



Automated Front-of-House Trash and Restroom Paper Towel Compactors for Food Service and Hospital Industries providing a Hands-Free Deposit System that Reduces the Number of Times the Waste Container is Emptied



Jeff Tolke
Chief Executive Officer

Compaction Technologies, Inc.
www.compactiontechnologies.com

Contact:
Jeff Tolke
612.230.2200
jtolke@compactiontechnologies.com

Interview conducted by:
Lynn Fosse, Senior Editor
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CEOCFO: Mr. Tolke, what is at the heart of Compaction Technologies?

Mr. Tolke: Recycling! Our goal in life is to reduce the amount of trash that goes into landfills, such as waste stream diversion, recycling, composting; anything that gets trash out of landfills. Forty years from now my grandkids will be asking my children, "Why on God's green earth do we bury our garbage? It just makes no sense." Therefore, we want to be at the forefront of this important issue and continue to be a change agent for the good of our environment and future generations.

"Our society's tolerance of landfills is going away. The whole concept of burying trash is just backwards and does not make sense. You combine that intolerance with guest intolerances for dirty trashcans, overflowing trashcans, and being grossed-out when trash is emptied during mealtimes, and this all points to change."- Jeff Tolke

CEOCFO: What have you figured out at Compaction Technologies?

Mr. Tolke: From a 10,000 foot level, the world's waste stream is being divided into several small waste streams. Back in the day when household garbage compactors were a big deal, there was no recycling or composting and all waste went into the garbage, which had to be emptied 2-3 times a day. That is where a compactor at home made a great deal of sense. However, as we've progressed we now split off the cans and bottles, we split off the cardboard, and in some cases the organics, which basically makes three small waste streams instead of one large waste stream. You can do this in your home by adding more containers for composting or recycling. But this is not so easily done for a fast food restaurant, or large food service operation. It can be extremely difficult for them to create and manage additional waste streams. For example, we work with a big shopping mall in California, which now has to separate their organics from their recycle from their landfill... they now suddenly have to come up with a way to handle and store three separate waste streams. The waste haulers are not going to triple their service level and having compartmentalized garbage trucks is not an easy solution. This large mall has to come up with a way to capture, store and handle three small waste streams in such a way that it is efficient for a pickup. That is where Compaction Technologies really shines.

CEOCFO: Would you tell us about your technology?

Mr. Tolke: At the very core we provide a very user friendly receptacle that automatically opens, receives a deposit and compacts very quickly and quietly. It is better for guests than using a garbage can, and for the operators, it allows them to

empty the trash 80% to 90% less times. If you take a typical McDonald's that is pulling the trash out of their dining room six times during the lunch period, by putting in a compactor we would get them down so they are pulling trash once. That has huge ramifications for their labor, for their guest experience, and for their sustainability.

CEOCFO: *How do you show companies the benefits and the return on investment?*

Mr. Tolke: It's very simple. We simply look at the time and motion that an employee goes through to manage trash from start to finish. We document where the cycle begins, usually behind the counter, and where it ends, usually back at their original work station. Employees have to stop what they're doing, walk to the trash cart, walk to the trash can, pull the bag, put in a new bag, move to the next can then go to the dumpster, unload, walk back to where the trash card is stored, wash their hands, and get back to what they were doing before. Just by looking at the time and motion associated with that, you can place a value based on dollars per hour of what it costs in time to handle waste. When you can reduce that amount by 90%, even at \$10 to \$12 an hour, it is a no-brainer. We do not sell machines; we lease machines, and we lease machines for a variety of reasons. First, by leasing the machines there is no big cash outlay up front, and it amounts to about \$5 a day. Therefore, a restaurant operator is going to save somewhere between 30 to 45 minutes a day by using a compactor, but their cost is covered in about 20-30 minutes. Therefore, it is a real easy math calculation to show that they are going to save money or worst case break even just on the labor. They save money in other places like buying and using fewer trash bags, and requiring fewer dumpster pick-ups. If they have a big 8 yard dumpster that gets picked up six times a week, we might be able to get that knocked down to 4 times a week. That gives them hard dollar savings in three buckets. On top of that, they receive the better guest experience, and sustainability and it costs them nothing.

CEOCFO: *How are you reaching out and what push back are you finding, if any?*

Mr. Tolke: For reaching out we have a good active website. We attend many major trade shows and our best advertisement is our own machines that are in the field. We have not put a great deal of money into direct marketing or mass media, because we are trying to reach the owners of operations of food service or hospitals. Therefore, we attend trade shows that get us in front of those people. The pushback that we get, particularly in a fast food restaurant, is that they look at it in terms of, "I cannot fire a kid for 2 hours a day. I need them here for other stuff, and since they are here already, they can take out the garbage while they are here". That is great logic for operators who don't like to manage people, but most of the really efficient operators that we talk to manage employee time down to a science. They bring-in people later or let people go home earlier to be able to monetize the labor savings. We do not hear that push-back very often in a hospital where they have people designated just to move trash. When we show them the time savings, they would much rather have those employees doing more important tasks.

CEOCFO: *For example, with fast food restaurants, would you be dealing with the franchise owners or the corporate offices?*

Mr. Tolke: Our business model is really setup for national accounts. It is a new way of operating and a new way of thinking, so the selling cycle has proven to be fairly long. We can spend that time with a franchisee that has 6 locations or we can spend that time with an organization that has 6,000 locations. I would much rather target the 6,000 location opportunity. Therefore, we really focus our attention on headquarters of national accounts. We are still finding our way through that with hospitals. But with fast food, I have a national account manager that has been in the industry for 30 years who knows the players and has proven to be a great asset to us. He's also having a blast selling truly new technology.

CEOCFO: *Was that your approach from the beginning or did you realize over time that was the best way to go?*

Mr. Tolke: That was our intuition right away. We tried the up and down the street business and found that it just took forever. We had to get the up and down the street business when we first started because you cannot really drive down to Oakbrook, Illinois, go knock on the door at McDonald's and say, "Hey, I've got something for all 14,000 of your US locations." Any national chain will want to see you be successful first on a smaller scale before they make it a brand standard. Therefore, we dealt with many small franchisees to begin with, but since that time we have tried try to point ourselves at headquarters.

CEOCFO: *Would you tell us about the ecotrash PTC® for paper towels in rest rooms?*

Mr. Tolke: True to the mission we talked about earlier, ecotrash PTC® is really at the core of being able to recycle paper towels. There is no way to get a clean stream of paper towels, so if a paper towel manufacturer, such as Georgia Pacific or Kimberly Clark, thought it was a good idea to recycle paper towels, the recycling industry does not separate paper towels from the 4 or 5 main grades of paper. There are bales of cardboard, bales of office paper, bales of paperboard, bales of newsprint, but no specific grade for paper towels. They are mixed in with everything else. What we are trying to do with ecotrash PTC is create a way for operators to really make their restrooms cleaner, improve their labor efficiency, improve their guest experience and recycle a pure stream of paper towels. On our website it shows the ZeroWaste® Bin,

which is basically a cardboard box. ZeroWaste Bins were created to compact paper towels into a rigid cardboard box. That gives you fiber in a fibrous container. You fold the box shut and now that whole thing can be recycled and it is all relatively pure paper towels. No plastic bags. That is a huge deal and if our plans work out the way I think they will, our customers will create scale and a really strong negotiating position with a paper towel manufacturer to agree to buy their paper towels only if the manufacturer will agree to take back the recycled paper towels. Our customers can offer paper towel manufacturers a pure stream of recycled paper towels in a really efficient form that they can be picked up and efficiently transported back to their plants. That is advantageous for the paper towel manufacturer because now they have a raw material that is relatively pure and they do not have to run it through nearly the amount of purification steps and costs that they currently do when their feedstock is a bale of cardboard from the recycling house. It would also help the paper towel manufacturer's public image to offer their customers a full circle recycling solution.

CEOCFO: *What might be the competition?*

Mr. Tolke: Our biggest competition are the dumb trashcans; just plastic trashcans from any Jan/San supplier. There are two other compactor companies in this space, but they are big companies with higher priorities so this is one small ancillary product line to them. We live, eat, breath and sleep compacting waste at the source for the purpose of recycling. Our technology is well ahead of the other manufacturer's that are out there, but I would love to see more manufacturers in this business because that would create more noise and help to grow the category. That is what we need.

CEOCFO: *What are your manufacturing capabilities? Where do you manufacture? Can you ramp up quickly?*

Mr. Tolke: We consciously chose to utilize contract manufacturing. The manufacturing of our device is relatively simple. It is basically box assembly with some inner-workings. It is not overly complicated, and for us to invest the capital to build a manufacturing plant, we just would not get the return on assets that we are looking for. Therefore, we have decided to consciously go out and identify contract manufacturers. Within the radius of 30 miles from our office there are probably 2 dozen manufacturers that could assemble our devices. There is a great deal of capacity in the industry, so we contract everything out. What we do internally is sell, market, and design leading-edge compactors. We have some fantastic engineers from the medical device industry, which is a big deal in this town. These guys are really sharp. They bring a fresh set of eyes to what could otherwise look like a mundane product, and we have some pretty interesting intellectual property to show for it. We want to be a design and marketing company, and farm-out the rest.

CEOCFO: *Would you consider outright sales rather than leasing when dealing with larger?*

Mr. Tolke: The leasing is really part of a business mode. This industry has been around for 20 plus years and typical modus operandi of the companies that preceded us was to sell someone a piece of equipment, try to overcharge them for bags and runaway as soon as the warranty period was over. When I first started in this business, I talked to a number of people who had tried compactors before and they liked the idea but they could not keep the devices running. That told us that we not only had to come up with good reliable technology, we had to keep it running. Therefore, we have been big advocates of the lease program and our customers are definitely onboard with that. We have had a few customers that were a little reluctant to begin with, but I think we have done a nice job converting them. Additionally, customers have been very happy with our renewal options. After the lease period is over it is really simple; do you want the latest and greatest technology or do you want to keep the equipment you currently have? It is fully depreciated so we can do a little bit of a discount for them. With the idea of new technology, we are trying to up our game every year. We are trying to come up with the latest and greatest technology to be able to outperform what we have already done. That's because this is a very dynamic marketplace and we want to continue to add value for our customers and do it in such a way that it is going to be hard to beat.

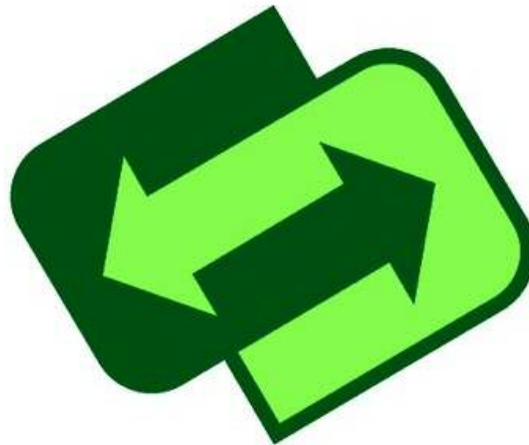
CEOCFO: *What do you focus on when considering new technology or enhancements?*

Mr. Tolke: ecotrash PTC is a great example of what new technology can be. ecotrash PTC is different than our original ecotrash, because it is smaller, lighter and does not need to create as much force because it is compacting paper towels. In addition, the way we feed waste stream into ecotrash PTC is completely different than anything else on the market. That has allowed us some really nice consumer benefits in that there is no waiting between compaction cycles. It is very efficient because we've figured-out how to hold down on the waste for an extended period of time throughout the day. For example, over a course of an hour where you have 4 deposits, ecotrash PTC can be holding down on that trash about 55 minutes. That is where we get a great deal of our effectiveness and we do that very economically with a motor that draws very little electricity. When it comes to new technology, my guys look at what we are trying to accomplish and apply new thinking to it.

CEOCFO: *Final thoughts. Why pay attention to Compaction Technologies today?*

Mr. Tolke: I am a native of the West Coast. I grew up separating everything...newspapers, bottles, cans, organics, everything. I never even saw a garbage truck until I went to college. Our household separated everything and it was just a

natural way of living. But in the Twin Cities where I live now, even though we are ahead of the curve compared to most markets it's a chore to separate waste streams and a hassle to handle multiple streams. Our society's tolerance of landfills is going away. The whole concept of burying trash is just backwards and does not make sense. You combine that intolerance with guest intolerances for dirty trashcans, overflowing trashcans, and being grossed-out when trash is emptied during mealtimes, and this all points to change. We see huge upside to change the social norm of eating at fast food restaurants. I can remember when our society tolerated smoking a cigarette on an airplane; you would never think of doing that now. Yet many fast food owners tolerate their customers pushing trash down by hand into the trashcan so they can empty their tray at the end of the meal. It is just backwards! There is tremendous headroom to improve the guest experience and once this technology reaches a big enough scale it will raise guest expectations for everyone in the hospitality industry. This is where our business and our category are headed, and once consumers and operators "get it", there will be no going back.



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