

VERTEX ENERGY INC.
Second Quarter 2016 Financial Results
August-11-2016
Confirmation #13642202

Operator: Greetings and welcome to the Vertex Energy Second Quarter 2016 Financial Results conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ben Cowart, Chairman and CEO. Please go ahead, Sir.

Ben Cowart: Thank you, Operator. Good morning everyone and welcome to the Vertex Energy Second Quarter 2016 Earnings call. Joining me today on the call is Mr. Chris Carlson, our Chief

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 2

Financial Officer; Mr. John Strickland, our Chief Operating Officer; and Michael Porter, our Investor Relations Consultant at Porter, LeVay & Rose.

The Company expects to make forward-looking statements during today's call. Statements including words such as believe, anticipate, expect, and statements in the future tense are forward-looking statements. These statements involve known and unknown risks and uncertainties and are based on Management's current views and assumptions regarding future events and operating performance. A number of factors could cause the Company's actual future results to differ materially from its current expectations.

I would like to open with some remarks on our business. I'll then turn the call over to Chris Carlson, our CFO, who will discuss our financial performance for the second quarter 2016. After Chris' comments, I'll discuss the remainder of 2016 and beyond.

First of all, we've made the adjustments to a low price crude oil market. We've made that adjustment and believe we're on track. Since it seems that we are going to be living with this market condition for a while still, despite the rising crude prices during the quarter, we expect prices to remain volatile. Overall prices three to six months from now are probably going to be more or less where they are today as the bottoming action plays out. However, as for Vertex, the changes we've made in the past 12 to 18 months position us to do well in these price levels.

We are very pleased with our second quarter results that exceeded our expectations, making much more headway than we had anticipated. While market volatility will have some short-term effects, we will continue improving our spreads as we move to year-end and we see a lot of improvement ahead. In addition, the low price environment does have a silver lining because the roots of our Charge-for-Oil business can grow, and that makes our model stronger for the long term. At the end of the second quarter, our Charge-for-Oil was \$0.34 a gallon for the oil we collected on the Street. Comparing to the first quarter crude oil price average to the second quarter's average, you would see that we held on to our Charge-for-Oil price but our margins improved because of the rising crude price.

Second, our Heartland facility came back online on May 10 after a fire took it out of commission in the first quarter. Despite being down for half the quarter, its gross profit margin was still 26% and it was cash flow positive. While we were repairing the damage, we also installed new equipment that will boost our volumes and create new products. In June, the facility set a production yield and quality record.

The last point before turning the call over to Chris is our joint venture with Penthol C.V. of the Netherlands. The joint venture will import Group III base oil from the United Arab Emirates to the United States. The first cargo of 75,000 barrels of base oil has already arrived in New

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 4

Orleans, Louisiana. Distribution of the product is by truck, rail and barge to US buyers, and we are already shipping sold products. This is an important development for Vertex because America doesn't produce Group III base oil, and there is a shift in lubricant formulations now and in the future away from Group I towards Group II and Group III base stocks. We expect good demand for our new Group III base oil.

I'll now turn the call over to Chris, our CFO.

Chris Carlson: Thank you, Ben. Vertex Energy prepares its financial numbers, unless otherwise noted, in accordance with Generally Accepted Accounting Principles. Before we start, as Ben noted, our Heartland facility was back online in the second half of the quarter and had a positive impact on our financial performance for the second quarter 2016.

I will now review the second quarter 2016 financial results. For the second quarter ended June 30, 2016, we reported consolidated revenue of \$24.4 million compared to \$49.1 million in the second quarter 2015, a decline of 50%. This decline was a result of decreased commodity prices which have an impact on the value we receive for our finished products, as well as total volume being down 35% from the same period a year ago. During the quarter, WTI ranged from \$36 to \$51 per barrel. For the first six months of 2016, consolidated revenue was \$38.6 million, which was 56% lower than the \$86.8 million reported for the first six months of 2015.

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 5

In our Black Oil division, which includes our Marrero, TCEP and Heartland business units, revenue was \$19.8 million for second quarter 2016 as compared to \$34.3 million in the second quarter 2015, a decrease of approximately 42%. The business was impacted by lower commodity prices as well as lower volumes during the period. For the six months ended June 30, 2016, the division reported \$29.9 million compared to \$59.3 million for the quarter ended June 30, 2015.

The Refining and Marketing division produced revenue of \$2.9 million in the second quarter of 2016 versus \$11.4 million in the second quarter of 2015. Revenue for the division in the first six months ended June 30, 2016 was \$5.5 million versus \$19.7 million for the same period in 2015.

For the second quarter 2016, Vertex Recovery division generated \$1.7 million in revenue, a decrease of 50% from approximately \$3.3 million a year ago, as volumes were down approximately 45% during Q2 2016. For the six months ended June 30, 2016, Vertex Recovery reported \$3 million compared to \$7.8 million a year ago.

For the second quarter ended June 30, 2016, our gross profit was \$5.2 million compared to \$5.5 million during the same period last year, a decrease of 4%. Gross profit margins were 21.5% for the three months ended June 30, 2016 compared to 11% during the same period a year ago.

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 6

Gross profit for the Black Oil division was \$4.2 million during second quarter 2016, which was a 25% improvement over \$3.4 million in the second quarter 2015. Refining and Marketing's gross profit decreased 49% to \$754,000 in the second quarter 2016 compared to a gross profit of \$1.5 million a year ago. Vertex Recovery produced gross profit of \$227,292 in the second quarter of 2016 compared to a gross profit of \$567,086 a year ago, a 60% decrease.

Selling, general and administrative expenses were \$4.7 million in the second quarter 2016 compared to \$5.6 million during second quarter of 2015. The 17% improvement of our SG&A year-over-year was because of the sale of our Nevada facility, a reduction in headcount, and a continued focus on reducing expenses. For the first six months of 2016, SG&A was \$10.2 million versus \$11 million a year ago.

For the second quarter ended June 30, 2016, depreciation and amortization was \$1.6 million compared to \$1.6 million in second quarter 2015. Fair value of the warrants issued, which is accounted for as a liability, provided a benefit and value of \$1.6 million for the second quarter 2016.

We reported a net loss of \$42,660 or a loss of \$0.01 compared to a net loss of \$445,195 or a loss of \$0.02 per fully diluted share for the second quarter of 2015, before the inclusion of the

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 7

accretion, dividends and retirement related to the Preferred B and B1 stock. The expense related to the Preferred B and B1 stock for the second quarter 2016 was approximately \$6.2 million, which gave us a net loss of \$6,331,864 or a loss of \$0.21 per fully diluted share in the second quarter of 2016; \$5.4 million of the \$6.2 million is a one-time charge. Our shares outstanding for the quarter were 29.8 million shares.

Our per-barrel margin during the quarter was up 47% year-over-year. The increase was a result of our diligent focus on Charge-for-Oil at the Street as well as some firming up on VTO and base oil values during the second quarter. Our cash and cash equivalents were \$4 million as of June 30, 2016. Our long-term debt and capital leases is approximately \$12.5 million, including \$5.6 million owed to Goldman Sachs. Our long-term debt was approximately \$23.5 million a year ago.

I'll turn the call back over to Ben Cowart, our CEO.

Ben Cowart: Thank you, Chris. As Chris mentioned, our Heartland facility was back online and running at full capacity during the second quarter. Although we did see a drag from being down the first five weeks of the quarter, we were encouraged by the plant's contribution to the second quarter performance, which I detailed earlier. In addition, there is an insurance

payment of approximately \$2 million owed to us from our insurer, which will further improve our cash position.

One of the keys to our business is managing our spread, and we continue to take steps to do that. Despite the increase in crude prices, our Charge-for-Oil at the end of the second quarter was \$0.34 per gallon, which indicates our ability to hold these charges in place while crude prices rise. One of our previously stated objectives was to have our own finished lubricant products, and we have taken a big step towards that with our Penthol joint venture. As stated earlier, America doesn't produce Group III base oil, and this deal gives us access to a steady supply of Group III stocks.

Since we talked about the Heartland facility, I want to provide a brief update on the other assets so we have a clear picture of our business operations. Our Myrtle Grove facility and the refinery at CMT remain down. These are similar to the Bango facility in Nevada in that they have a carrying cost to the Company today, combined, about \$300,000 per month. We continue to believe that our efforts to develop these assets and explore alternative uses for them will relieve the Company of that burden and generate cash. We are pleased with the progress we've made both (phon) on these assets, and when we have something more concrete to say, we will share that with you.

As of last night, we received our new permit for our Marrero facility. This will enable us to accomplish our goals for the Marrero site. This is a positive accomplishment for the Company and the facility. It will allow the Marrero plant to contribute more to our business, making the facility more valuable.

I mentioned earlier the idea of growing the roots of our Charge-for-Oil services in this low crude oil price environment. This means that direct volumes is healthy growth. We expect our Street Collection growth to track with our trailing 12-month year-over-year 12% to 14% as we go forward, and that doesn't include possible acquisitions.

Our third-party oil was well priced in the second quarter while the Collection business made an even bigger contribution to our margins. We are encouraged by this growth and believe the collections will continue to have a positive impact on our business performance going forward.

Although Chris has already discussed our long-term debt, I'd like to reiterate what we consider a major accomplishment. We have paid down our debt with Goldman Sachs from \$40 million in 2014 to now \$5.6 million, and that's within a two-year period, and our long-term debt from approximately \$23.5 million, now to \$12.5 million in the last quarter. Our line of credit is in good shape, and we still have approximately \$2 million expected from insurance related to the

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 10

Heartland fire, therefore I'm confident that we would not need to raise capital for the foreseeable future.

Vertex has made the adjustments necessary to grow even in the low crude price environment.

We are pleased with our performance in the second quarter, which exceeded our expectations, especially our positive EBITDA, given the market and operating conditions.

I want to let the listeners know that if you have any follow-up questions or comments, please feel free to contact Porter, LeVay & Rose, our Investor Relations firm. The contact is Marlon Nurse at 212-564-4700.

I also want to mention that a digital replay will be available by telephone approximately two hours after the call's completion, until November 30, 2016. Details on how to access the replay can be found in our current press releases and on our Investor Relations section of our website at www.vertexenergy.com.

Operator, we're now ready to take a limited number of questions pertaining to the matters discussed on this call and our 10-K. Remember, we are unable to discuss any information or business plans that are not publicly available. Thank you.

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 11

Operator: Thank you. We will now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, that's star, one to be placed in the question queue. One moment please while we poll for questions.

Our first question today is coming from Eric Stine from Craig Hallum. Please proceed with your question.

Eric Stine: Hi Ben, hi Chris. Nice progress in the quarter.

Ben Cowart: Thank you, Eric.

Eric Stine: Maybe just starting on the Charge-for-Oil side of the business, just curious if you can provide a little detail what you're seeing in the market. Good to see the sequential increase there, and curious how much pushback you got in Q2 with oil prices moving a fair amount higher, and then wondering if that has eased a little bit now that oil prices have come back in some.

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 12

Ben Cowart: Yes, I would say yes and yes to some degree. We got a little pressure. I think we were around \$0.37 at the end of the first quarter and we ended around \$0.34, but in comparison to the increase that came with oil prices, that's very, very reasonable. The other factor of balance for us is our organic growth rate, so we continued to grow our Street Collection business while maintaining a strong Charge-for-Oil in a rising crude market, so that's how we really measure our Street-level success.

The pressure has eased up. Oil prices have kind of fell back into slot, what I think is a bottom action where you're going to have some volatility up and maybe down a little bit; but I think the market senses that we're kind of here for a little while and it's going to give us time for the industry and our Company to really develop some roots around our Charge-for-Oil programs that should be helpful in sustaining good spreads and good margins, even when oil prices do start to rebound and recover.

Eric Stine: Right, okay. Thanks for that. Maybe just turning to the agreement with Penthol, I don't know how familiar people are in the US with the company. Maybe just talk about their presence, but also just curious, was this a competitive win? What were the factors that got you to the finish line, winning this project, and then maybe how should we think about the economics?

Ben Cowart: Yes, so Penthol is a global trading company based in the Netherlands. The business generation goes back to the late '70s, so they've been around a long time. We were approached by Penthol as a potential candidate to help them develop the North American market, and our logistics system and our Marketing Team that was already deployed in the market selling our Group II base oils allowed us to kind of prove our value to the company, and over close to a year period, develop the transaction that we've done and the relationship. I think that we're very pleased with them as a counterparty with us, and I believe the same is true in our role in this joint venture, and we don't think we've scratched the surface of opportunity with the relationship.

So to try to size up the opportunity at this point is kind of early. We are in a profit-share relationship with them. We expect somewhere in the neighborhood of a nickel a gallon type of margin. We won't be carrying the revenue related to the joint venture, so it will strictly be margin coming into the Company. We see it as leverage on our system and on our base of talent in our Team, so I think that's just going to enhance our profitability on our current business.

You know, our volumes today are around 75,000 barrels every other month, and we hope to increase that to 75,000 barrels on a monthly basis, is kind of what our target is, so if that gives you enough scope at this point. It's still early. The first cargo has landed and we've already

moved 25% of that cargo to date, and a lot of that is trial sales and still there's a lot of approvals that have to be accomplished with the base oils, so there's a lot of work, front-end work, that has to be done. I think our Team has done a great job to pull everything together, execute all the operational requirements. We've got a great terminal partner in New Orleans, we've got 120 new rail cars that are going to be part of this project to logistically move the product around the country, and we've got a lot of good buying partners already that are coming on with us to make this successful.

Eric Stine: Okay, thanks for the color. That's it for me.

Ben Cowart: All right.

Operator: Thank you. As a reminder, if you'd like to be placed in the question queue, please press star, one at this time.

Our next question is coming from Michael Hoffman from Stifel. Please proceed with your question.

Michael Hoffman: Hey Ben, Chris. Thanks for taking my questions.

Ben Cowart: Hey, good morning.

Chris Carlson: Good morning.

Michael Hoffman: So Ben, as you think about the spread relationship today characterized against a period where we had more stable crude and selling prices, how would you frame the spread relationship today proportionally?

Ben Cowart: So are we talking second quarter to current quarter now?

Michael Hoffman: Yes. Yes, or current sort of—if I'm building a model now for the remainder of the year, what's that spread relationship look like? Then relative to 2Q, am I incrementally better or stable?

Ben Cowart: Yes, I think we're stable, maybe a little bit softer in the third quarter to what we've seen in the second quarter, just because we had higher price inventories from higher crude prices, and crude has settled back in the low 40s. So there is always a lead lag and a short-term impact, but just ratable spreads I think are really comparable. I don't see a lot of difference in the spreads once you kind of digest all your inventories and your sales of those products.

Michael Hoffman: Okay, that's the sequential, and then how would you frame today's spread environment relative to when things were—you know, this was a couple of years ago, but you had stable crude prices, stable selling prices, and were able to manage pretty effectively your spreads. What's the relationship today of where those spreads are versus that period? I'm trying to understand where we are profit-wise.

Ben Cowart: Yes, I think that's a good question, and probably worth us going back and doing some comparison, Chris, on that. My sense is, just as I'm looking at our current spreads and where we've been and the challenge that we had from two years to get to where we are, I think we've made considerable headway to get back to those same type spread numbers. I don't think we're there completely, but if I had to gauge it, we're probably 60% of where we were. I think a little bit of movement on oil prices now; we could get there and beyond there pretty quick.

Michael Hoffman: Okay. Then digging a little deeper into the Group III transaction, so just so I'm clear, the accountants aren't going to make you gross up a revenue of the value of the barrel imported?

Ben Cowart: No.

Michael Hoffman: So the \$0.05 will come through where in the context of the income statement?

Ben Cowart: We're still setting the accounting up, but we anticipate that to be in our Refining and Marketing business.

Michael Hoffman: Okay, so that will show up, so it's 75,000 barrels at 42 gallons a barrel, multiplied by \$0.05, and throw that in Refining and Marketing?

Ben Cowart: Yes, that's the estimated target; but again, we are on a profit-share type of relationship with them, so.

Michael Hoffman: Okay, but that's the way to think about it?

Chris Carlson: That's right.

Michael Hoffman: Okay, okay. Then where are we in the context of earnouts like the Heartland, and either being able to walk away from those or have obligations at this juncture, given all of the moving pieces?

Chris Carlson: Yes, as far as Heartland and actually any of the other earnouts that were out there, none of them have been achieved, so they have all been—

Ben Cowart: Retired.

Chris Carlson: —written off or retired, if you will.

Michael Hoffman: Okay, so there's no risk of that in the future on us, then?

Chris Carlson: No.

Michael Hoffman: Okay. Then lastly, today, given that you've got Heartland back up, the expanded capacity from Marrero, how do we think about what your total Street volumes are, or total volumes needed (phon) to put through the plant, and then what's the percentage of that, that you're collecting?

Ben Cowart: Well, assuming that TCEP stays out of production, we're looking at somewhere around 90 million to 100 million gallons of UMO, and TCEP would bring in another 35 million to 40 million if we choose to bring it back online.

Michael Hoffman: Okay, and you're collecting how much of that 90 to 100 today?

Ben Cowart: Twenty—?

Chris Carlson: Twenty to 25%.

Ben Cowart: Yes.

Michael Hoffman: Okay, and that number's up from sort of 18 to 20, is that the sort of trend that we're—?

Chris Carlson: Correct.

Michael Hoffman: Okay.

Ben Cowart: I mean, we're probably run rate around 21 million, I guess.

Chris Carlson: Yes.

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 20

Michael Hoffman: All right, and what do you think you'll be at by the end of the year in the context of that?

Ben Cowart: Well, we're running around 12% to 14% growth on our volume without acquisitions.

Michael Hoffman: On your collected (phon)—H&H, your own collected volume?

Ben Cowart: That's correct.

Michael Hoffman: Okay. All right, so 12%—12% to 14% sequentially, or year-over-year?

Chris Carlson: Year-over-year.

Michael Hoffman: Okay. All right, so we're probably looking at it being about 25 million gallons by the end of the year, then?

Ben Cowart: Run rate.

Michael Hoffman: Run rate, yes. Okay. Okay.

Ben Cowart: That sounds good.

Michael Hoffman: That sounds about right? Then inside the 19.8 that's Black Oil, if everything else stays the same, all the other business, what's the incremental revenue up for Heartland as a result of it being at a full quarter? Is it about \$3 million?

Chris Carlson: Two to three, that's about right.

Michael Hoffman: Okay. Okay, that's all I've got. Thanks.

Chris Carlson: Thank you.

Ben Cowart: All right.

Operator: Thank you. As a reminder, if you'd like to be placed in the question queue, please press star, one at this time. One moment please while we poll for further questions.

We have reached the end of our question-and-answer session. I'd like to turn the floor back over to Management for any further or closing comments.

Vertex Energy Inc. Second Quarter 2016 Financial Results

August-11-2016

Confirmation # 13642202

Page 22

Ben Cowart: All right, well, thank you everybody for joining us on the call today, and we appreciate everybody's support for the business, and especially through this last two years of very trying times. I'm very pleased with the performance of our Team and our people, and I give them all the credit for the success we've seen and what we envision as we go forward, so thank you to my staff and my people, and the support we get from the markets. You all have a good day.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.