

What Inflation Means for Your Company's Operating Expenses

Thank you for joining us. The webinar will begin shortly.



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Today's Discussion

- How will inflation affect your earnings, both short-term and long-term?
- How can inflation impact the value of your Company?
- What steps can you take to reduce operating expenses?
- How can you improve credit and collection results?
- Where will working capital come from?

LET'S DISCUSS



Wall Street Journal – April 13, 2022



Inflation: U.S. consumer prices surged to a four-decade high of 8.5% in March from the same month a year ago, driven by skyrocketing energy and food costs, supply constraints and stronger consumer demand.

The so-called core price index, which excludes the often volatile categories of food and energy, increased 6.5% in March from a year earlier – up from February’s 6.4% rise, and the sharpest 12-month rise since 1982.

Sample #1 company info with margin increases

Gallons	2020	2021	2022P	2023P	2024P	2025P
Propane Gallons	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Heating Oil Gallons	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
	2020	2021	2022P	2023P	2024P	2025P
Averagr selling price propane	2.1200	2.5500	2.8700	2.9400	3.0100	3.0800
Average cost propane	0.9200	1.4500	1.7000	1.7000	1.7000	1.7000
Margin propane	1.2000	1.1000	1.1700	1.2400	1.3100	1.3800
Margin increase			0.0700	0.0700	0.0700	0.0700
Averagr selling price heating oil	2.2500	3.0400	5.3400	5.3900	5.4400	5.4900
Average cost heating oil	1.4500	2.3000	4.5000	4.5000	4.5000	4.5000
Margin heating oil	0.8000	0.7400	0.7900	0.8400	0.8900	0.9400
Margin increase			0.0500	0.0500	0.0500	0.0500

Sample #1 P&L – 8.5% inflation

	2020	2021	2022P	2023P	2024P	2025P
Revenue						
Propane	4,240,000	5,100,000	5,740,000	5,880,000	6,020,000	6,160,000
Heating Oil	4,500,000	6,080,000	10,680,000	10,780,000	10,880,000	10,980,000
Total Income	8,740,000	11,180,000	16,420,000	16,660,000	16,900,000	17,140,000
COGS						
Propane	1,840,000	2,900,000	3,400,000	3,400,000	3,400,000	3,400,000
Heating Oil	2,900,000	4,600,000	9,000,000	9,000,000	9,000,000	9,000,000
Total COGS	4,740,000	7,500,000	12,400,000	12,400,000	12,400,000	12,400,000
Gross Profit						
Propane	2,400,000	2,200,000	2,340,000	2,480,000	2,620,000	2,760,000
Heating Oil	1,600,000	1,480,000	1,680,000	1,780,000	1,880,000	1,980,000
Total Gross Profit	4,000,000	3,680,000	4,020,000	4,260,000	4,500,000	4,740,000
Operating expense	(1,839,163)	(2,016,250)	(2,289,935)	(2,457,145)	(2,638,353)	(2,834,750)
Operating Income (EBITDA)	2,160,837	1,663,750	1,730,065	1,802,855	1,861,647	1,905,250

Sample #2 company info with margin increases

Gallons	2020	2021	2022P	2023P	2024P	2025P
Propane Gallons	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Heating Oil Gallons	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
	2020	2021	2022P	2023P	2024P	2025P
Averagr selling price propane	2.1200	2.5500	2.9000	3.0000	3.1000	3.2000
Average cost propane	0.9200	1.4500	1.7000	1.7000	1.7000	1.7000
Margin propane	1.2000	1.1000	1.2000	1.3000	1.4000	1.5000
Margin increase			0.1000	0.1000	0.1000	0.1000
Averagr selling price heating oil	2.2500	3.0400	5.3600	5.4200	5.4800	5.5400
Average cost heating oil	1.4500	2.3000	4.5000	4.5000	4.5000	4.5000
Margin heating oil	0.8000	0.7400	0.8000	0.8600	0.9200	0.9800
Margin increase			0.0600	0.0600	0.0600	0.0600

Sample #2 P&L – Various inflation rates

	2020	2021	2022P	2023P	2024P	2025P
Revenue						
Propane	4,240,000	5,100,000	5,800,000	6,000,000	6,200,000	6,400,000
Heating Oil	4,500,000	6,080,000	10,720,000	10,840,000	10,960,000	11,080,000
Total Income	8,740,000	11,180,000	16,520,000	16,840,000	17,160,000	17,480,000
COGS						
Propane	1,840,000	2,900,000	3,400,000	3,400,000	3,400,000	3,400,000
Heating Oil	2,900,000	4,600,000	9,000,000	9,000,000	9,000,000	9,000,000
Total COGS	4,740,000	7,500,000	12,400,000	12,400,000	12,400,000	12,400,000
Gross Profit						
Propane	2,400,000	2,200,000	2,400,000	2,600,000	2,800,000	3,000,000
Heating Oil	1,600,000	1,480,000	1,720,000	1,840,000	1,960,000	2,080,000
Total Gross Profit	4,000,000	3,680,000	4,120,000	4,440,000	4,760,000	5,080,000
Operating expense	(1,839,163)	(2,016,250)	(2,267,522)	(2,406,429)	(2,556,592)	(2,719,016)
Operating Income (EBITDA)	2,160,837	1,663,750	1,852,478	2,033,571	2,203,408	2,360,984

Impact on Enterprise Value from Inflation-Normal Environment

	Based on Financial Statement Income				
	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Adjusted EBITDA	\$ 2,034,476	\$ 1,925,971	\$ 1,817,466	\$ 1,663,750	\$ 2,160,837
Weighting Factors	5	4	3	2	1
Weighted Cash Flows	\$ 10,172,380	\$ 7,703,884	\$ 5,452,398	\$ 3,327,500	\$ 2,160,837
Sum of Weighted Cash Flows			\$ 28,816,999		
Sum of Weighting Factors			15		
Weighted Average Cash Flows			\$ 1,921,133		
Less Ongoing Capital Expenditures			(300,000)		
Net Free Cash Flows			\$ 1,621,133		
Capitalized Earnings Value formula:	$\frac{\text{Earnings times } 1.00 \text{ plus growth rate of } 2.0\%}{\text{Discount rate less growth rate}}$				
Weighted Average Earnings	\$ 1,621,133				
Discount rate	17.53%				
Growth rate	2.0%				
Capitalized Earnings Value			\$ 10,647,495		
EBITDA Multiple			6.57		

Impact on Enterprise Value from Inflation-Inflationary Environment

	Based on Financial Statement Income				
	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Adjusted EBITDA	\$ 1,861,647	\$ 1,802,855	\$ 1,730,065	\$ 1,663,750	\$ 2,160,837
Weighting Factors	<u>5</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>1</u>
Weighted Cash Flows	\$ 9,308,235	\$ 7,211,420	\$ 5,190,195	\$ 3,327,500	\$ 2,160,837
Sum of Weighted Cash Flows			\$ 27,198,187		
Sum of Weighting Factors			<u>15</u>		
Weighted Average Cash Flows			\$ 1,813,212		
Less Ongoing Capital Expenditures			<u>(324,000)</u>		
Net Free Cash Flows			\$ 1,489,212		
Capitalized Earnings Value formula:	$\frac{\text{Earnings times 1.00 plus growth rate of 2.0\%}}{\text{Discount rate less growth rate}}$				
Weighted Average Earnings	\$ 1,489,212				
Discount rate	17.53%				
Growth rate	2.0%				
Capitalized Earnings Value			<u>\$ 9,781,048</u>		
EBITDA Multiple			6.57		

	Operating Expenses	2020	2021	2022P	2023P	2024P	2025P
105.0%	Salary - Officer	200,000	200,000	200,000	210,000	220,500	231,525
110.0%	Wages Service	100,000	110,000	121,000	133,100	146,410	161,051
	Wages Delivery	480,000	528,000	580,800	638,880	702,768	773,045
110.0%	Delivery wager per gallon	0.1200	0.1320	0.1452	0.1597	0.1757	0.1933
106.0%	Wages Office & Other	240,000	247,200	254,616	269,893	286,087	303,252
	Total Wages	1,020,000	1,085,200	1,156,416	1,251,873	1,355,765	1,468,873
	Payroll Tax Expense	91,800	97,668	104,077	112,669	122,019	132,199
	Revenue related opex						
	Bad Debt @ .35%	30,590	39,130	57,820	58,940	60,060	61,180
	Credit card fees @ .70%	61,180	78,260	115,640	117,880	120,120	122,360
	Vehicle Fuel	58,000	92,000	180,000	180,000	180,000	180,000
105.0%	Advertising	55,000	58,000	60,900	63,945	67,142	70,499
95.0%	Postage	12,500	11,750	11,163	10,604	10,074	9,570
105.0%	Dues & Subs	4,500	4,900	5,145	5,402	5,672	5,956
103.0%	Insurance - Group	95,000	107,000	110,210	113,516	116,922	120,429
103.0%	Insurance - Corporate	114,000	118,000	121,540	125,186	128,942	132,810
105.0%	Laundry & Uniforms	6,200	6,100	6,405	6,725	7,062	7,415
103.0%	Legal & Other Professionals	11,700	13,100	13,493	13,898	14,315	14,744
103.0%	Licenses & Fees	17,876	18,286	18,835	19,400	19,982	20,581
106.0%	Office Expense	25,000	28,000	29,680	31,461	33,348	35,349
106.0%	Rent	125,000	125,000	132,500	140,450	148,877	157,810
110.0%	R & M - Vehicles	62,000	77,000	84,700	93,170	102,487	112,736
100.0%	R & M - Buildings	16,500	18,400	18,400	18,400	18,400	18,400
106.0%	Supplies Expense	20,250	22,730	24,094	25,539	27,072	28,696
100.0%	Telephone	8,250	7,800	7,800	7,800	7,800	7,800
112.0%	T&E	2,000	6,000	6,720	7,526	8,430	9,441
103.0%	Utilities	1,817	1,926	1,984	2,043	2,105	2,168
	Total Expense	1,839,163	2,016,250	2,267,522	2,406,429	2,556,592	2,719,016
	Expense increase %			112.5%	106.1%	106.2%	106.4%

Keep EBITDA consistent model

Total Gross Profit	4,000,000	3,680,000	4,431,000	4,568,000	4,717,000	4,877,000
Operating expense	(1,839,163)	(2,016,250)	(2,270,787)	(2,407,773)	(2,556,141)	(2,716,885)
Operating Income (EBITDA)	2,160,837	1,663,750	2,160,213	2,160,227	2,160,859	2,160,115

	2020	2021	2022P	2023P	2024P	2025P
Averagr selling price propane	2.1200	2.5500	2.9855	3.0740	3.1310	3.1875
Average cost propane	0.9200	1.4500	1.7000	1.7000	1.7000	1.7000
Margin propane	1.2000	1.1000	1.2855	1.3740	1.4310	1.4875
Margin increase			0.1855	0.0885	0.0570	0.0565
Averagr selling price heating oil	2.2500	3.0400	5.4300	5.4100	5.4275	5.4510
Average cost heating oil	1.4500	2.3000	4.5000	4.5000	4.5000	4.5000
Margin heating oil	0.8000	0.7400	0.8350	0.8725	0.9000	0.9255
Margin increase			0.0950	0.0375	0.0275	0.0255

Considerations



Increased cost of capital



Inability to pass the costs on to customers



Consideration of the payroll increase you had implemented to keep your drivers and technicians. How are you going to cover it?



Do you really need that new truck?



Transport expenses



Line of credit usage (but what about increasing interest rates?)



Distributions and cash out of the corp-bank limitations

	Normal	Inflationary (8%)
Breakeven Margin:		
Total Overhead Expenses	1,500,000	1,620,000
Other (income/expenses)	(25,000)	(25,000)
(Gain) loss from Service	(300,000)	(300,000)
<hr/>	<hr/>	<hr/>
Net Overhead	1,175,000	1,295,000
Allocated Owner's Salary	(200,000)	(200,000)
<hr/>	<hr/>	<hr/>
Burden	975,000	1,095,000
Total Gallons	2,000,000	2,000,000
Breakeven Margin	\$0.49	\$0.55
Breakeven Gallons:		
Burden from above	975,000	1,095,000
Current Margin (GP Fuel/Gallons)	1.200	1.200
Breakeven Gallons:	812,500	912,500

Cash Flow Tips

1. Receivables

- a. Incentivize credit card payments
- b. Negotiate with delinquent customers
- c. Accelerate credit terms
- d. Collections attorneys
- e. Special discounts

2. Payables

- a. Don't pay early for things. Pay last possible due date.

3. Inventory

- a. Manage your inventory parts now more than ever. No reason to go out and buy a part that is sitting in the warehouse or van

4. Debt

- a. Line of credit will be more necessary this year than in the past. Make sure you have one and if you have been idle on one, understand it might be time to use it.
- b. Conversation with lenders
 - i. Educate them on state of the industry and its impact on the company and covenants so you aren't begging for waivers at the 11th hour



Key Takeaways to Offset Inflation

1. Do everything you can to increase your margin
2. Look at your operating expenses and evaluate where savings can be achieved
3. Look for additional revenue streams
4. Shift your margin focus to higher margin areas
5. Manage your cash flow
6. DON'T DO NOTHING!



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BOOTH #749

Monday, April 25th 9:00-10:00am

D6: Myth vs Reality for the Propane Industry

Presented by Marty Kirshner, CPA, MSA, Partner, Gray, Gray & Gray, LLP; Philip Baratz, CEO & Co-Founder, Angus Energy

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BOOTH #509

Sunday April 24th 9:00-10:15am

A4: Finance Capital, the Life Blood of a Growing Business

Presented by Steve Abbate, Managing Director, Cetane Associates; Frank D. Cory, Senior Vice President Commercial Lending, Peoples United Bank; Joshua Wolf, Managing Director, Cetane Associates and J Wolf & Company; Bill P. Summers, CEO, Vision Financial Group, Inc.; Dan Head, Senior Vice President, Brown Brothers Harriman