19

### Return of UMO Supply

- > Regional economies have begun to reopen, allowing for more road travel
- > Low fuel prices will support increased vehicle miles traveled
- > Access to UMO supply will allow us to realize economies of scale as we return the Marrero facility to normal utilization rates; The Heartland facility remains largely unaffected, given sufficient regional supply of UMO

### Marine Fuel Demand Growth

- > Shipping demand remains uninterrupted, creating steady demand for our bunker oil products
- > Surety of off-take for the next 9 - years on all marine fuel production through our long-term bunkering partner

### Stable Base Oil Contracts

- > Global demand for base oil remains weak, but we continue to benefit from guaranteed off-take through long-term supply contracts
- > We are beginning to see more rational pricing in the group 3/3+ categories



# APPENDIX

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# Corporate Overview

## Vertically-Integrated Specialty Refiner of Alternative Feedstocks

### Executive Summary

- > Established producer of petroleum-based specialty products from recycled used motor oils and petrochemical streams
- > Own and operate one of the largest independent used motor oil collections (UMO) operations in the United States<sup>(1)</sup>
- > Produce/market IMO-compliant marine fuels, Group II & III Base Oils and fuel blend stocks for industrial applications
- > Proven track record of safe, reliable operations that optimize utilization at owned production facilities
- > Major ongoing capital projects offer potential to increase production of high-value specialty products
- > Experienced management team w/ high insider ownership



#### Collections Operations

- > ~100 collection trucks
- > Operations in 15 states
- > Internal collections strategy



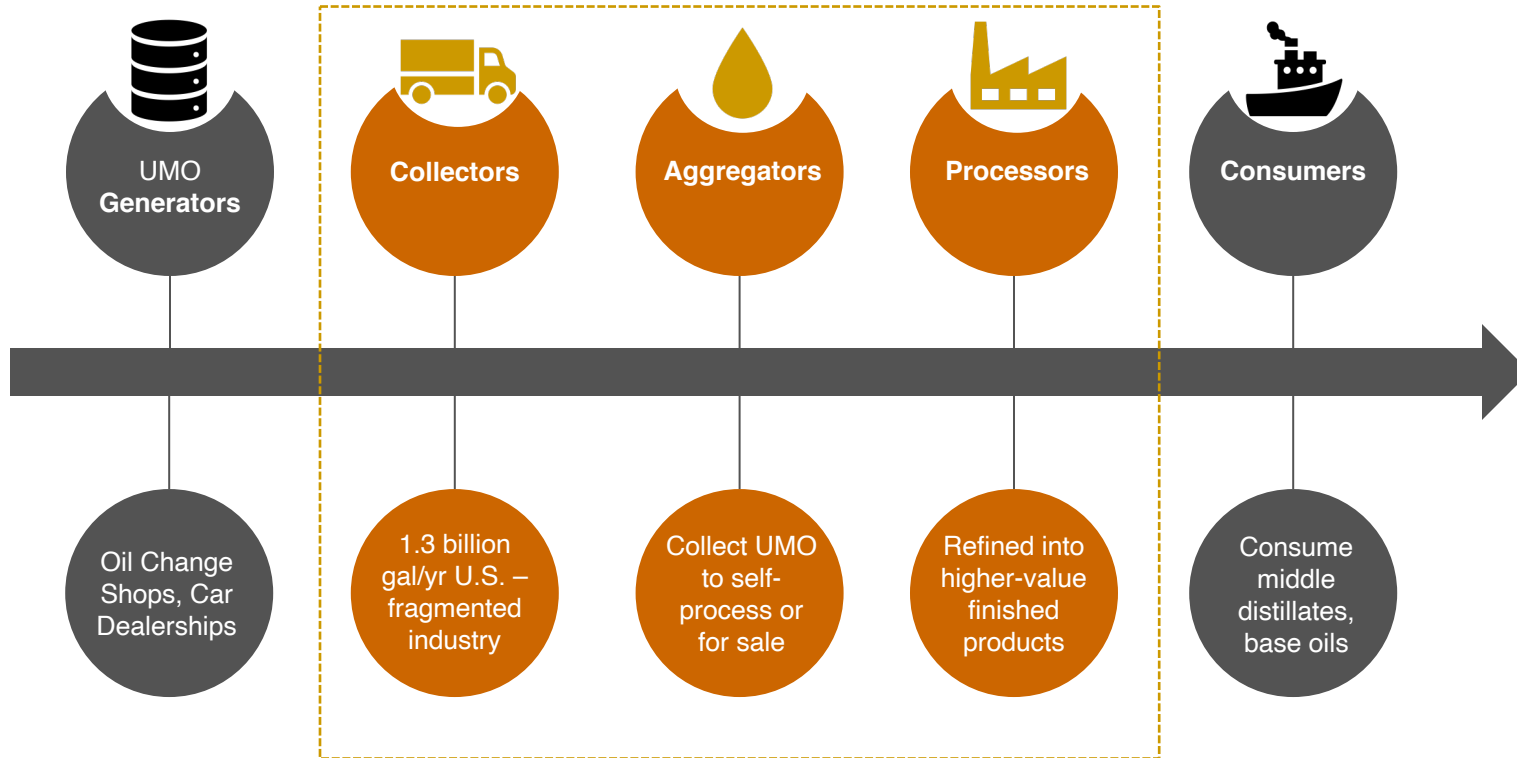
#### Refining Operations

- > Middle distillates and high-purity base oils
- > Marrero (LA) - Marine Fuel production
- > Heartland (OH) - Base oil production
- > Baytown (TX) – Houston ship channel terminal

(1) Vertex Energy owns/operates one of the largest used motor oil (UMO) collection and aggregation networks in the United States

# Used Motor Oil Recycling Value Chain

Direct and Third-Party UMO Collections Used As Refining Feedstock



# We Own Advantaged Refining Assets In Strategic Markets

Vertically Integrated Model Processes Collected UMO as Feedstock

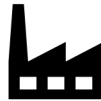
## Refining Operations Overview

- > Direct and third-party collections of UMO provide the feedstock for both Marrero and Heartland
- > Marrero and Heartland operating near peak utilization given strong demand for middle distillates and Group II base oils
- > Production slate includes middle distillates, base oils, asphalt, condensate and fuel oil



### Marrero Refinery Marrero, Louisiana

- > 4,800 bpd nameplate capacity
- > Feedstock: UMO
- > Production: Middle distillates
- > Opportunity: Demand for IMO-compliant marine fuel



### Heartland Refinery Columbus, Ohio

- > 1,500 bpd nameplate capacity
- > Feedstock: UMO
- > Production: Group II+ base oil
- > Opportunity: Global transition to higher-purity base oils



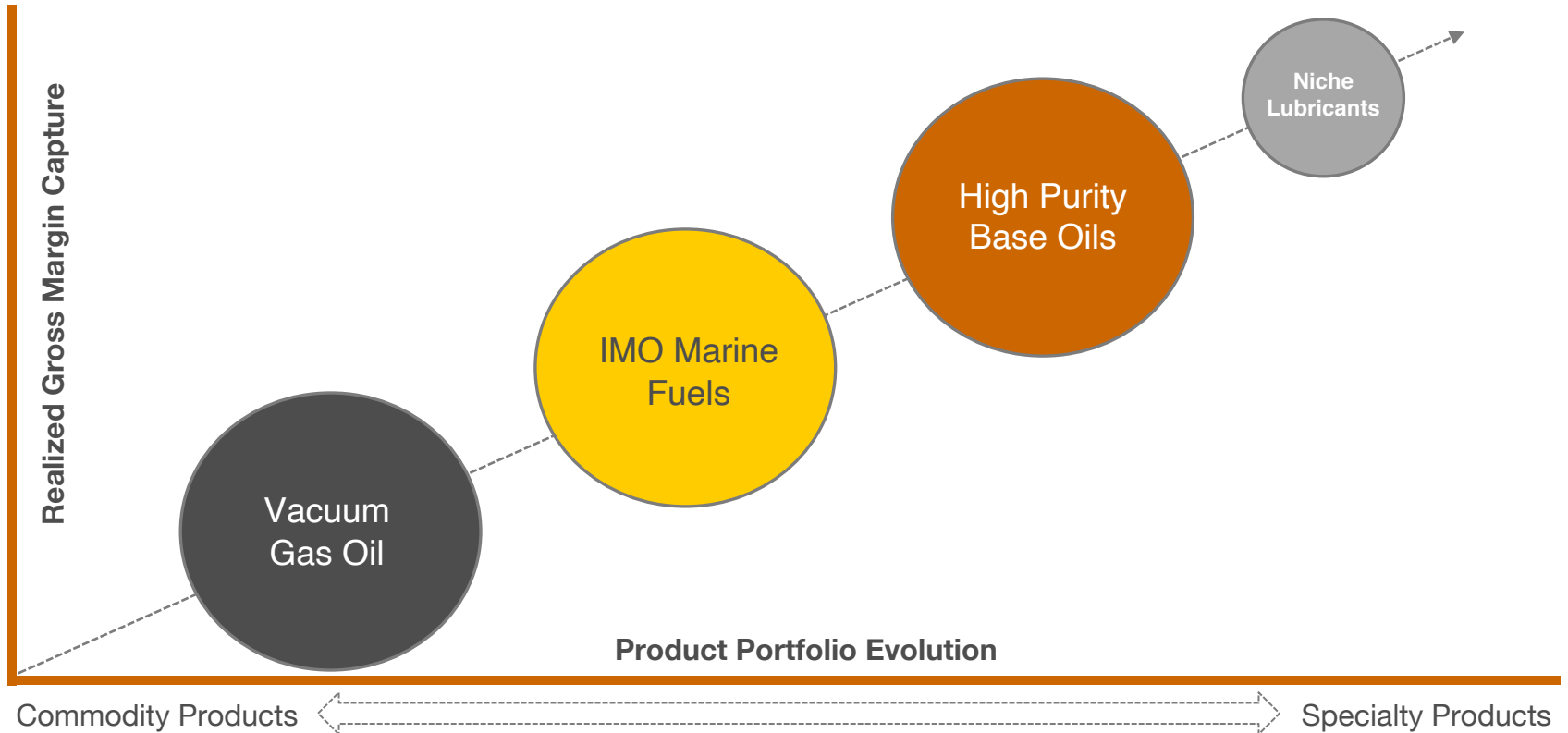
### Baytown Terminal Baytown, Texas

- > Waterfront facility w/ 100,000 barrels of storage on-site
- > Refining supply / distribution
- > Strategically located on the Houston ship channel

(1) (bpd) barrels per day

# We Are Focused On High-Grading Our Production Slate

Multi-Year Transition From Commodity To Branded Products



# CAFE Standards Drive Demand For Higher Purity Base Oils

## Corporate Average Fleet Economy (CAFE) Standard Requires Lower Emissions

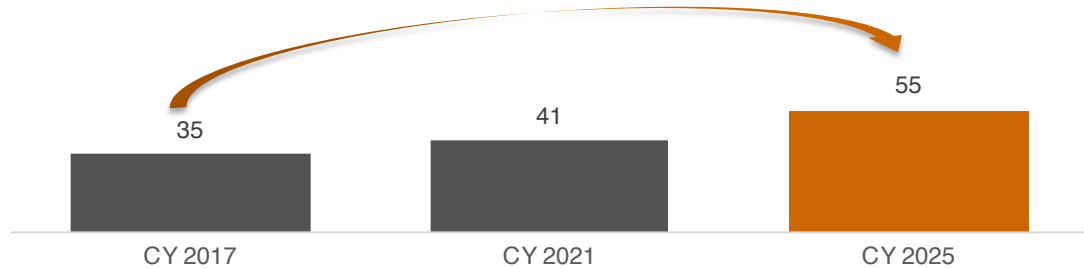
### Executive Summary

#### Drivers of Group II+III Demand

- > CAFE standard requires increased fuel economy and lower emissions
- > Lower viscosity lubricants yield better fuel economy and lower emissions
- > High purity base oils are the primary base stock for premium synthetic lubricants used in CAFE-compliant higher performance engines
- > Base oil production from UMO is more efficient than from crude oil
- > Electrification of vehicle fleet is a long-term factor, but not material to the forecast until after 2030

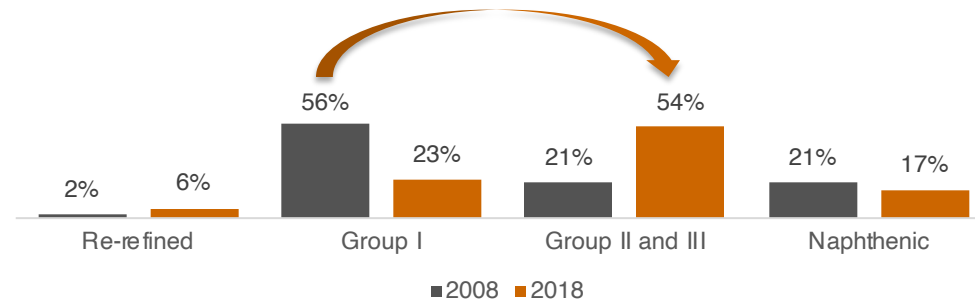
### CAFE Standard Fuel Economy By Year

6% CAGR In Required MPG Fuel Economy



### North American Base Oil Capacity Shift<sup>(1)</sup>

Trend Toward Higher Viscosity Base Oil Capacity



(1) Source: LNG Lubricants Industry Factbook (2018-2019)

# Compelling Investment Thesis

Favorable Underlying Fundamentals, High-Return Organic Growth Projects

#1

Strong Underlying Market Trends

- > Increased global demand for compliant low-sulfur marine fuels
- > Multi-year transition toward higher-viscosity, higher-margin Group II and III base oils

#2

Bunker One Partnership

- > Bunker One partnership provides surety of offtake for 100% of Marrero refinery VGO production thru 2029
- > Net profit-sharing agreement at all North American ports where Bunker One sells marine fuel

#3

High-Return Capital Projects

- > Focused on increasing production of IMO-compliant marine fuels and high purity base oils
- > Tensile has committed up to \$34 million of capital to support growth of SPVs

#4

UMO Collections Growth

- > Leading UMO collector consolidating fragmented industry
- > 20%+ y/y growth in direct collections in 2019
- > Focused on growing cost-advantaged direct collections vs. third-party supply

#5

Aligning Investor Interests

- > Led by founder/CEO Ben Cowart
- > Senior leadership with decades of UMO and industry-relevant experience
- > High insider ownership aligns management and investor interests

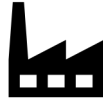
# Our Strategic Focus

## Path Toward Profitable Growth Through The Cycle



### Drive Direct Collections Growth

- > Direct collections are significantly cost-advantaged over third-party purchased collections
- > By increasing direct collections as % of total collections, we significantly reduce feedstock costs



### Optimize Refining Asset Base

- > Safe, reliable operations drive profitable growth
- > Focused on reducing feedstock overhead and reducing direct OPEX per gal sold



### High-Grade Production Slate

- > Shift from production of commodity intermediates toward higher value finished products
- > Be recognized as leading producer of IMO compliant marine fuel and high-purity base oils



### Growth CAPEX / Private Funding

- Identify high-return organic growth projects within existing asset base
- Partner with one or more venture investors on a project by project basis to support project CAPEX



### Profitable Growth Through Cycle

- > Generate Adj. EBITDA growth – use free cash flow to maintain conservative net leverage profile
- > Continue to diversify EBITDA across end-markets, geographies and customers