



The road to acquisitions

Several industry insiders tell us what to expect from the process in 2011

Are you itching to sell your propane company? Are you sure? A lot of factors inside the propane industry can make an owner think he should get out – and get out quickly. But those who work with propane industry acquisitions stress patience and sound decision making, especially when your own stress can become a heavy burden.

“There’s never a reason for a panic sale, unless there’s something really wrong with the business,” says Thomas Knauff, managing principal at investment banking firm Jordan, Knauff & Co. “The time to sell a business is a personal decision based on what’s going on in an owner’s life and what he wants to do with his future.”

Adds Daniel Dixon of Propane Resources, “Find out if you are really interested in selling or just frustrated at the current juncture. We always advise potential sellers to sell when they want to, not when they feel they are driven to.”

CK Business Consultants President Gary Papay tells his clients to take a step back, look at the current situation as an investment and without the emotion that might add confusion.

“So what’s the best thing to do with this investment?” Papay says. “A lot depends on how many owners there are and what their goals are.”

CK Business Consultants will perform a market analysis or business appraisal to learn the company’s worth, and will identify its strengths, weaknesses, opportunities and threats to help determine a strategy.

While it’s not smart to rush into a sale, some companies will wait too long “to pull the trigger,” Papay says.

Buyers are more cautious in their approach due to a per capita volume reduction in propane usage.

“If nothing else, be prepared to sell everyday. If something happens, you are ready, you have everything in place and you can make a move so you’re not scrambling with what you built for the last 30, 40 years.”

Moving forward

OK, so you say you want to sell – and you are sure.

Propane Resources first tries to gauge the seller’s thought process by asking several questions: Why are you selling? What will you do if you sell and don’t remain with the company? Do you have family members interested in it? It then recommends that the seller organize its records.

Asked what type of things sellers aren’t expecting from the process, Dixon says, “For those who have not visited with their accountants, tax ramifications depending on their entity type can be a lot to swallow. Due diligence can be difficult sometimes for companies whose recordkeeping is poor.”

Companies with good recordkeeping, a high level of tank ownership among customers and strong margins usually command the most attention from buyers, Knauff says.

“A major driver of any business is cash flow,” says Papay, adding that a company’s five-year history helps to

determine its worth. “If you are making money and profitable, your company generally is marketable.”

Forecasts

So where does the propane acquisitions market stand in today’s economic climate? The forecasts are positive.

The last two years were pretty slow, with companies “sitting on the fence” waiting to see what direction the economy was headed, Papay says. “Even the big buyers put the brakes on, but they are back in the ball game and back to the table, and sellers are slowly coming back.”

Knauff says acquisitions activity continues to pick up from the recession while noting that the large, publicly traded companies are favoring larger deals, not so much with the small mom-and-pops. He adds that buyers are more cautious in their approach due to a per capita volume reduction in propane usage.

“I expect it to be an active year,” Dixon says. “There are multiple buyers who have been busy and will stay that way. A new buyer [Silverthorne Energy Partners] has entered the marketplace as well. The national companies have to grow annually to show Wall Street their growth in earnings. Regional companies and some independents are also looking to get bigger. Some are using the phrase: ‘Get bigger or get out.’ This can be good for buyers as well.” **LPG**

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