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CrownBrook Capital Buys First Recycler, Debco

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In what it expects to be the first of several acquisitions of plastics recyclers, CrownBrook Capital has acquired a majority stake in privately owned Debco Plastics Inc., a \$7.5 million company in Freeport.

Debco focuses on polypropylene, ABS and polystyrene and recycles more than 7 million pounds of plastic annually.

"This is our entrée to get a foundation company in the plastic recycling business," said Ron Schinik, partner and co-founder of CrownBrook, which formed six months ago with an eye on acquiring companies in the highly fragmented business, particularly in strong manufacturing regions like the Midwest and Southeast.

"We are going to take our time and be judicious, but I would think we can do another one or two acquisitions this year and then ramp it up next year," Schinik said.

The purchase, completed Jan. 19, also could signal a wave of consolidation in a business that has many independently owned small and medium-sized companies, said Howard Snyder, vice president with Curtis Financial Group LLC in Philadelphia, who is advising CrownBrook.

"Traditionally, there has been very little private equity in plastic recycling," Snyder said. "But five years from now, I expect maybe seven to 10 midtier, super-regional companies with \$25 million to \$75 million in sales located around various markets in the Midwest, Northeast, Southwest, Texas and California."

The three largest plastic recyclers on *Plastics News'* ranking have annual sales respectively of \$223 million, \$103 million and \$74 million; the fourth largest has \$40 million in sales; and only the top 21 have sales of \$30 million or more.

"There has been a fundamental shift in the market" in the aftermath of Hurricane Katrina that has changed business dynamics, Snyder said.

"Companies were forced to use regrind because of high prices of virgin material and found that they were able to meet product specifications," Snyder said. "The quality of the material has made processors more willing to use regrind."

That market shift, according to Schinik, gives CrownBrook "the ability to arbitrage against prime and virgin material," and makes the timing right to grow throughout the United States.

"There are a lot of people who started post-World War II recycling companies" who are looking to retire or for investment capital, said Schinik, an investment banker who also served as a chief financial officer of Quick International, a logistics company that grew in annual sales from \$30 million to \$150 million, mostly through acquisitions, during his tenure.

"The industry is prime for consolidation," said Debco President David Garfinkel, who said he sees the alliance with CrownBrook as a way for his company — which does blending, grinding, repelletizing, cleaning and sorting — to grow geographically and to have more sales and marketing strength.

"By making acquisitions of other small to medium-sized recyclers, that will create the synergies that come with larger volumes and a broader geographic presence," Garfinkel said. "There are vendors and potential customers we didn't have the resources to serve and now we will."

However, as Snyder points out, to succeed as a super-regional recycler, companies will have to invest in machinery and improve the business services of the recyclers they buy.

"Anytime you see a fragmented industry, there is opportunity, but also risk," pointing out that one of the challenges is that very little of the business of many smaller recyclers is contracted, so the certainty of those relationships can be tenuous to a buyer.

"If you just remain a job shop, you are not adding value," he said. "You need to professionalize these small businesses" by adding management, financial or technology skills, or all three.

Schinik, for example, expects to put a renewed focus on sales and marketing, add a Web site, do more extensive financial analysis and make ordering more accessible to potential buyers through e-commerce.

"We will produce email alerts when products are out the door, and when products become available and do invoicing online," Schinik said.

Don't expect CrownBrook to be the only company with its sights on growth in plastic recycling, said Snyder.

"There is somebody, somewhere out there who is going to be interested in making those kinds of investment in plastic recycling," he said.

What's more, because of the Internet and the plastics futures program on the London Metal Exchange, "there are fewer uneducated buyers and sellers."

"That makes for a more efficient market and that is what hurts the smaller guys," Snyder said.

"If you are privately owned," said Snyder, "don't be surprised if one of your competitors" embarks on an acquisition strategy. "And don't be afraid if a private equity group ... decides to call you. It could be the opportunity for you to grow and expand."