

# Valuing and Acquiring Businesses



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Acquisitions \* Business Valuations \* Cash Flow Modeling  
Profit Improvements \* Turn Around Specialists \* Strategic Planning

# Marketer Panel

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# Program Outline

## Marketer Panel



- Common Questions Asked
- Recent Acquisition Activity
- Market Trends
- Valuing & Buying a Business
- Financing an Acquisition

# Questions About Acquisitions

1. **What are Companies selling for?**
2. **Are there a lot of people selling?**
3. **Who is buying?**
4. **Are most sales on retained gallons?**
5. **How much do you think my business is worth?**

# Recent Acquisition Activity

Seller	Purchaser	Location
Champion Energy	Star Gas Partners	MD/PA/NY/CT/NH
Buckley Energy	Star Gas Partners	RI/CT
Combined Energy	Star Gas Partners	NY
Roy Brothers	Energy USA Propane	MA/NH
Bernville Quality Fuels	Energy USA Propane	PA
Berks Gas	Energy USA Propane	PA
Woodmansee & Son	Energy USA Propane	RI/CT
Keyser Energy	HOP Energy	VT
Four Seasons Heating	HOP Energy	CT
Tower City Fuels	Shiple Energy	PA
Shaner Energy	Shiple Energy	PA

# Recent Acquisition Activity

Seller	Purchaser	Location
Country Oil	The Dead River Company	MA/VT/NH
Westcott Oil	Mirabito Fuel Group	NY
Schenk Fuel	Inergy	NY
Soliday Oil	Griffith Energy Services	MD
Carmen Fuels	Griffith Energy Services	MD
KW Fuels	Superior Plus Energy	PA



# Recent Acquisition Activity

Seller	Purchaser	Location
Borderline Fuels	Chagnon & Nolan	NH/ME
CK Smith	Santoro Energy	MA
Valley Energy	Wesson Energy	CT
Bankowski Oil	Chair City Oil	MA
Economy Fuel	Gault Energy	CT
Oil City	Mitchell Supreme	NJ
Oil Central	Dupuis Oil	RI



# Trends

- **Property More Desirable**
  - Lower real estate values are better investment
  - SBA loans require tangible assets
  - Environmental concerns have eased
  - Bulk storage more desirable
- **Diversified Companies have Value**
  - Vapor (natural gas and propane) is desirable
  - Looking for new revenue streams
- **Will Call value up**
- **COD has some value**

# Panel Question



**There has been a movement in the industry to diversify into other home services including energy audits, alarms, plumbing, radon detection and even appliance repairs.**

**What considerations do you take into account when valuing a diversified business?**

# Trends

- **Gallons not used to value**
  - Income and return on investment is the priority
  - Service profitability
  - Expense analysis
  - Other business lines
- **Values are (were) Up**
  - Some pressure with cost increases
- **Multiple Purchasers**



# Trends

- **Not just the big guys buying**
- **Nervous Owners**
  - **Cash Flow Issues - AR on the street is large % of equity**
  - **Unable to keep up with a changing industry**
  - **Conservation**
  - **Conversion to other fuels**
  - **Increased competition**
- **Distressed Companies**



# Buying & Valuing a Business

- Understand Your Capabilities
- Find a company
- Gather Info & Build a Financial Model
- Present an Offer (LOI)
- Due Diligence
- Closing
- Post Closing Items



# Valuation Approaches

- **Income Approach**

**Based on Return on Investment**

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

- **Market Approach**

**Based on Supply and Demand**

- **Asset Approach**

**Based on Substitution**

- Trucks, Inventory, Equipment

# Finding The Right Company to Buy

- **Develop Relationships with Owners**
- **Talk to Vendors**
- **Contact Brokers**
- **Advertise**
- **Search the Internet**
  - Biz Buy Sell
  - Merger Network

The best companies to buy are ones that look like your company

# Panel Question



**Value brands have gained momentum in the last few years. Many full service marketers have created a second brand to capture some of the more price sensitive market share.**

**When looking to acquire a company with a second value brand attached to it, does your valuation method change and if so, how?**

# Build a Financial Model

## Follow your Income Statement

- Revenues
  - Fuel
  - Service
  - Other
- COGS
- Operating Expenses

# Pro Forma Financial Modeling

**Pro forma accounting is a statement of the company's financial activities while excluding unusual and non-recurring expenses and transactions when stating how much money the company actually made.**

## Excluded Expenses:

- Hedging missteps
- Excessive wages
- Capex expenses
- Rent
- Professional fees
- Travel & Entertainment
- Owner perks



# Pro Forma Example

HVAC Revenue	2009	2010	2011	2012	2013	2014
Contract Revenue	72,722	72,392	74,564	76,801	79,105	81,478
Non-Contract Revenue	106,096	102,902	104,960	107,059	109,200	111,384
Installation Revenue	406,420	360,741	378,778	397,717	417,603	438,483
<b>Total HVAC Revenue</b>	<b>585,238</b>	<b>536,035</b>	<b>558,302</b>	<b>581,577</b>	<b>605,908</b>	<b>631,345</b>

Fuel Revenue	2009	2010	2011	2012	2013	2014
Fuel Sales Revenues	1,070,378	963,540	1,133,653	1,264,115	1,244,925	1,225,997
Total Gallons	413,168	326,866	317,195	310,851	304,634	298,541
Average Selling Price	2.5907	2.9478	3.5740	4.0666	4.0866	4.1066

<b>Total Revenue</b>	<b>1,655,616</b>	<b>1,499,575</b>	<b>1,691,954</b>	<b>1,845,691</b>	<b>1,850,833</b>	<b>1,857,343</b>
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<b>COGS</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
COGS Fuel	736,346	677,176	865,107	994,723	974,828	955,332
Cost per gallon	1.7822	2.0717	2.7274	3.2000	3.2000	3.2000
COGS Service (No direct labor)	98,622	121,889	128,409	133,763	139,359	145,209
<b>Total COGS</b>	<b>834,968</b>	<b>799,065</b>	<b>993,516</b>	<b>1,128,485</b>	<b>1,114,187</b>	<b>1,100,541</b>

<b>Gross Profits</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
HVAC Gross Profit (before labor)	486,616	414,146	429,892	447,814	466,549	486,136
Fuel Sales Gross Profit	334,032	289,241	268,546	269,392	270,097	270,666
Margin per Gallon	0.8085	0.8849	0.8466	0.8666	0.8866	0.9066
<b>Total Gross Profits</b>	<b>820,648</b>	<b>703,387</b>	<b>698,438</b>	<b>717,206</b>	<b>736,646</b>	<b>756,801</b>

<b>Operating Expenses</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Officer Salaries	87,328	99,600	99,600	0	0	0
Office Payroll, Taxes & Benef	61,414	62,923	63,867	59,825	60,722	61,633
<b>Direct Labor</b>	82,970	120,127	116,523	158,854	162,031	165,271
Rent	49,729	42,698	42,698	36,000	36,540	37,088
Insurance	62,385	37,890	38,458	39,035	39,621	40,215
Office Supplies and Expense	24,560	32,753	28,657	29,086	29,523	29,965
Automotive Expense	31,601	28,264	27,416	21,827	22,155	22,487
Advertising	37,415	15,447	15,679	15,914	16,153	16,395
Credit Card & Bank Fees	13,741	13,834	14,787	16,131	16,175	16,232
Utilities and Telephone	10,172	10,571	10,730	10,891	11,054	11,220
Property and Other Taxes	2,323	8,724	5,000	5,000	5,000	5,000
Professional Fees	15,668	8,590	6,000	6,000	6,000	6,000
Bad Debt Expense	10,665	2,783	7,211	7,867	7,889	7,916
Repair and Maintenance	1,392	2,598	1,995	2,025	2,055	2,086
Postage	1,435	1,818	1,845	1,873	1,901	1,930
<b>Add Backs</b>	<b>(86,066)</b>	<b>(91,308)</b>	<b>(72,611)</b>			
<b>Total Operating Expenses</b>	<b>406,732</b>	<b>397,312</b>	<b>407,855</b>	<b>410,327</b>	<b>416,818</b>	<b>423,439</b>

# Cash Flow (EBITDA)

	2009	2010	2011	2012	2013	2014
<b>Total Gross Profits</b>	820,648	703,387	698,438	717,206	736,646	756,801
<b>Total Operating Expenses</b>	406,732	397,312	407,855	410,327	416,818	423,439
<b>Operating Income (EBITDA)</b>	413,916	306,075	290,583	306,879	319,828	333,362

# Return on Investment

<b>Operating Income</b>	<b>\$ 300,000</b>	<b>\$ 250,000</b>	<b>\$ 200,000</b>
<b>Investment (5 X)</b>	<b>\$ 1,500,000</b>	<b>\$ 1,250,000</b>	<b>\$ 1,000,000</b>
<b>Return</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>
<b>Investment (4 X)</b>	<b>\$ 1,200,000</b>	<b>\$ 1,000,000</b>	<b>\$ 800,000</b>
<b>Return</b>	<b>25%</b>	<b>25%</b>	<b>25%</b>
<b>Investment (3 X)</b>	<b>\$ 900,000</b>	<b>\$ 750,000</b>	<b>\$ 600,000</b>
<b>Return</b>	<b>33%</b>	<b>33%</b>	<b>33%</b>
<b>Investment (2 X)</b>	<b>\$ 600,000</b>	<b>\$ 500,000</b>	<b>\$ 400,000</b>
<b>Return</b>	<b>50%</b>	<b>50%</b>	<b>50%</b>

# Panel Question



**Should you pay for how much money the company made historically, or should you pay for how much money will be made in the future?**

# Present an Offer



The Letter of Intent is an outline for the Purchase Agreement

- **List of Assets**
- **Representation of Business**
- **Clear understanding of purchase price**
- **Inventory Valuation**
- **Employee Vacation**
- **Service Contract Adjustments**
- **Prepaid Expenses**
- **Adjustments for Price Protection**
- **Non-Compete**
- **Accounts Receivable**
- **Lease Terms**
- **Due Diligence Process**
- **No Shop Clause**
- **Non Binding**
- **Specific Time Schedule**

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# Due Diligence

- Run Lien Search
- Environmental
- Gallons
- Sales \$
- Accounts Receivable
- Price Protected Sales
- Concentration Risk Analysis
- Payroll
- Licenses
- DOT Files
- Accounts Payable
- Service Contracts
- Supplier Contracts
- Union Contracts

# Due Diligence

- Customer Complaints
- Short Deliveries
- Leases
- Vehicle Inspection
- Phone Numbers
- Outstanding Claims
- Software Agreements
- Equipment on Customer property



# Close the Transaction

- **Closing Documents**

- Purchase Agreement
- Non-Competes
- Consulting Agreements
- Leases
- Through Puts
- Employment Contracts

## **Panel Question**



**Where do most unsuccessful transactions break down?**

# Post Closing

- Employee Announcement
- Informing Customers or Not
- Hiring Employees
  - \*\*\* Non-Solicitation Agreements \*\*\*
- Vendor Notification
- Vehicle Registration
- Inventory
- Accounts Receivable



# Tips on Selling Your Business

- **Tell YOUR Story**
- **Interview Potential Buyers**
- **Confidentiality**
- **Prepare Your Business In Advance**
- **Consider a Consultant or Broker**
  - Lower legal & accounting fees
  - Advantageous deal structure
  - Less stress



# Financing Your Acquisition

## Senior Debt (3%- 8%)

- SBA
- Local Banks
- Seller Financing

## Subordinated Debt (Mezzanine)(12%-18%)

- Investment Groups
- Seller Financing
- Suppliers
- Private Investors

## Skin in the Game – Your Investment

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# Panel Question



**Most of the companies in our industry are comprised of family owned businesses.**

**In many cases there are multiple family members and more than one generation working in the business.**

**How do you see former owners and family members fitting in with the new company?**

**What steps can be taken to help smooth a transaction with family members involved?**

# Panel Question



**Over the past few years there has been an increase in heating oil marketers who are offering propane as a fuel source.**

**How does offering propane affect the value of fuel marketer's business?**

# Panel Question



**Retained gallon transactions were a staple of the past, especially for companies with a high percentage of will call and COD business.**

**Retained gallon transactions give the Buyer security that they are only paying for customers who purchase fuel and services.**

**Sellers are typically concerned that Buyers will raise prices or not service their customers properly resulting in a lower purchase price for the business.**

**What is your opinion on retained gallon offerings and do you see any other methods of valuing a company that is equitable for both the Buyer and Seller?**

# Panel Question



**What does our industry look like in:**

**One Year**

**Five Years**

**Ten Years**

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