

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?
(How Much Per Gallon)**
- 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 |
|-------------------------|--------------------|----------------|
| | | |
| Kasden Fuel | Star Gas Partners | CT |
| 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 |



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 |
| Aaron Fuels | Griffith Energy Services | MD |
| Tower City Fuels | Shiple Energy | PA |
| Shaner Energy | Shiple Energy | PA |
| KW Fuels | Superior Plus Energy | PA |



Recent Acquisition Activity

| Seller | Purchaser | Location |
|------------------|------------------|----------|
| | | |
| CK Smith | Santoro Energy | MA |
| Superior Oil | Santoro Energy | MA |
| Borderline Fuels | Chagnon & Nolan | NH/ME |
| 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 has value**
- **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
- **Several Buyers Looking**



Trends

- **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

| Fuel Revenue | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Fuel Sales Revenues | 5,162,173 | 5,899,982 | 7,058,617 | 7,788,289 | 7,594,494 | 7,405,317 |
| Total Gallons | 2,353,937 | 2,209,877 | 2,139,903 | 2,054,307 | 1,992,678 | 1,932,898 |
| Average Selling Price | 2.1930 | 2.6698 | 3.2986 | 3.7912 | 3.8112 | 3.8312 |
| | | | | | | |
| HVAC Revenue | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Contract Revenue | 421,353 | 429,186 | 434,687 | 439,667 | 449,089 | 458,714 |
| Non-Contract Revenue | 240,798 | 232,591 | 227,420 | 234,243 | 241,270 | 248,508 |
| Installation Revenue | 393,040 | 390,905 | 393,694 | 397,394 | 401,130 | 401,130 |
| Total HVAC Revenue | 1,055,191 | 1,052,682 | 1,055,801 | 1,071,304 | 1,091,490 | 1,108,353 |
| | | | | | | |
| Total Revenue | 6,217,364 | 6,952,664 | 8,114,418 | 8,859,593 | 8,685,984 | 8,513,670 |

| COGS | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| COGS Fuel | 4,195,176 | 4,578,254 | 5,836,304 | 6,573,783 | 6,376,569 | 6,185,272 |
| Cost per gallon | 1.7822 | 2.0717 | 2.7274 | 3.2000 | 3.2000 | 3.2000 |
| COGS Service (No direct labor) | 397,290 | 395,402 | 397,125 | 399,509 | 401,854 | 401,854 |
| Total COGS | 4,592,466 | 4,973,656 | 6,233,429 | 6,973,291 | 6,778,423 | 6,587,126 |

| Gross Profits | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| HVAC Gross Profit (before labor) | 657,901 | 657,280 | 812,967 | 824,904 | 840,447 | 853,431 |
| Fuel Sales Gross Profit | 966,997 | 1,321,727 | 1,222,313 | 1,214,506 | 1,217,925 | 1,220,045 |
| Margin per Gallon | 0.4108 | 0.5981 | 0.5712 | 0.5912 | 0.6112 | 0.6312 |
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Total Gross Profits | 1,624,898 | 1,979,008 | 2,035,280 | 2,039,410 | 2,058,372 | 2,073,476 |

| Operating Expenses | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Officer Salaries | 350,000 | 380,000 | 396,000 | 0 | 0 | 0 |
| Office Payroll, Taxes & Benefits | 93,602 | 95,474 | 97,384 | 167,384 | 169,894 | 172,443 |
| Direct Labor | 476,140 | 481,727 | 482,059 | 489,290 | 496,630 | 504,079 |
| Payroll taxes & Benefits | 148,133 | 150,072 | 150,655 | 170,735 | 173,296 | 175,896 |
| Rent | 120,000 | 120,000 | 120,000 | 72,000 | 72,000 | 72,000 |
| Insurance | 185,695 | 198,202 | 177,738 | 180,404 | 183,110 | 185,857 |
| Office Supplies and Expense | 101,404 | 92,587 | 99,588 | 101,082 | 102,598 | 104,137 |
| Automotive Expense | 88,212 | 96,873 | 91,505 | 67,878 | 68,896 | 69,929 |
| Advertising | 58,766 | 49,798 | 50,545 | 36,000 | 36,540 | 37,088 |
| Credit Card & Bank Fees | 28,505 | 32,606 | 37,652 | 41,110 | 40,304 | 39,505 |
| Utilities and Telephone | 27,741 | 36,909 | 37,463 | 38,025 | 38,595 | 39,174 |
| Property and Other Taxes | 18,505 | 19,991 | 18,865 | 19,148 | 19,435 | 19,727 |
| Professional Fees | 12,505 | 41,208 | 31,100 | 12,000 | 12,000 | 12,000 |
| Bad Debt Expense | 26,850 | 31,474 | 35,935 | 39,235 | 38,466 | 37,703 |
| Repair and Maintenance | 15,915 | 36,825 | 26,370 | 26,766 | 27,167 | 27,575 |
| Postage | 1,435 | 1,818 | 1,845 | 1,873 | 1,901 | 1,930 |
| Add Backs | (373,514) | (452,218) | (371,011) | | | |
| Total Operating Expenses | 1,379,894 | 1,413,346 | 1,483,693 | 1,462,929 | 1,480,833 | 1,499,041 |

Add Backs

| Add Backs | 2009 | 2010 | 2011 |
|-----------------------------|----------------|----------------|----------------|
| Excess Owner Salary | 280,000 | 310,000 | 326,000 |
| Owner Vehicles | 18,000 | 18,000 | 18,000 |
| Owner Other Expenses | 25,000 | 25,000 | 25,000 |
| Capex Items Expensed | 0 | 20,000 | 0 |
| Professional Fees | 505 | 29,208 | 19,100 |
| Rent | 48,000 | 48,000 | 48,000 |
| Total Add Backs | 373,514 | 452,218 | 371,011 |

Cash Flow (EBITDA)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total Gross Profits | 1,624,898 | 1,979,008 | 2,035,280 | 2,039,410 | 2,058,372 | 2,073,476 |
| | | | | | | |
| Total Operating Expenses | 1,379,894 | 1,413,346 | 1,483,693 | 1,462,929 | 1,480,833 | 1,499,041 |
| | | | | | | |
| Operating Income (EBITDA) | 245,004 | 565,662 | 551,586 | 576,482 | 577,539 | 574,435 |



Return on Investment

| Operating Income (EBITDA) | \$ 625,000 | \$ 575,000 | \$ 525,000 |
|----------------------------------|---------------------|---------------------|---------------------|
| | | | |
| Investment (5X) | \$ 3,125,000 | \$ 2,875,000 | \$ 2,625,000 |
| Return | 20% | 20% | 20% |
| | | | |
| Investment (4X) | \$ 2,500,000 | \$ 2,300,000 | \$ 2,100,000 |
| Return | 25% | 25% | 25% |
| | | | |
| Investment (3X) | \$ 1,875,000 | \$ 1,725,000 | \$ 1,575,000 |
| Return | 33% | 33% | 33% |
| | | | |
| Investment (2X) | \$ 1,250,000 | \$ 1,150,000 | \$ 1,050,000 |
| Return | 50% | 50% | 50% |

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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C.O.O., Star Gas/Petro



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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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