Propane Resources
Helping Business Partners Create Opportunity

¢apital Communication$

HELPING YOU ARRANGE THE PIECES OF YOUR FINANCIAL PUZZLE. SUMMER 2011

Are You Preparing to Sell in a Few Years?


Daniel Dixon

This headline is a question we get asked often. We understand you want to make as much money after tax as possible. For those of you who are S corporations or LLCs, you can rest a bit easier. For C corporations, the deal structure becomes even more important, but can be negotiated in your favor.

When preparing your company to sell, here are several items (in no particular order) you may want to consider:

- Make sure your margins are trending upward
- Quit selling tanks to customers
- Get company records in *very* good order
- Get as close to 100% signed tank lease agreements as possible
- Focus on your financials — detail the revenues and expenses
- Have a monthly volume by customer category available
- Start showing all sales — no "back pocket" sales
- Work your receivables
- Increase the number of long-term contracts with larger accounts

Where should you focus first? In recent transactions, we observed issues surrounding margin trends, financials, company/customer records, signed tank lease agreements and volume by month/category.

Many companies do not have a high percentage of signed tank lease agreements – especially the companies who have been around for decades. Offer incentives (free propane, etc.) to encourage customers to fill out the form. Make sure it states that you own the tank, list the tank size and serial number and make sure they sign it.

The better your company records, the more valuable your operation will be to potential buyers. Keep in mind, buyers will be looking at multiple deals at the same time. Those that have more complete information and material will be considered first and given more credibility.

Are You Gambling Your Propane Business?


Mark Bailey

No, I am not talking about trips to Vegas, Atlantic City, Biloxi, or any other casino! Many owners gamble their operation in other ways. It may be that speculative hedge on supply when you are buying product that is not for customer pre-buys or fixed price contracts. There are many companies who lost money on dollar-cost averaging. Other gambles are less visual.

It could be a simple question: Are you playing to win or playing not to lose? Let's focus on that question. Playing "not to lose" is what we see many mature owners doing. They do not want to invest money into expense saving and even revenue generating products available to our industry. The business is on autopilot, has been on autopilot, and will remain so until the owner sells to an outside party or family member, or walks away due to cash issues. Autopilot is when the business continues to be run the same way year after year. Nothing will change — including profitability.

Guess what? Change will happen around you while your head is stuck in the sand. If you operate the business the same each year, you are not making the same profit each year. Salaries, insurance, supplies, regulations, etc., all increase each year. Many companies have increased margins and some have added fees to their deliveries to increase profits. Others have invested in routing software, accounting and operational systems, onboard computers and handhelds. All of these cost tens of thousands of dollars. Guess what? They pay for themselves quickly if you use them properly and make the necessary difficult decisions.

What savings you ask?

- Tank usage reports help you cull tanks in the field so you do not have to buy new or used tanks
- Accounting reports identify changes in wholesale pricing and margins
- Operational systems (routing, handhelds, etc.) make your fleet more efficient and therefore take a bobtail or two off the road
- If you have handhelds/laptops in your bobtails, you might be able to reduce personnel in the office because tickets will not need to be entered by hand (fewer mistakes as well)
- You will deliver more gallons per drop, per mile, per truck

These are just a few. Play to win. Make the changes needed — even if you plan to sell in the next 5-10 years. Buyers could reward you for making those changes — and penalize you if you don't. Quit putting off for tomorrow what can make you money today.

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Value Disparity: Earnings Value vs. Asset Value

Tamera Kovacs

In the retail propane industry, companies are typically valued based on the earnings value of the company. The earnings value is determined by applying a multiple to the adjusted EBITDA (earnings before interest, depreciation and amortization). The adjustments are typically either one-time events or expenses a new owner would not incur when they take over the business. Changes will be made and those changes will most likely impact the earnings of the company.

Buyers typically make their offers based on the earnings value. This is how they will pay for the acquisition. Imagine yourself buying someone in your marketplace. You want the earnings of the company to pay for the acquisition.

But, what happens when the earnings of the company is less than the value of the assets? Unfortunately, sometimes the difference can be significant. Put on your buyers hat and consider what offer you would make on the following companies. Both companies have an asset value of $610,000. One company has a $1,080,000 earnings value while the other has a $480,000 earnings value.

If you purchase Company B for the $610,000 asset value, your effective multiple (or years to pay back the acquisition) is 7.6 years. You could actually purchase Company A for $1,080,000 and pay it back in 6.0 years. A better buy even though you've paid more for the company. The assets are the same, but Company A has greater immediate value based on earnings history. Which purchase would your banker rather fund?

Earnings vs. Asset Value

Earnings Value	Company A		Company B	
Gallons	1,000,000		1,000,000	
Gross Margin	0.55	$550,000	0.45	$450,000
Operating Expenses	0.48	$480,000	0.48	$480,000
ITDA	0.07	$70,000	0.07	$70,000
EBITDA	0.14	$140,000	0.04	$40,000
Adjustments	0.04	$40,000	0.04	$40,000
Adjusted EBITDA	0.18	$180,000	0.08	$80,000
Earnings Value 6.0 Multiple		**$1,080,000**		**$480,000**
Asset Value				
Tanks		$400,000		$400,000
Trucks		$160,000		$160,000
Bulk Storage		$50,000		$50,000
Asset Value		**$610,000**		**$610,000**
Effective Multiple if Bought on Assets		3.4		7.6

Yes, there are many other factors to consider, but at its most elemental, while owning and having good safe assets is important, the earnings of the company is what buyers are seeking.

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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 Daniel toll free at 888.739.6732 for a confidential discussion.**

Enhance Your Assets


Denny Carroll

You probably already know this, but propane companies are usually bought and sold on a multiple of earnings. If your company is adequately profitable the earnings value will exceed the asset value.

O.K. So how does that affect you? Well, if you are thinking about selling your company in the next few years and you have some assets that are not involved with the profits of your propane company you might consider selling them. As an example, you own a transport or two to haul your propane into your storage. More than likely you could sell them now, pocket a few thousand bucks and still get the same amount for your retail company with or without the transports.

Look at your business to see if you can identify some assets not required in your retail company. You never know what treasures you might have right under your nose.