

Project Asphalt

\$3MM LOC scaling up to \$12MM for asphalt plant ramping production to meet local demand

Opportunity Description

- California's highway system was designed and built in the 1950s - 1970s. This system has been experiencing significantly greater traffic than it was originally designed to accommodate. Infrastructure repair and maintenance is a top priority at the State and Federal level and is well funded under recently passed Senate Bill 1, increasing spending by over \$5B annually.
- Further enhancing this opportunity is a shortage of local liquid asphalt supply. There are currently only 5 plants in California that have a combined asphalt production capability of 100,000 tons per month versus a current demand of ~200,000 tons per month. Our Client is expanding operations with assets which have supplied liquid asphalt, gas oil & naphtha (by-products of asphalt production) in California for 88 years.
- Environmental pressures, costs for ground up construction, and regulatory issues represent significant barriers to entry and there will likely never be a new facility built in California.
- Our Client historically has been a transporter of crude, asphalt, gas oil & naphtha. The Company is expanding to owning and trading such products with a long-term processing agreement with the asphalt plant. Under the agreement, the owner and operator of a 10,000 BBL/day plant will convert our Client's crude to finished products. The plant suspended operations in 2019-2020 to perform a 10 year turnaround for operational and environmental upgrades. These were concluded last month and the plant is now ready to re-commence operations pursuant to our Client's agreement.
- Management has identified and tested new Canadian petroleum sources in addition to local California crude supply.
- During 2020, the parent company invested \$4.65MM into our Client to fund and restart operations.

Select Highlights

1 Compelling Business Proposition, Limited Execution Risk

- Our Client has deep historical experience and multiple long-term relationships in all facets of the expanding business. All necessary assets and personnel are in-place to scale production.
- During its last full year of operations, sales totaled \$33M; future sales will be to the same markets and long-term customers. Historically, plant sales have been up to \$94M at 30% utilization in local markets.
- Sales are forecasted to increase to \$93M in 2021 under the new processing agreement.

2 Financing Requirement

- To ramp up operations and monetize the opportunity, our Client requires a \$3.0MM ABL facility that will grow to \$12MM within 12 months. The credit facility will be fully collateralized by A/R and Inventory. The facility will enable our Client to obtain letters of credit to pay for crude oil under industry standards. Initial AR of \$690K will grow to \$8.0MM and Inventory will increase from \$2.6MM to \$4.5MM in ~ 6 months.

3 Collateral Highlights

- A/R due from large well known California based companies seeking to resume purchases of naphtha and asphalt. Inventory is comprised of quick turning crude oil, asphalt and various other by products which can be sold "as is." Bonded asphalt customers working for the State of California ensures no bad A/R. Gas oil & naphtha have been sold to the largest refineries in California. Long term history of no bad debt.

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