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Sterling Trucks On With Latest Purchase

Joe Christinat, Buyouts Newsletter
July 28, 2003

Sterling Investment Partners, through its portfolio company Kenan Advantage Group, recently purchased trucking companies Klemm Tank Lines and Beneto Bulk Transport for approximately $50 million.

These latest purchases net Kenan nearly 1,300 tractors and trailers, which haul petroleum-based liquids and chemicals from 30 terminals in Arizona, California, Illinois, Nevada and Wisconsin to filling stations. The purchases give Kenan a total of 2,000 tractors and 2,500 trailers in total.

"Oftentimes, it's not the original purchase that makes the deal, it's the follow-on acquisitions that make it work," said Douglas Newhouse, managing partner with Sterling. "These acquisitions solidify Kenan as a true national player, especially through the Beneto purchase, since you can't truly be a national player in this industry without a significant presence on the West Coast."

Sterling co-owns Kenan with RFE Capital Partners, a New Canaan, Conn.-based SBIC fund. RFE Managing Partner Jim Parsons said the entire Klemm/Beneto deal was financed through senior debt. The debt syndicate included CIBC World Markets, Key Bank, LaSalle Bank and Wachovia Bank. "They had healthy EBITDA earnings, and we had debt capacity with the existing debt structure, which gave us enough borrowing availability to do the deal with just senior debt," Parsons said.

The Kenan platform will pull in $400 million in revenue this year, an eight-fold increase from 1998, the year Sterling and RFE acquired the transport company. "We have acquired five regional carriers since the original acquisition, and taken Kenan from being a Midwest carrier to the only national carrier in the country," said Newhouse. "[With these latest purchases,] Kenan will deliver 21 billion gallons of gasoline each day-that's 8,000 gallons every five seconds. And we're seven times larger than the second-largest carrier in the United States."

Additionally, Kenan seems to be in a great position to grow. The majority of fuel distribution in Europe and Asia has already been taken over by third-party carriers, and an increasing number of U.S.-based energy companies are looking to follow suit by focusing on core assets-mainly exploration and production. "We've talked with all the major energy companies about [spinning out] their fleets," said Newhouse. "It is not a question of if' Kenan will grow, but how fast they want to."

Newhouse said the next steps for Kenan will include internal and external branding programs "that will create a common culture for all employees and a unified brand to the rest of the world."

Aetna Life Insurance Co., a limited partner in Sterling's fund, was a co-investor.

Sterling used its $250 million fund, Sterling Investment Partners LP, for the purchase, which held a final close in October 2001. Including a deal that is slated to close later this summer, the fund has approximately $150 million in dry powder. RFE used its sixth fund, RFE Investment Partners VI LP, for the purchase, a $240 million fund closed in 1999. According to Parsons, approximately $170 million has been invested to date.

These latest deals for Sterling are complementary to the firm's most recent action prior to the Kenan purchases, in which the firm acquired six petroleum tanker ships from Amerada Hess and two from Union Carbide Finance Corp. for more than $200 million.