UT IN OMNIBUS GLORIFICETUR DEUS

FINANCIAL ANALYSIS

7.18.21

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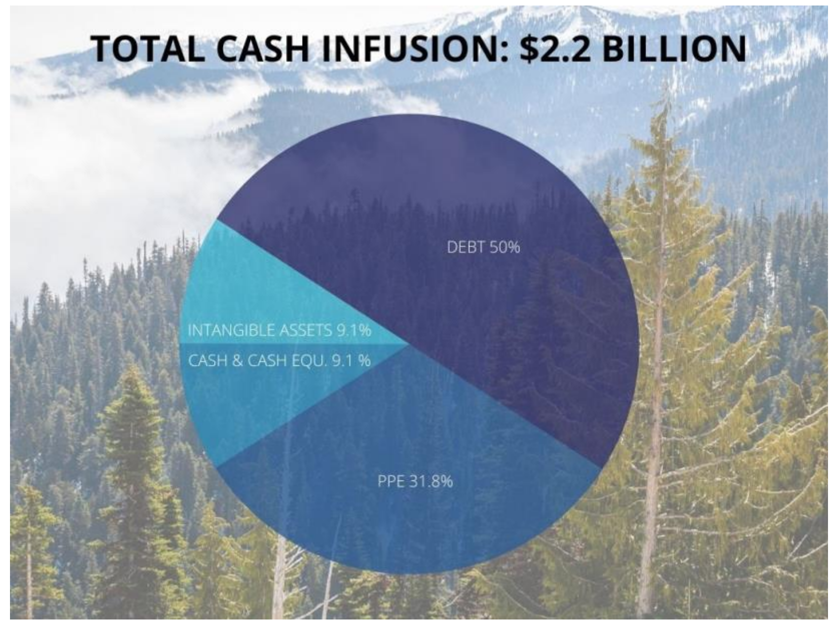
1. Identify the amount (lump sum) of the equity infusion you believe will achieve the goal and explain your reasons for the proposed amount. Be specific and use data from the 2020 financial statements to support your position.

A cash infusion of $2,200,000 should be sufficient to kick start Ferrellgas Partners, eliminate significant amounts of debt and generate new revenue.

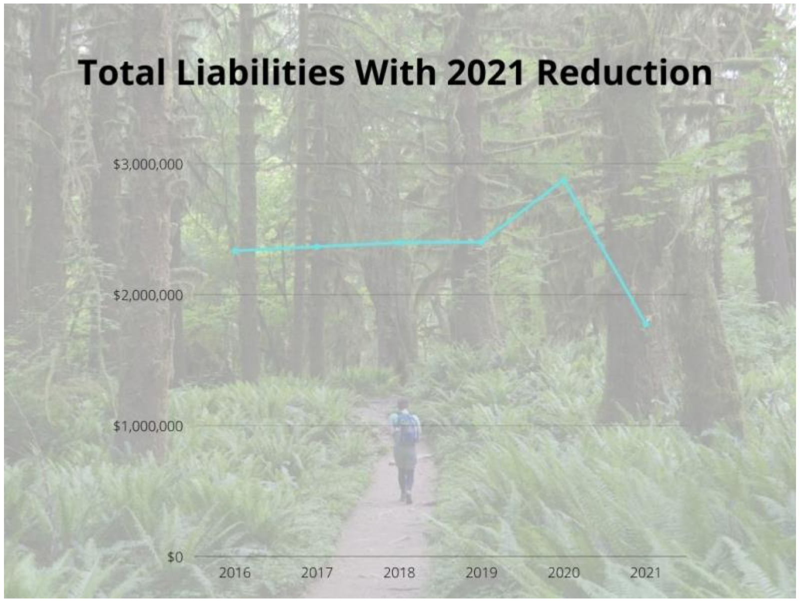
In 2020, FGP had liabilities totaling $2,876,458. $859,095 of this was matured long-term debt, while $1,646,396 was long-term debt. Now, debt is not harmful to businesses as such, but with a gross profit of merely $811,770 in 2020, it is not difficult to see that FGP's debt has ceased to be a tool and is instead a crippling hindrance.

What is more, a cash infusion which merely eradicates debt will reap the fruits only of FGP's profit margins sans debt. This is not worthwhile for investors. Therefore, an amount large enough not only to significantly reduce debt, but also to drastically increase profit is essential. $2,200,000 will reduce FGP's liabilities to the point where it can again achieve a lucrative net profit margin, as well as help the company to acquire more money-making assets.

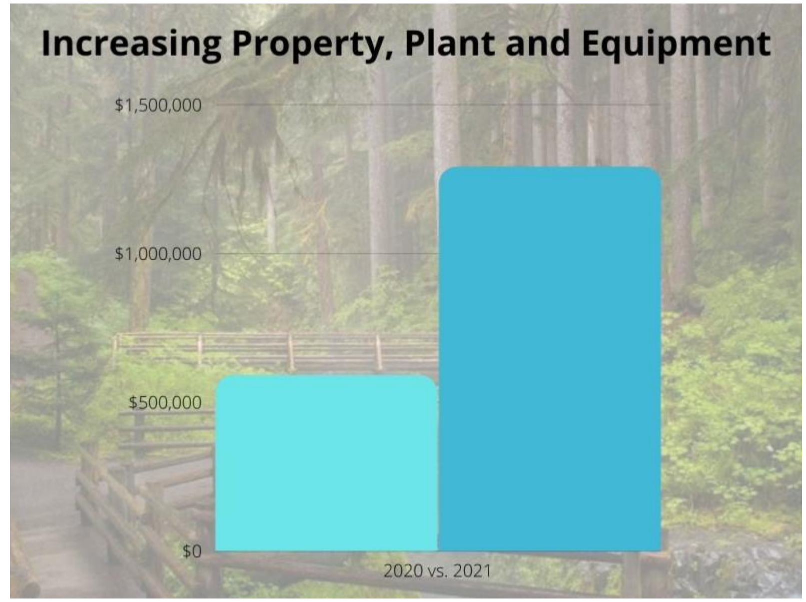
2. *Explain how the funds will specifically be used (or allocated across the business). Be specific and provide exhibits.*
    a. *Note: This proposed use of funds will directly affect the subsequent (i.e., not yet reported) 2021 Balance Sheet and/or 2021 Income Statement (see 3a and 3b below)*



*Numbers in millions.

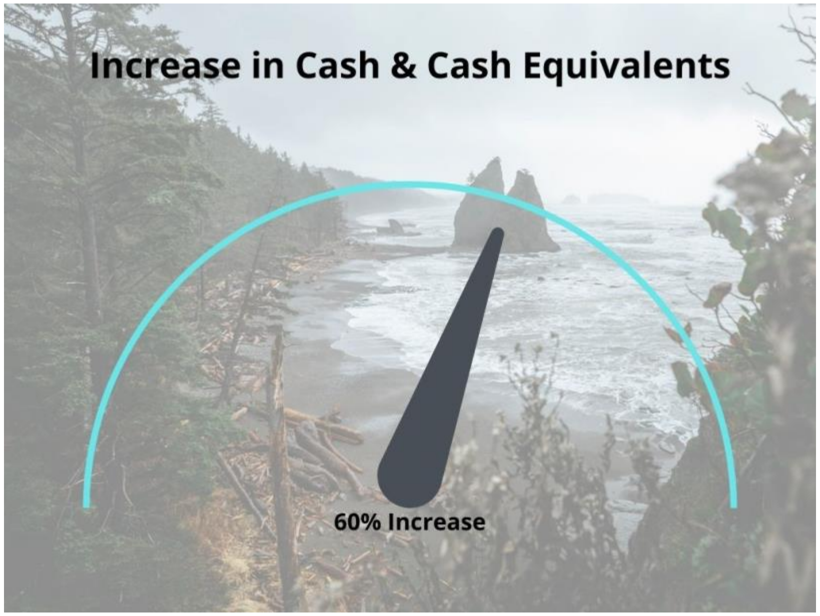


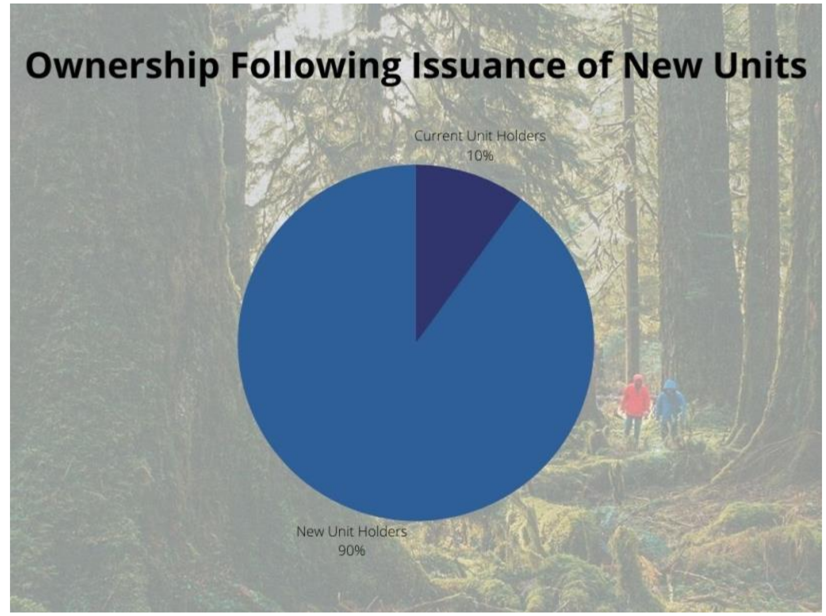
Debt. In 2020, FGP had $859, 095 of matured long-term debt, as well as $1,646,396 of long-term debt. By putting $1,100,000, or 50% of the cash infusion, towards the repayment of debts, they can completely eliminate their matured debt, and reduce their long-term debt to $1,405,491. This will not eradicate FGP's debt problems, but it will mitigate them enough to allow the company to focus on generating profits once more.



PPE. Ferrellgas cannot make good use of their debt infusion without increasing their profit-making resources. This means investing in property, plant and equipment. By investing $700,000 in PPE (wisely), FGP will more than double it, from 2020's mark of $591,042 up to $1,291,042. Additionally, an increase in intangible assets totaling $200,000 is budgeted and predicated on the assumption that FGP will make a business acquisition. Doing all this will create the needed resources for an increase in revenue.

*Numbers in millions.





Cash. Finally, $200,000 of the cash infusion will go towards bolstering FGP's 2020 Cash & Cash Equivalents mark of $333,761. This money is to be used in reserve. Considering not only FGP's financial troubles, but also the chance of capitalizing on further opportunities should they arise, it is important for Ferrellgas to maintain significant liquidity at this time.

b. *Include a calculation and description of how much ownership of the company this equity infusion will capture once it has been completed (in other words, how many new unit shares will the company have to issue in order to compensate this equity infusion). Support your conclusion with specific data and explain why the current unitholders should accept this reduction in their ownership share.*

With their cash infusion of $2,200,000 FGP's benefactors have earned the right not only to majority ownership in the company, but ownership to the tune of 90%. Ferrellgas closed their 2020 fiscal year with 97,152,665 units outstanding. By issuing 874,373,985 new units and distributing them among those who contributed to the cash infusion, FGP can sufficiently compensate new ownership.

There are several reasons why current unitholders should accept this distribution. The most glaring reason is that, without any cash infusion (and subsequent issuance of new units), current units are all but worthless. Without a cash infusion, FGP runs the risk of ceasing to exist entirely. Though current unitholders will see their ownership in the company decrease by 90%, they increase the chances of getting any return on investment from near 0% to near 100%.

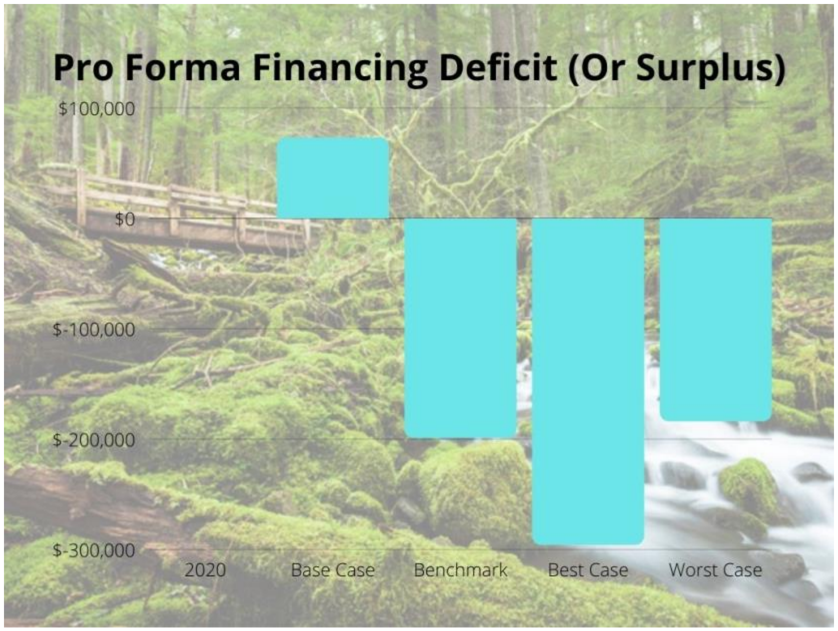
What is more, Ferrellgas issued no dividend in 2019 or in 2020. And that goes along with a year-end unit value of only $0.26 – down 99% from their high of $25.61 at the beginning of 2011. All this is to say, a reversal of FGP's 10-year slide (i.e. a 99% increase in unit value), would recoup

*Numbers in millions.

the diluted value of units created by the issuance of 874,373,985 new unites, and more.

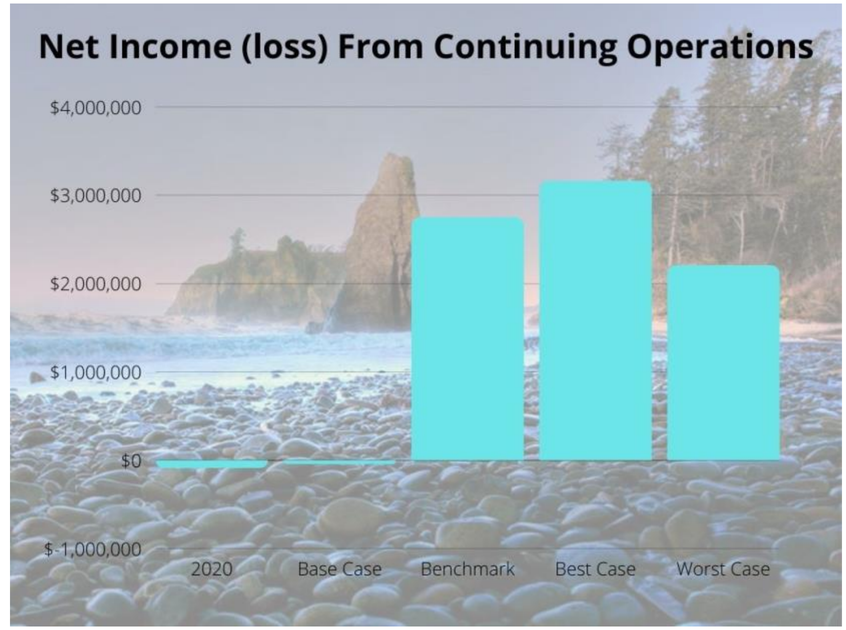
3. *Using the templates from Discussion Case 4, produce the following Pro Forma financial statements for 2021. Use the 2020 financial statements as your base, and include the effects of your equity infusion (#1 and #2):*

   a. *Pro Forma 2021 Balance Sheet*



By virtue of the $2.2 billion cash infusion, FGP's financials look understandably better in 2021. Of particular note is Ferrellgas' financing surplus. Increased cash on hand, increased sales and decreased debt (paid down substantially with the infusion) completely flips the script going forward. In future years we can expect the surplus cash to decline somewhat, though that will hopefully be counterbalanced by a proportionate increase in sales and decrease in debt.

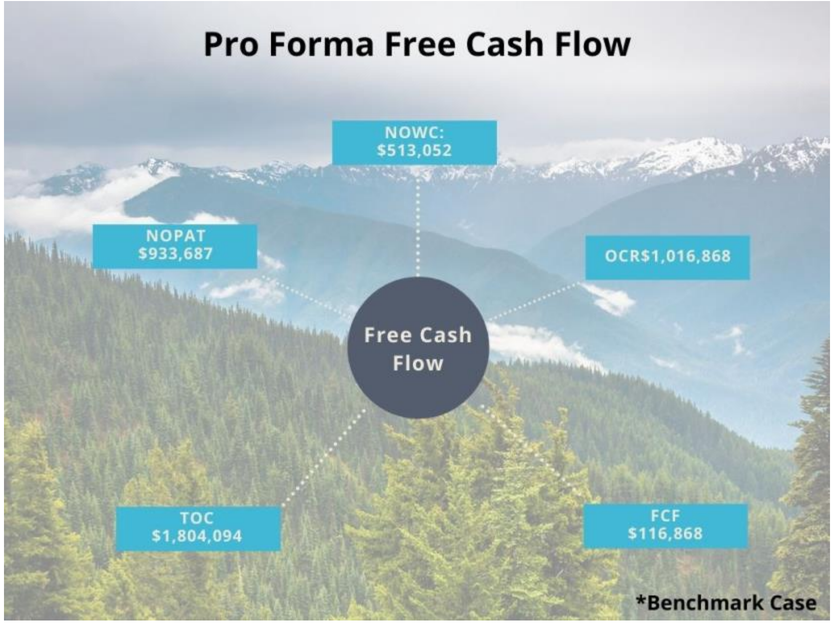
   b. *Pro Forma 2021 Income Statement*



Whereas Ferrellgas Partners had ceased to exist as a money-making entity prior to the cash infusion, with it, they are again reaping the fruits of their labor. Poor financial decisions did not destroy FGP's gross profit, but it did destroy their net profit by necessitating that even more money than the company generated was required to hold back their debt avalanche. With this cash infusion, FGP has neutralized the threat their debt caused them, increased the profitability and made them a money-making entity once again.

   c. *Pro Forma calculation of 2021 Free Cash Flow based on the following:*

*Numbers in millions.



i. *Net Operating Working Capital*

NOWC is up $200,000 from 2020's mark of $313,052. This is due to the increase of $200,000 in Cash and Cash equivalents.

ii. *Total Operating Capital*

A portion of the cash infusion went toward the increase in PPE, leading to a TOC of $1,804,094

iii. *NOPAT (taxes will be 0%)*

Though EBIT decreased by approximately $80,000, the increase of nearly $800,000 is attributable again mainly to the increase in PPE.

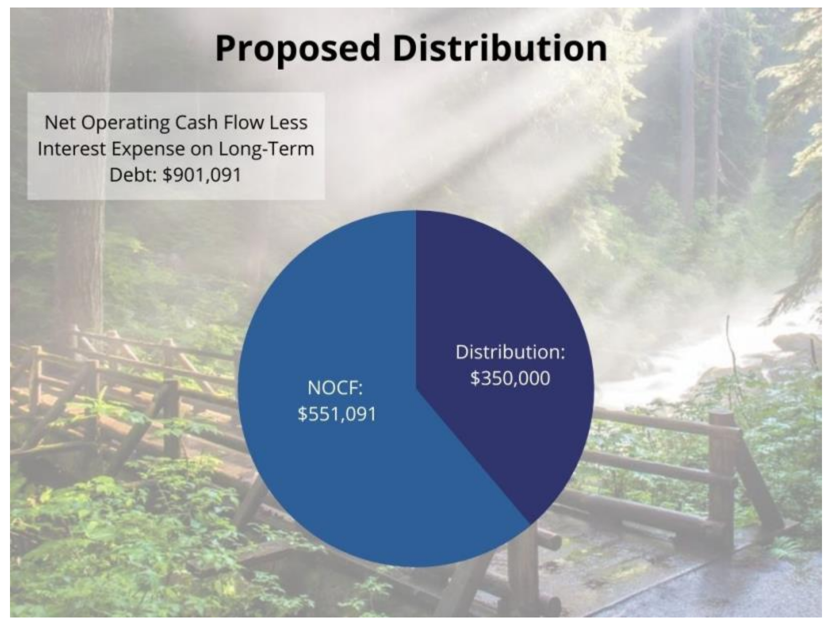
iv. *Net Operating Cash Flow*

Depreciation and Amortization did not increase significantly from 2020, so the increase in NOCF (2020: $229,151 - 2021: $1,016,868) is attributable again to the same as NOPAT (PPE).

v. *Free Cash Flow*

Though 2021's FCF of $116,868 is up $125,310 from 2020's mark of -$8,442, this number is still down from historical numbers. However, we can expect this number to improve in coming years, as new PPE continues to generate new profits and pay down debt.

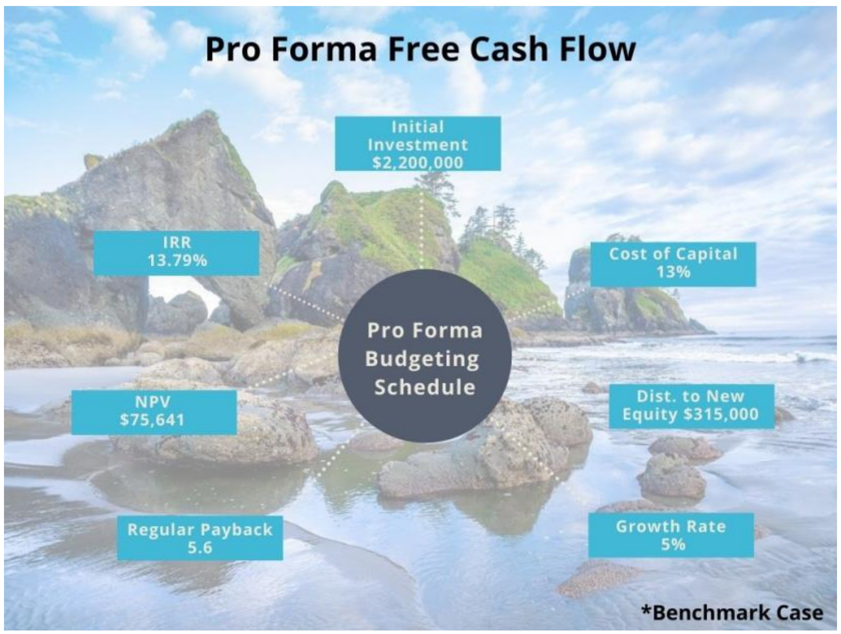
d. Proposed Distribution (Dividend) for Pro Forma year 2021. Note: The amount of Cash available for Distribution must come from Net Operating Cash Flow less the Interest Expense on LT Debt (which will be adjusted from 2020 depending on how much LT Debt is reduced by your answer to #2 above).



*Numbers in millions.

Though FGP's distribution of $350,000 is substantial, it is justified. First, Ferrellgas will have the means, by virtue of new profits generated and available since there will be less debt to pay off. Second, it is necessary, since without a significant dividend, it will be difficult to attract new unit holders, or to justify the new ownership to current unit holders.

4. Produce a Pro Forma Capital Budgeting schedule based on an extension of your 2021 Net Operating Cash Flow. Include the following:



a. *Your Initial Investment (year 0) will be the answer to #1 above.*

$2,200,000. Though an infusion to this degree will take longer to repay, it will also stimulate the company into faster growth.

b. *What Cost of Capital do you propose to use for the Capital Budgeting analysis?*

13%. This number provides significant safety for FGP without creating too challenging of a hurdle. If Ferrellgas can achieve a COC as 13%, they will easily be able to make the repayment of their cash infusion worth their while.

c. *Your Future Cash Flow for the Capital Budgeting analysis will begin (Year 1) with* ***the Dividend Distribution to the new Equity. Remember that the Distribution to the new equity will be based on your estimated Distribution (3d above) times the percent ownership based on the Equity (3 above).***

$315,000. Though the cumulative distribution sits at $350,000, $315,000 of this will go to new ownership, while $35,000 will go to current unitholders. This number affords a significant return to all unitholders, without compromising the profitability of FGP in 2021.

d. *Determine a growth rate for this marginal Net Operating Cash Flow and extend it out for 10 years. Explain your reason for using this growth rate.*

5%. As FGP is nearly doubling their assets in 2021, a compound growth rate of 5% does not seem unreasonable by any means. In the years following 2021, FGP could all but abandon growth, even shrink somewhat while continuing to reduce debt, and still have achieve this growth rate at the end of 10 years.

e. *Calculate the Regular Payback, NPV, and IRR using the 10-year life, and summarize your key findings of this Capital Budgeting analysis in an executive summary.*

*Numbers in millions.

- **Regular Payback: 5.6**. It will take Ferrellgas Partners some time to repay the cash infusion afforded them in 2021. That said, once FGP has repaid the cash infusion, and reduced their debt to a degree where they can finally leverage it once again, their assets and ability to generate a profit will be substantial.
- **NPV: $75,641**. This Net Present Value clearly shows FGP's cash infusion and overall Capital Budgeting Schedule to be worthwhile.
- **IRR: 13.75%**. Though not fantastic, this Internal Rate of Return proves the cash infusion to be worth it to Ferrellgas. And, as an aside, FGP could not achieve much higher of an IRR without compromising the return to unitholders.

5. *Write a concluding paragraph with your assessment of whether your proposed equity infusion is feasible based on the results of your Pro Forma projections (#3) and your Capital Budgeting analysis (#4).*

The equity infusion to Ferrellgas Partners is more than feasible! Not only does it pay down significant amounts of debt (enough to get FGP out from its debt stranglehold immediately), but it also provides the company with the means to acquire new money-making assets. The subsequent increases in revenue should make the repayment of the debt infusion relatively quick and painless, too. The bigger question though, is whether attracting a debt infusion like this possible. Hopefully, if current unitholders can relinquish majority ownership and new unitholders find the share in their ownership sufficiently lucrative, that question of finding investors to provide the infusion can be answered in the affirmative.

*Further, detailed information is available on attached spreadsheets.

*Numbers in millions.