The Petroleum Equipment Industry
A Good Place to Be Today? Tomorrow?

Bob Renkes, Executive VP
Petroleum Equipment Institute

Membership Breakfast

October 9, 2014
2013/2014 Results
<table>
<thead>
<tr>
<th></th>
<th>Typical PEI Distributor</th>
<th>High Profit PEI Distributor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales/Employee</td>
<td>$280,480</td>
<td>$316,380</td>
</tr>
<tr>
<td>Gross Margin Percentage</td>
<td>28.6%</td>
<td>29.2%</td>
</tr>
<tr>
<td>Operating Expense Percentage</td>
<td>25.6%</td>
<td>23.0%</td>
</tr>
<tr>
<td>Personnel Expense</td>
<td>15.2%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Operating Expense</td>
<td>10.4%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Profit</td>
<td>2.9%</td>
<td>6.4%</td>
</tr>
<tr>
<td>ROA</td>
<td>8.4%</td>
<td>19.8%</td>
</tr>
</tbody>
</table>
DISTRIBUTORS
Business Conditions Today
DISTRIBUTORS

Business Conditions Today
(September 4-27, 2014)

6.77 (6.3 in 2013)
DISTRIBUTORS

What’s Going Well?

• Construction: 24%
• Commercial Work (Lube, Auto, Industrial): 19%
• Equipment/Facility Upgrades: 16%
• Service: 10%
• Busy: 9%
• CNG: 5%
DISTRIBUTORS
What Is Disappointing?

• Margins (Sales, Construction, Service): 33%
• Sales: 14%
• People: 14%
• Collections: 14%
MANUFACTURERS
Business Conditions Today
MANUFACTURERS

Business Conditions Today
(September 4-27, 2014)

6.55 (7.4 in 2013)
MANUFACTURERS

What’s Going Well?

• Technology/New products: 25%
• New facilities being built: 15%
MANUFACTURERS

What Is Disappointing?

- Sluggish sales/economy: 25%
- Margins: 15%
- International mfgs./low-end competitors: 10%
Looking at 2015
Immediate Future

DISTRIBUTORS

MANUFACTURERS
DISTRIBUTORS

Projection for 2015

6.97 (2015)
6.20 (2014)
6.30 (2013)
DISTRIBUTORS

Employment

• More people in 2015 = 61%
• Same number of people = 35%
• Fewer people in 2015 = 5%
MANUFACTURERS

Projection for 2015

6.77 (2015)
7.40 (2014)
7.40 (2013)
MANUFACTURERS

Employment

• More people in 2015 = 59%
• Same number of people = 36%
• Fewer people in 2015 = 5%
There Will Be a New UST Rule in 2015!!

• Sent to OMB for 90-day review on September 25
Proposed Timing of Provisions Important to PEI Members

1. Secondary Containment and under-dispenser containment for new and replaced systems across the country.
   Implementation: Immediately

2. Walkthrough Inspections: o/o monthly to look at spill prevention equipment; sumps & dispenser cabinets; monitoring/observation wells; cathodic protection equipment; and releases detection equipment.
   Implementation: Immediately
Proposed Timing of Provisions Important to PEI Members (cont’d)

3. Spill Prevention Equipment: o/o test annually for liquid tightness or use a double-walled spill bucket with continuous monitoring.
   Implementation: Within one year

4. Overfill Protection Equipment: o/o test every three years.
   Implementation: Phased in over three years based on UST installation date
Proposed Timing of Provisions Important to PEI Members (cont’d)

5. Secondary Containment Areas: o/o test every three years to ensure the interstitial area has integrity or use specific continuous monitoring methods.

Implementation: Phased in over three years based on tank installation date

6. Release detection equipment (including LLDs): o/o test annually to ensure equipment is operating properly.

Implementation: Within one year
Proposed Timing of Provisions Important to PEI Members (cont’d)

7. Install Leak Detection for Emergency Generator USTs.
   Implementation: Within one year

8. Vapor & Groundwater Monitoring Phased-Out
   Implementation: Within five years
2015—What Else?

✓ New UST rule
EMV in stores by October 2015
Vapor recovery
  • Enhanced vapor recovery
  • Decommissioning
  • Business as usual in a few states
New construction, expansion, upgrades
Commercial work
  • Emergency generator work
Oil field work
Tank truck outfitting & repair
Money available to some
Fuels of the Future & How We Participate

[Logo]
U.S. Vehicle and Fueling Facilities at a Glance

- U.S. Population: 318,000,000
- U.S. Drivers: 230,000,000
- Light-duty vehicles in U.S. = 253,000,000
  - LDV/licensed driver = 1.1 (2011)
  - Vehicles per household = 1.95 (2011)
- 146,000 gasoline stations (126,658 at convenience stores) (2014)
- 33,000,000 fill-ups at convenience stores per day
Today’s Retail Gasoline Market

• 146,000 service stations
• 88% of the gasoline dispensed is E10
• 139,000 stations sell E10
• 57.4% of the stations sell diesel
• 134 billion gallons of gasoline (2012)
  • Peak: 142 billion gallons in 2007
Alternative Fuels

8,528 Electric Stations
  • 20,649 Charging Units
2,711 LPG (Propane)
2,378 E85
751 CNG
293 Biodiesel (B20 or higher)
60 LNG
12 Hydrogen
U.S. Biofuels Policy
U.S. Governmental Initiatives

   • Rewards auto manufacturers who build flex-fuel (E85) vehicles and gas-saving vehicles

2. Tax credit for blenders of ethanol (2004-2011)
   • 51¢/gallon of E100

   • Requires refiners to blend up to 36 billion gallons of ethanol into gasoline by 2022
Will Marketers Be Forced to E15?

Approved by EPA
- 2001 and newer vehicles

Impediments
- Misfueling liability
- Not approved by the autos (90%)
- Boats, small engines
- Equipment issues
Required to be Listed

Dispensing devices: suction and pressure
Impact valves
Submersible pumps
Leak detection devices
Hose assemblies
  • Breakaways
  • Vapor recovery
  • Nozzles
  • Hose
Required to be Listed (cont’d)

USTs
ASTs
Piping
  • Flex connectors
RFS Volumes By Category
<table>
<thead>
<tr>
<th>Year</th>
<th>Conventional Biofuel (bil. gal.) (1)</th>
<th>Advanced Biofuel (bil. gal.) (2)</th>
<th>Cellulosic Biofuel (bil. gal.) (3)</th>
<th>Total RFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>13.2</td>
<td>2</td>
<td>.5</td>
<td>15.2</td>
</tr>
<tr>
<td>2013</td>
<td>13.8</td>
<td>2.75</td>
<td>1</td>
<td>16.55</td>
</tr>
<tr>
<td>2014</td>
<td>14.4</td>
<td>3.75</td>
<td>1.75</td>
<td>18.15</td>
</tr>
<tr>
<td>2015</td>
<td>15</td>
<td>5.5</td>
<td>3</td>
<td>20.5</td>
</tr>
<tr>
<td>2022</td>
<td>15</td>
<td>21</td>
<td>16</td>
<td>36</td>
</tr>
</tbody>
</table>
### Legislated & EPA-proposed volumes of renewable fuel

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cellulosic biofuel</td>
<td>1.0</td>
<td>0.006</td>
<td>1.75</td>
<td>0.017*</td>
</tr>
<tr>
<td>Biomass-based diesel</td>
<td>≥1.0</td>
<td>1.28</td>
<td>≥1.0</td>
<td>1.28</td>
</tr>
<tr>
<td>(billion gallons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced biofuel</td>
<td>2.75</td>
<td>2.75</td>
<td>3.75</td>
<td>2.2</td>
</tr>
<tr>
<td>Renewable fuel</td>
<td>16.55</td>
<td>16.55</td>
<td>18.15</td>
<td>15.21</td>
</tr>
</tbody>
</table>

*Sent to OMB August 24, 2014*
Will Petroleum Marketers Sell E15?

- No, RFS won’t force marketers to sell E15
- No large marketer or c-store chain wants to be the leader. It is not something their customers want. Therefore, for now, they are content to be followers.
Flex Fuel (E85) Vehicles—100 Years and Counting

• Henry Ford’s Model T (1908-1927)
• 1980s: FFVs reintroduced
• 2014: More than 15 million FFVs in the U.S.
• 2,378 E85 Stations
## Flex Fuel (E85) Vehicles—100 Years and Counting

<table>
<thead>
<tr>
<th>GMC</th>
<th>GMC</th>
<th>Chrysler</th>
<th>Toyota</th>
<th>Mercedes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suburban</td>
<td>Avalanche</td>
<td>300</td>
<td>Tundra</td>
<td>C350</td>
</tr>
<tr>
<td>Denali</td>
<td>Silverado</td>
<td>Charger</td>
<td>Armada</td>
<td>ML350</td>
</tr>
<tr>
<td>Sierra</td>
<td>Impala</td>
<td>Dart</td>
<td>Sequoia</td>
<td>E250</td>
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<tr>
<td>Equinox</td>
<td>Escalade</td>
<td>Avenger</td>
<td></td>
<td></td>
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<tr>
<td>Terrain</td>
<td></td>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Verano</td>
<td></td>
<td></td>
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<tr>
<td>Regal</td>
<td>Ford</td>
<td></td>
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<tr>
<td>Captiva</td>
<td>Focus</td>
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<tr>
<td>LaCrosse</td>
<td>E350</td>
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</tr>
<tr>
<td>Savanna</td>
<td>Fusion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Express</td>
<td>F150</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yukon</td>
<td>Expedition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tahoe</td>
<td>Navigator</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Explorer</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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*Image courtesy of PEI*
E85: The Drawbacks

• FFVs typically get 15-25% fewer miles per gallon when fueled with E85
  &
• E85 is NOT ALWAYS priced 15-25% less than E10
In 2012, EIA reports 152 million gallons of E85 consumed by 11.4 million vehicles. This averages to 13.4 gallons per vehicle per year—less than one fill-up.
Looking Down the Road
2016 - 2019
DISTRIBUTORS

How optimistic are you on your company’s prospects through 2019?

• Extremely Optimistic: 15%
• Moderately Optimistic: 56%
• Ambivalent: 23%
• Somewhat Pessimistic: 6%
MANUFACTURERS

How optimistic are you on your company’s prospects through 2019?

• Extremely Optimistic: 23%
• Moderately Optimistic: 55%
• Ambivalent: 14%
• Somewhat Pessimistic: 9%
A Move to E25?
CAFE STANDARDS

54.5 MPG Efficiency Standard by 2025

Ford  Kia
GM    Mazda
BMW   Mitsubishi
Honda  Nissan
Hyundai  Toyota
Jaguar/Land Rover  Volvo
How Do We Get There?

One Way/Best Way May be High-Octane Fuel in Optimized, Higher-Compression Ratio Engines

• Exceptional performance
• Improved fuel efficiency
• Cleaner air
• Lower cost?
CAFE/GHG Regulation—Ethanol Octane Value
Three Major Challenges Facing the Transportation Industry Over the Next Decade

- **EPA Tier 3 Emission Regulations**
  - >70% less NOx
  - >85% less NMOC

- **Fuel Economy Standards**
  - 54.5 mpg CAFE by 2025
    - per U.S. EPA and U.S. DOT standards (2012 rule)

- **Transportation Industry**

- **Renewable Fuel Standard**
  - 36 billion gallons /yr of renewable fuel by 2022
    - per Energy Independence and Security Act of 2007

- Can more sensible use of biofuels enable CAFE and RFS simultaneously?

Further reductions in vehicle emissions
- per EPA Tier 3 regulations (2014)
Hydrogen Fuel Stations

- 12 up and running—all in California
- Hyundai in 2014; Toyota and Honda in 2015
- Similar roll-outs in Japan, Germany, United Kingdom, Scandinavia
- New stations eligible for California government grants totaling $20 million/year through 2023
- Toyota providing bridge loan to First Element Energy for 68 stations in Los Angeles and San Francisco metro areas by 2016
- Capital costs running $1 million - $1.5 million, down from $3 million
- A California phenomenon spreading to 10 other states—mostly in the Northeast & Mid-Atlantic—that have zero-emission vehicle mandates similar or identical to California
CNG

- Fleets
- Regional
- Price
- PEI/RP1500
Electric Vehicles

- 3.6% of all new vehicles through August 2014 (hybrids & electronic)
- 3.7% the year earlier
- Analysts: 7% globally by 2020
- $5 gas?
- Good news for PEI guys
Fuels: Conclusion

- Gasoline will remain dominant, but lose some market share (93% to 82%) over the next 10 years
- Diesel has strongest growth potential (2-4% to 6-7.5%)
- Biofuels have potential
  - Need to build consumer demand
  - Limited by FFV inventory
  - Stronger down the road: 2018 (E25)
- Natural gas has potential, primarily for fleets
- EVs may not present opportunity or threat
Three More Random, Unrelated Thoughts
EMV Migration
Consolidation Will Continue

American Veterinary Distributors
Associated Equipment Distributors
Chemical Distributors
Education Market Association
Electrical Distributors (U.S./Canada)
Energy Equipment & Infrastructure
Fertilizer Institute
Food Industry Suppliers
Foodservice Distributors
Heating, Airconditioning & Refrigeration Distributors
Industrial Supply
Irrigation Distributors
Material Handling Distributors
Motorcycle Industry Council
National Marine Distributors
Outdoor Power Equipment
Pet Industry
Plumbing & Heating (Canada)
Pool & Spa Distributors
Power Transmission Distributors
Sealing Distributors
Security Hardware Distributors
Textile Care
Wholesale Florists & Florist Supply
Amazon-Supply
A threat to PEI distribution model?
TulsaLetter, October 11, 2014

- Evergreen Equipment Company, Boulder, Colorado, has been purchased by Amazon-Supply. Meetings between manufacturers represented by Evergreen and Amazon-Supply will begin next week.
Thank You