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Spring Ahead with MLPs

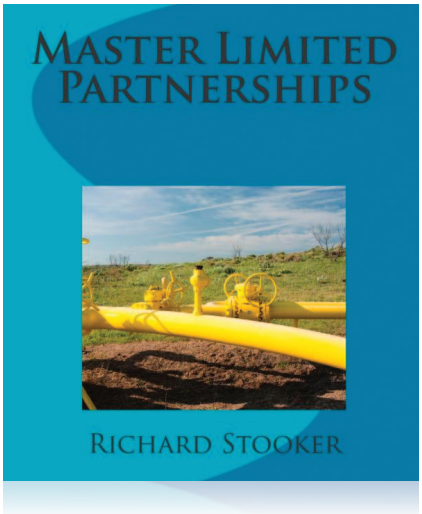
In my last column (CSP—Jan. '11, p. 30), I discussed the general status of small-business credit, and how fuel marketers can better position themselves to secure loans to fund sizable acquisitions. Last month you read in this magazine about the superjobber of tomorrow in an article written by Angel Abcede (March '11, p. 40), which discusses what the future may hold for our business of distributing and retailing fuels in the United States.

Well, I was recently thinking, "What if I am a small to mid-sized jobber who cannot currently finance a larger purchase with available lines of credit, and I did not participate in any acquisitions fueled by major-oil retail selloffs? What now? Can I compete and prosper in the new world order?"

The solution may lie in response to the following question: "In what transactional environment can I monetize what I have built to date, and possibly continue to manage the business with financing available for expected future growth?" The answer may be a master limited partnership (MLP).

In the book "Master Limited Partnerships," published in May 2010 and written by Richard Stooker, the mysterious world of MLPs is unearthed. In it, the reasons for their creation and the benefits to be derived thereof (including tax benefits) are described. There is also a listing of more than 60 already created and publicly traded MLPs (such as Global Partners and Kinder Morgan), as well as several index funds that invest in them (e.g., Tortoise, Alerian and Wells Fargo). There is even coverage of the trade organization that represents these partnerships: the National Association of Publicly Traded Partnerships.

I found the book's explanatory content and details to be limited. Also, in the book the author and publisher take no responsibility for the accuracy of the information; readers are advised to seek professional services in the legal, accounting and finance fields.



However, what is enlightening is that most of the MLPs in existence today own and operate midstream energy-related assets, which include gathering lines, processing plants, pipelines, tankers and bulk storage terminals. There is little coverage of downstream retail gasoline assets, because there are only a few MLPs operating in this space, and some of those are weighted in heating oil and/or propane.

The reason, according to Stooker, is that most of these midstream partnerships have a "toll booth" mentality, choosing to invest in businesses for which volume and profitability are not dependent upon the current price of oil. The underlying businesses, one may logically conclude, are generally stable and ratable, and not subject to extreme sales and/or margin swings.

PLAYING IN THE MLP ARENA

So therein lies the potential opportunity on which fuel jobbers can capitalize. However, to be successful in exploring this arena, there are important steps to follow to navigate the MLP world (or the greater financial community at large):

1. Get your 2010 financials in tip-top shape. Make sure you use an accredited CPA firm to audit your results to avoid misstatements. This is good advice no matter what your company seeks to do in the future.

2. Be realistic about the value of your company, especially in today's economy. Placing too high of a price on your company's underlying assets, businesses and infrastructure will derail your efforts to secure MLP interest, or any buyer. They will conclude that you are not a viable acquisition candidate and move on.

3. Hire a professional financial adviser with industry expertise. This is mission-critical. It will help you plan and implement an effective approach and avoid careless mistakes and inefficiencies.

4. Do not deviate from steps 1, 2, and 3! Need I say more? ■