

Valuing A Retail Fuel Business

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Helping Owners Buy and Sell Businesses

Give Your Company the Cetane Boost

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The Cetane Associates LLC Qualifications

- 21 Years in the Fuel Industry
- Heating Oil, HVAC, Propane, Motor Fuels, Gas Stations, C-Stores
- Completed 52 Transactions (Acquisitions)
- Performed Valuations on 300+ Fuel Companies
- V.P. for three corporations in the industry
- G.M. for 6,000 account business
- Salesperson (Residential Heat, HVAC, Motor Fuels)
- NEFI (BOD), ICPA (BOD), MAPDA, VPCGA, DVFDA, NCPMA



Legal Info.

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“Old School” Valuation Methods

- Cents per Gallon
- Multiple of Margin
- Multiple of Gross Profit
- \$ Per Customer (GG&G Statistic)



Standard Accepted Business Valuation Methods

1. Asset Approach
 - Trucks
 - Equipment
 - Inventory
 - Property
2. Income Approach
3. Market Approach



Common Income Approach Valuation Methods

- Cash Flow (EBITDA)
- Rate of Return (ROR)
- Internal Rate of Return (IRR)
- Return on Equity (ROE)
- Distributable Cash Flow (DCF)

Two Similar Companies

Company A

- 2,000,000 gallons
- 60 cent margins
- 2,500 customers
- 1,750 on automatic
- 1,500 service contracts
- Fuel gross profit = \$1,200,000

Company B

- 2,000,000 gallons
- 60 cent margins
- 2,500 customers
- 1,750 on automatic
- 1,500 service contracts
- Fuel gross profit = \$1,200,000



Company Statistics

Company A

- Radius = 20 miles
- Drivers in Jan = 6
- Vehicles = 16
- Avg. Pay \$18.50
- Total Employees = 16
- Health Co-Pay 30%
- Sq/Ft Office = 2,500

Company B

- Radius = 25 miles
- Drivers in Jan = 7
- Vehicles = 17
- Avg. Pay = \$19.00
- Total Employees = 17
- Health Co-Pay 10%
- Sq/Ft Office = 5,000



Service Profitability

Company A

- Contract Revenue @ \$175 avg. = \$306,250
- Non contract revenue = \$187,500 (\$75/cust)
- Installation revenue = \$312,500 (\$125/cust)

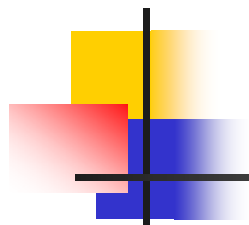
Total = \$806,250

Company B

- Contract Revenue @ \$150 avg. = \$262,500
- Non contract revenue = \$125,000 (\$50/cust)
- Installation revenue = \$125,000 (\$75/cust)

Total = \$575,000

Financial Results



Company A

G. P. \$2,006,250

Wages \$677,248

Benefit @ 28% \$189,629

Vehicle Exp \$75,000

COGS Service \$387,500

SG&A & Other \$260,000

Op Income = \$516,873

Company B

G. P. \$1,775,000

Wages \$739,024

Benefit @ 32% \$236,488

Vehicle Exp \$85,000

COGS Service \$287,500

SG&A & Other \$280,000

Op Income = \$246,988



The Average Fuel Company

Gallons: 2,029,349

Margin: \$0.530

Customers: 2,592

Profit: \$140,278

Profit per gallon: \$0.069

Profit per customer: \$54

From Gray, Gray & Gray 2008 Oilheat Survey



Company "A" & Company "B" Comparisons to Industry Averages

- Operating Income

■ Company "A"	\$516,873
■ Company "B"	\$246,988
■ GG&G 2008	\$140,278

- Income/Customer

■ Company "A"	\$206
■ Company "B"	\$98
■ GG&G 2008	\$54



Question: How Much is Company A & Company B Worth?



Answer: It depends on the purchaser

How much money will the business make for me?

- Does the business need to operate as it does today or can I merge it with my existing business?
- Can I increase fuel margins?
- Can I increase service revenues?
- Can I reduce operating expenses?
- Do I need to invest in capital expenditures (Trucks, Facility)?
- Will there be customer attrition? How much?

What is the return on my investment?

Pro Forma Financial Modeling Example

- Service Contracts + \$15
- Non-Cont Rev/Cust + \$25
- Installation Rev/Cust + \$25
- Employees (-3)
- Trucks (-4)
- SG&A Expense (-\$80,000)
- Attrition = 10%



Pro Forma Financial Results

Company B

G. P. \$1,775,000

Wages \$739,024

Benefit @ 32% \$236,488

Vehicle Exp \$85,000

COGS Service \$287,500

SG&A & Other \$280,000

Op Income = \$246,988

Company B Pro-Forma

G. P. \$1,797,000

Wages \$608,608

Benefit @ 31% \$188,686

Vehicle Exp \$65,000

COGS Service \$309,375

SG&A & Other \$200,000

Op Income = \$425,986



Business Valuation Methods

1. Asset Approach
 - Trucks
 - Equipment
 - Inventory
 - Property
2. Income Approach
3. Market Approach

Retail Fuel Marketer Business Value in Today's Market (7/09)

- Expect to make/receive offers in a range of 3.5 to 5 times pro forma operating income (EBITDA) including vehicles and office equipment.

EBITDA Multiple	Value	Rate of Return
3.5	1,490,951	29%
5	2,129,930	20%
6	2,555,916	17%
6.5	2,768,909	15%

Expected Deal Structure

- All cash at closing transactions are highly unlikely and would result in a substantially discounted purchase price.
- Results based earn-out (retained gallon or EBITDA) typically include a guarantee of 50% to 75% of historical results.
- Closing adjustments will include
 - Customer credit balances - paid to purchaser
 - Service contract adjustments - paid to purchaser
 - Forward fuel contract adjustments (could be + or -)
 - Inventory - paid to seller
 - Accounts receivable (debit) collected and remitted
- Sale of assets and not corporation
- Purchase price allocation

Why should I consider hiring a consultant or a broker?

- Consultants vs. Brokers
- Preparing your business for sale/purchase
- Finding a suitable buyer/seller
- Confidentiality
- Confidential Business Review
- Negotiating Skills
- Structure of the transaction
 - Tax Consequences
 - Earn Out Provisions
- Legal Experience

Questions?



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