

Random Thoughts, Ideas and Prognostications for 2014 by Mark Radosevich 02/13/14

This may be one of the most important years of our professional lives, given the long running polarized political landscape and the prospect of redoubled liberal interference with our industry if the upcoming election goes the wrong way. Following are some random thoughts, ideas and prognostications as this important year of uncertainty unfolds. Hopefully this will help spur some meaningful considerations for your business:

- **Business Sales and Purchase Multiples**

We expect the marketer exit trend to continue with sellers enjoying enhanced purchase multiples of up to (and sometimes over) seven times cash flow for quality properties and higher than normal values for secured dealer supply. There hasn't been a better time to sell since the late 1990's when the MACS were aggressively lending into our space and securitizing the resultant debt.

- **Financing**

This bullish acquisition environment is being partially fueled by very low interest rates and more than willing lenders looking to place loans with quality, well capitalized marketers. We expect this trend to continue through the year with banks falling all over themselves to place loans. Loans originated over the past couple of years, tended to have long amortizations but generally termed out in five years, whereas now some banks have shown a willingness to extend the term to out to seven years for a nominal price. One disconnect that could stifle this acquisition enthusiasm is the delta between the higher purchase multiples, versus the amount a lender may be willing to finance, coupled with the conservative loan to value leverages that we've seen since the great economic meltdown. This will result in greater amounts of required buyer equity to successfully conclude a transaction.

- **Master Limited Partnerships (MLP's)**

Another contributor to the elevated valuation levels are the growing prevalence and impact of MLP companies aggressively searching for acquisitions. Due to some loopholes in the law, clever MLP companies have morphed beyond the law's original intent and have a distinct advantage in the acquisition front over traditional marketers. Given the tax advantages that MLP's enjoy, they are able to rationalize higher purchase multiples. This may only be a short term phenomena if the government decides to tighten the rules in the future.

- **Network Rationalization and Store Divestiture Activity**

This year will see a continued emphasis by marketers to conduct thorough retail chain assessments and begin to get serious about weeding out marginal stores. Given a heightened competitive landscape, the challenge will be to find dealers to take these sites or mothball them until an appropriate alternate use option is discovered. The key will be to remove them from the network and alleviate the drag on profitability.

- Marketer Specialization

Hand in hand with network rationalization activities, pragmatic marketers will increasingly begin to direct their businesses toward their core competencies, be that direct retail operations, dealer or commercial supply. The prevalence of small, multi-faceted marketers will continue to fade as competitive necessities dictate a more focused approach to the business.

- Dealer Development and Mentoring

For marketers with a high level of lessee dealers, the focus must be on preserving dealer business viability and long term relevance or risk taking back stores with nominal economic life remaining. This will require redoubled efforts to motivate enhanced image standards and operational performance. Simply delivering fuel, debiting accounts, and collecting rent is not going to cut it for long term peace of mind and to insure optimum marketer business value.

- Join Your Association and Get Active

Besides the need to proactively address a heightened competitive landscape, our entire industry faces the very real prospect of intensified outside interference from forces that really don't like us very much. They hate fossil fuels, hate the other products we sell and would be very content if our industry basically ceased to exist. Given the gravity of this threat, it makes infinite sense to reconnect with your state associations and become active in helping to protect our interests on both the state and federal level. Maybe even consider joining your state's delegation at the upcoming PMAA Washington Day on the Hill this May 20 – 23, 2014.

Given these and other factors, our businesses face many challenges and opportunities. For those marketers that answer the call, and with a little luck this November, this year could be the springboard for a future of long term business certainty and success.

Possessing thirty four years of downstream petroleum experience, Mark Radosevich is a strong industry advocate. He is president of PetroActive Real Estate Services, LLC , a firm that offers confidential mergers & acquisition representation and financing services exclusively to petroleum wholesalers. Mark can be reached by email at mark@petroactive.net ,by phone at 423-442-1327, web address www.petroactive.net.