What I'm Seeing - Gas Stations (February 2015)

In this month's issue I wanted to dig a little deeper into **Gross Profit Multiples (GPM).**

Problem: How to determine an appropriate GPM? A gross profit multiple is extracted from a sale transaction using the following formula: Sale Price / Gross Profit = GPM. Here in Oregon, multiples for a gas station going concern usually range from 2 to 4. However, this is quite a wide range. So what is really influencing the multiple? Why does one sale reflect a 2, another a 3 and yet another a 4 multiple? On a stable operation generating $500,000 per year in gross profit, this difference can result in a wide range of value conclusions.

Sensitiivty of GPMs				
Gross Profit	x	Gross Profit Multiple	=	Indicated Value
$500,000		2.0		$1,000,000
$500,000		3.0		$1,500,000
$500,000		4.0		$2,000,000

So what is the most appropriate gross profit multiple? Although there are a variety of factors involved such as: upside potential, the age of the station, competition, profit centers, traffic counts and so on, I've found that one of the most important indicators is the **buyer profile**. Simply, *who* is most likely to buy the gas station and what do they typically pay?

Analysis: By digging into the data, the answer to this question began to emerge. First, I profiled the buyers of each transaction in our database. Then I coded each one based on one of four buyer profiles: **tenant** already operating the station, a **strategic** buyer (such as a REIT, 7-Eleven, Circle K, etc.), a single station **owner/operator** and a **regional** jobber or multi-station owner. When I crunched the data the following pattern arose:

Gross Profit Multiple by Buyer Profile				
% of			**GPM**	
Sales	Buyer Profile	Min	**Avg**	Max
10%	Tenant	3.3	**4.0**	4.3
24%	Strategic (Corporate/REIT)	2.9	**3.5**	4.4
28%	Owner/Operator	2.3	**2.7**	3.0
38%	Regional Jobber (Fuel Transporter)/Multi Station	2.0	**2.6**	3.4
100%	Total	2.0	**3.0**	4.4

Conclusions: At the top of the range are two profiles: **tenant** and **strategic**. It stands to reason that the buyer willing to pay the most is a tenant already operating a station that knows the business, has spent significant time and money stabilizing the operation and is likely using some seller financing. Likewise, a strategic corporate/REIT buyer is usually willing to pay more as they search out the best stations and retain the successful seller as the operator in their quest for yield and stable cash flow.

At the bottom of the range are the other two profiles: **owner/operator** and **regional**. An owner/operator is looking for a value-add opportunity, has limited capital, is typically utilizing financing and is price sensitive. Lastly, a regional jobber or multi-station owner is among the strongest and most prevalent buyer profiles of the group and is usually making an opportunistic purchase when a seller is motivated.

In conclusion, the potential **buyer profile** of a property is one of the most important characteristics to consider when interpreting and selecting an appropriate gross profit multiple for valuation or credit decisions.

Please call anytime if I can be of assistance in Oregon or southern Washington:

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