

WHAT IS YOUR PROPANE COMPANY WORTH?

Methods for determining & increasing your company's valuation

BY DAVID STROUPE

I've been involved with the acquisition of more than 100 propane companies over the course of my 30-plus-year career. The question I get asked most often is, "What is my company worth?"

Use the Most Accurate Valuation Method

There are several ways to value a company. Consider the following:

- *Gallons sold method* — This method has not been used for some time because not all gallons are equal. The margin on a residential gallon could be more than five times that of an "agricultural" gallon sold for crop drying or irrigation, which skews the level of gross profit contribution.
- *Asset value method* — Although buyers will often run this calculation for tax and collateralization considerations, assets alone don't translate to cash flow.
- *EBITDA method* — EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization. This is the most accurate way to value a business and is the method most accepted by financing institutions.

Why the EBITDA Method Makes the Most Sense

EBITDA is simply your net income, plus adding back interest, taxes, depreciation



and amortization. A seller's EBITDA will be different than a buyer's EBITDA calculation for a number of reasons. The most common examples are:

- *Normalizing the seller's wages* — As a seller, you have the flexibility of compensating yourself and others to whatever extent you desire, but a buyer will consider certain equity considerations with other comparable positions in the company. This will also factor into recasting the buyer's adjusted EBITDA.
- *Running tank purchases through operating expenses* — Larger companies will capitalize tank purchases as an asset on the balance sheet, as opposed to running them through operating expenses.
- *Non-recurring expenses* — These could include any number of items, such as travel expenses or golf club memberships.
- *Recasting the insurance expenses*

(*health, general/liability, etc.*)—

Buyers normally have to adjust the insurance plans of the seller to be consistent with plans that are already in place. This could result in a positive or negative adjustment, depending on what the seller has in place.

How Are 'Multiples' Calculated?

You may have heard a former owner say, "I got a 10X multiple when I sold my business." The multiple analysis is the purchase price divided by the EBITDA, which translates into the number of years over which the buyer will pay back their initial investment. Remember that the seller's EBITDA is often not the same as the buyer's adjusted EBITDA.

Additional Ways to Increase Your Company's Value

If you're thinking about selling your business, addressing these value-drivers can increase the amount you are offered

for your company at the time of the sale.

- **Tank control** — Ensure you have more company-owned tanks than customer-owned tanks. Higher tank control is extremely important to a buyer due to the “stickiness” of the customer and the collateralization value of the tank asset. Also, be sure you have tank lease agreements signed by the customer for every company-owned tank.
- **The age of fleet** — If you have an older fleet, the buyer will likely factor in the purchase of a new vehicle (or several), which will translate into a reduction in the purchase price. Make the necessary upgrades to your fleet. That investment will pay off.
- **Margin sustainability** — This value driver is critical. Buyers want to know the business is stable. For instance, were you able to maintain your margins during the recent escalating cost of product? Even better, if you were able to achieve a small margin enhancement to offset annual

increases in other operating expenses, that will be viewed favorably from a buyer’s standpoint.

- **Sound business fundamentals** — Take an objective look at your operation’s practices and improve any areas of weakness. Are your “back office” procedures giving you the accurate information you need to run a profitable business? Participating in the National Propane Gas Association’s (NPGA) Benchmarking Council and related groups is one way to get valuable guidance on best practices.
- **Detailed, accurate books and records** — Do you have good books and historical records that provide detailed data, including financial statements, gallons sold and margin by category? Although not every seller is expected to have audited financials, having a balance sheet and an income statement prepared or reviewed by a knowledgeable CPA gives a buyer far more comfort than a simple

QuickBooks printout.

- **Solid safety and regulatory practices** — Do you employ and document safe work practices consistent with industry standards? Have all your employees gone through Certified Employee Training Program (CETP) training? And are you keeping your “Safety Policies and Procedures”

COMMUNICATING TAKES TIME, BUT MAKING IT A PRIORITY WILL PAY DIVIDENDS IN PERFORMANCE FOR YOUR EMPLOYEES AS WELL AS YOUR COMPANY.

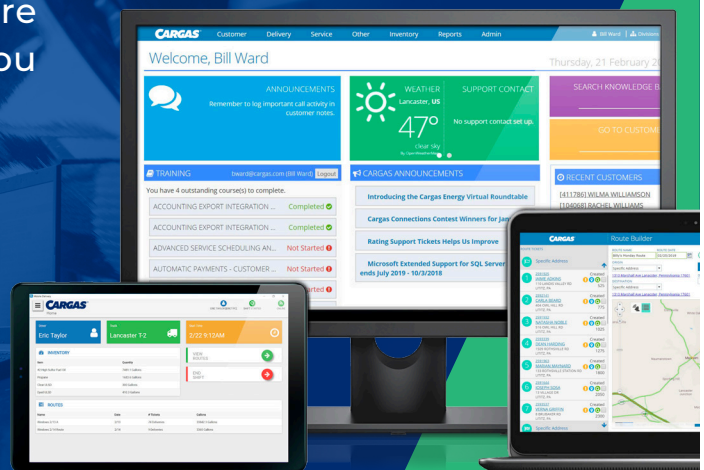
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manuals up to date? Asking your insurance provider to help evaluate these administrative practices will bring objectivity to your review.

Don't Overlook the Importance of Your People

One of the most important value drivers for your business is your people. Although we all love our propane tanks and bobtails, we also know that the No. 1 determinant of long-term success is our people. There are numerous human resource strategies that can benefit you financially when it comes time to sell your business. Consider the following recommendations:

- *Invest in the best talent* — Hire the most experienced and talented professionals you can find. Your managers, drivers, customer service reps and other employees are the face of your business. Their interactions with your customers every day will determine your success.

- *Reward the right behaviors* — We all understand the importance of a good compensation plan to recruit and retain the best talent. But have you spelled out your expectations for that “right” behavior? Specific goals and behaviors should be communicated and measured as part of regular performance reviews.
- *Communicate clearly and often* — Communicating takes time, but making it a priority will pay dividends in performance for your employees as well as your company. Share broad goals and high-level strategy through team meetings, emails and letters, but don't overlook the importance of one-on-one talks with each individual.
- *Make sure you have the right leader for the future* — When it comes time for you to transition your business, the buyer will want to be confident you have at least one potential leader on the current team who can help move the business forward under

new owners. Do you have that person in place now? If not, make a point to recruit someone with leadership skills to ensure a smooth transition.

When It Comes Time to Sell

Taking all these issues into consideration will help you when it comes time to have your business valued by a potential buyer. Just remember: Although getting the most financial value for your business is crucial, finding a buyer who will maintain your legacy while taking good care of both your customers and your employees is critically important as well. 📌

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