

Capital Communication\$

HELPING YOU ARRANGE THE PIECES OF YOUR FINANCIAL PUZZLE.

What's Your Company Worth?

Many people will look at the chart on this page, see the amount of gallons the companies sell, and compare these companies to their own. Unfortunately, there is no reasonable way to value a company based on gallons alone.

The chart below shows companies we've worked with over the years. Notice the price per gallon ranges from 44 cents per gallon to \$2.00 per gallon. Making the age-old adage of propane companies being worth \$1 for every gallon sold obsolete. Your company's value is not based on how many gallons you sell, but on your earnings value (multiple of EBITDA). There are many variables factored into determining the multiple to apply to the EBITDA such as:

- ❖ Tank Ownership
- ❖ Net Tank Sets
- ❖ Gross Margin Trends
- ❖ Top 10 Customers
- ❖ Gallon Quality & Trends
- ❖ Routed vs. Will Call Customers

Since 1991, Propane Resources has completed hundreds of valuations and business/financial reviews for propane companies across the nation. The following are a few reasons retail propane companies seek valuations:

- ❖ Estate Planning
- ❖ Curiosity
- ❖ Partner Buy Out/
Buy In
- ❖ Bank
Financing
- ❖ Interested in Selling
- ❖ Divorce
- ❖ Buy/Sell Agreement
Agreement
- ❖ Baseline for
Improvements
- ❖ Buying a Competitor

You deserve the confidence and peace of mind in knowing what your business is truly worth.

**Call Tamera or Cooper today
 at (913) 262-0196 to begin your
 valuation process.**

Region	Gallons	Adjusted EBITDA	Company Value	Price Per Gallon
Northeast	2,100,000	\$746,000	\$4,200,000	\$2.00
Northeast	1,200,000	\$260,000	\$1,200,000	\$1.00
Southeast	925,000	\$85,000	\$460,000	\$0.50
Southeast	1,600,000	\$400,000	\$2,000,000	\$1.25
Ohio Valley	1,000,000	\$185,000	\$1,200,000	\$1.20
Ohio Valley	350,000	\$48,000	\$200,000	\$0.57
Midwest	300,000	\$40,000	\$200,000	\$0.67
Midwest	850,000	\$180,000	\$920,000	\$1.08
Upper Midwest	1,500,000	\$250,000	\$1,175,000	\$0.78
Upper Midwest	2,500,000	\$250,000	\$1,500,000	\$0.60
West	1,700,000	\$300,000	\$1,800,000	\$1.06
West	675,000	\$60,000	\$300,000	\$0.44

Best Practices for Building Long-term Value

Propane companies are valued, bought and sold based on a multiple of cash flow. Most accountants or financial people talk about a multiple of EBITDA — Earnings Before Interest, Tax, Depreciation and Amortization — essentially cash flow. For example, if your EBITDA is \$200,000 and the multiple applied is 5.0, the value of your company would be \$1.0 million. Valuing companies is part science and part art. Determining EBITDA is mainly science. However, determining which multiple to apply is part art. But what impacts that multiple?

The real keys to building long-term value are: 1) increase EBITDA and, 2) increase all factors that impact the multiple placed on your EBITDA. Those factors are what we call “best practices” to build long-term value. Everyone has a different start point when building long-term value. Many of you will not believe some of the following best practices are worth the effort — that is your choice. But if it were easy, wouldn't everyone be doing it? Here's a list of the little things that are tough to duplicate and often create the greatest positive change.

- 1) Gallon Trends:** Value is based on sustainable gallons delivered year after year. Many buyers will discount, if not adjust out, gallons that are not sustainable from year to year. Grain drying provides fantastic returns, but it's not sustainable. The need for it year after year is not guaranteed. So, try increasing the high gross margins that have low risk. Enjoy the profitability gained during high grain drying years, but do not expect them to increase your overall value.
- 2) Market Segment:** Track the gallons delivered to different segments: residential, commercial, industrial, cylinder, government, wholesale, etc. Know your gross margin by segment. Then, focus on building the segment that yields the highest gross margin and profitability.
- 3) Percentage of volume with top five (or ten) customers:** This one is tricky — gross margin associated with the top five to ten accounts can greatly impact the value of your business. Try to keep your top five customers using less than 15 percent of your total volume; ten percent is even better. Consider this: What would happen to your gross margin if you lost one of your biggest accounts? Don't put all your eggs in one basket of high purchasing customers. Focus on growing total gallons to lessen the top five to ten customers' impact. In some cases, retailers realize they could be more profitable without those larger accounts.
- 4) Customer Growth Trends:** Every year, companies gain and lose customers. All customers are not created equally; the quality of customers gained can also impact the trend of growth and profitability. It is important to track where customer growth is generated, and what practices are successful in gaining them. It is equally important to track the number of customers you lose and why.
- 5) Gross Margin Trends:** Gross margins rule in the propane business. All operating expenses, capital expenditures, debt repayment, and more, must come from the gross margin. It is important to understand the gross margin made on each customer classification (i.e.: residential, commercial, agricultural, motor fuel, etc.). Having an upward gross margin trend (plus enough to cover expenses and service debt) is critical. If there is a fluctuation or downward trend in the gross margins, it is important to know why and then do something to change the trend. In addition to propane gross margins, other income such as tank lease fees, service work, delivery or statement fees, etc. is also critical in building sustainable value. The other income gross margin can contribute nearly 10 cents per gallon, if not more, to the bottom line.
- 6) Operational Efficiency Trends:** Understanding your business' operational efficiency will improve your profitability and value. Establish systems that reduce the number of hours worked, miles driven, and maximize gallons dropped. Consider investing in systems as a capital investment that maximizes efficiencies and minimizes recurring expense dollars.

Best Practices for Building Long-term Value (Continued)

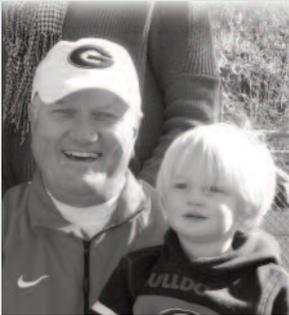
- 7) **Company Owned Tanks:** When the tank is controlled (owned) by the company, the customer becomes less vulnerable to switching propane providers. When you own the tank, only you can fill, collect lease fees, and determine its true safety record. When buying or selling a company, the percentage of tank ownership plays a key role in the value of the business. A key upside for a buyer is in an asset transaction they get to restart the depreciation. However, owning the tank is only good if you have proof — a signed tank lease. Tank leases signed by the customer are the primary document for proof of ownership. Showing annual tank rent paid by the customer helps substantiate the ownership but doesn't replace a signed tank lease. The last thing any buyer wants to do is fight to prove who owns the tank; and, this can be a significant issue when you decide to sell.
- 8) **Quality of Staff:** These may seem like a given, but good staff members are worth their weight in gold. Employees can make or break an operation, hiring a good staff will help increase your profitability, grow your business, and be the cause of fewer headaches down the road. Building a strong culture is very valuable.
- 9) **Quality of Assets:** Assets do not need to be new but the performance, safety and image are very important. For many companies, consumer tanks make up over 70% of the total asset value. It is important to take good care of them and make sure they meet all safety standards including data plates. Track expenses on each vehicle to determine when it's time to invest in a new(er) asset.
- 10) **Safety:** Safety is absolutely critical. But if you do not document the safety procedure, it's like it didn't happen. Propane is a very forgiving fuel. But if there is an accident, it tends to be spectacular. If you were to make an acquisition, keep in mind, you have just acquired all 1,000 of the customer's installations. You won't have the opportunity to visit all 1,000 installations on day one. So, keep careful documentation of safety checks and procedures to make your company more valuable to a buyer and to protect your customers' and company's future.
- 11) **Number of Gas Checks on File:** Many insurance companies will give you preferential status which can often positively impact your premiums if you perform gas checks on 20 percent of your customers' systems each year. This insures you are performing a gas check on all customers every five years. However, performing the gas check without documenting the procedure and filing it means it didn't happen. Be sticklers on documentation.
- 12) **Image/Customer Perception:** A company's image will almost always tie to financial performance. It really comes down to pride. It is easy to tell the performance of any company, not just a propane company, by walking into an establishment. Who doesn't want to walk into a clean, inviting space where employees take pride in the company and what they do? It doesn't have to be lavish, but make sure your image conveys that you take care of your business. In turn, customers perceive this is also how you will treat them and their property. Customers notice their driver's appearance, the condition of the equipment, and your office. Look at your business through the eyes of your customers.

Change is probably the most difficult thing to achieve. Look through the above list and rate where you stand in each category. Which areas would be easiest to tackle and which would give you the greatest return on your efforts? These efforts won't take place overnight. To be successful, everyone in your organization must understand why change is important and that they need to buy in. Most will be eager to help if they understand the importance. If not, that just helped you with Best Practice #8 above. Good luck with growing the value of your business. Remember, if it were easy, everyone would do it.

It's Been Said About Us...

“Propane Resources provided our company with a thorough description of the entire sale process. They met every deadline and delivered on all of our expectations. Any questions we had during the process were answered immediately. Tamera and Cooper confidentially and professionally handled all of the details of the transaction and provided any assistance we requested.”

Jerry Manning, Kaw Valley Propane →



“In 2013, our company, Conger LP Gas, Inc., had the opportunity to make an acquisition that was a unique opportunity. I contacted Tamera at Propane Resources for advice on how to proceed and we were very pleased with the results. Not only did Tamera provide us with a very detailed evaluation that was extremely helpful in securing the financing we needed to complete the deal, both she and the team at Propane Resources provided several options that helped to seal the deal with the seller. Without hesitation, I have recommended other propane companies to contact Tamera and her team because of their professional approach, knowledge of the propane industry, and prompt completion of the project.”

Dan Richardson, President/CEO Conger LP Gas, Inc.

“When it came time to sell the family business founded by our father, we knew we had one chance to get it right, maximizing the value we would get for our business. We had worked with Propane Resources over the years and it was a natural decision to have them represent us in such an important business decision and transaction. They helped us work through our family dynamics and get the right deal. Looking back on the experience, I can say, running a propane business does not prepare you for everything required in selling your business. The Propane Resources team was there to help us through every step.”



Cynthia Brewer, Thermagas, Inc. Owner



“We requested Propane Resources perform a fair market valuation and spend a few days at our location reviewing the business and operations. We wanted to identify opportunities for improvement and were looking for them to see the things we were either too close to see or what we perhaps “refused” to see. We have begun implementing many of their suggestions and we’ve already realized they were right on target with their observations. We are excited to realize the long term benefits from the changes we are implementing.”

Barry Boehlke, Boehlke Bottled Gas

Helping business partners create opportunity has always been our mission. Our greatest challenge? Knowing the one thing you want to change. With a clear understanding of what you want, our experience, knowledge and third-party perspective will help you achieve your goals. No challenge is too big.

Call Tamera or Cooper toll free at 888.739.6732 for a confidential discussion.

We hate that our legal system, or lack thereof, has created the need for this small print. This letter offers the best information we have at hand on the subjects discussed. It should not be regarded as the complete analysis of these subjects. We accept no liability for any loss or damage from reliance on, or use of, this material. Before you take action, get other opinions.