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Our Energy Makes the Difference™

Sprague Resources LP

- Non-GAAP Supplemental
- Q4 2018

Sprague Resources LP

Non-GAAP Measures

Overview

This Non-GAAP Measures Quarterly Supplement (the “Supplement”) provides information of interest to investors, analysts and other parties including supplemental financial information and reconciliations and other information concerning Sprague’s use of non-GAAP financial measures and is updated quarterly. The term “Sprague” refers to Sprague Resources LP.

To supplement the financial information presented in accordance with United States generally accepted accounting principles (“GAAP”), Sprague’s management uses certain non-GAAP financial measurements to evaluate its results of operations. This Supplement provides information about the following non-GAAP measures: EBITDA, adjusted gross margin, adjusted EBITDA, distributable cash flow, distribution coverage ratio, permanent leverage ratio, liquidity, as well as additional information pertaining to guidance. We also present maintenance capital expenditures and expansion capital expenditures as additional non-GAAP measures.

Use of Non-GAAP Measures

Management publicly discloses non-GAAP financial measures in the course of our earnings releases, financial presentations, earnings conference calls, investor and analyst meetings and otherwise which are provided as additional information to investors, analysts and other parties. Sprague believes that investors benefit from having access to the same financial measures that are used by its management and that these measures are useful to investors because they aid in comparing its operating performance with that of other companies with similar operations. However, Sprague’s calculations of non-GAAP measures may not be comparable to similarly titled measures of other businesses because they may be defined differently by other companies.

These non-GAAP measures may not be indicative of the historical operating results nor are they intended to be predictive or projections of future results and should be considered within the context of our complete audited and unaudited financial results for the given period, which are available on the Investor Relations page of our website www.spragueenergy.com and in EDGAR public filings with the Securities and Exchange Commission (the “SEC”).

Sprague’s non-GAAP measures should be viewed as supplemental to, and should not be considered as alternatives to, GAAP measures including, but not limited, to net income (loss), operating profit (loss), cash flow from operating, investing and financing activities, or any other measure of financial performance or liquidity presented in accordance with GAAP.

Pursuant to the requirements of SEC Regulation G, when Sprague refers to a non-GAAP measure, we will also present in this document, in the presentation itself or on a Form 8-K in connection with the presentation on the Investor Relations/Non-GAAP Measures page of our website, www.spragueenergy.com, to the extent practicable, the most directly comparable financial measure calculated and presented in accordance with GAAP, along with a reconciliation of the differences between the non-GAAP measure we reference and such comparable GAAP measure.

Sprague Resources LP

Non-GAAP Measures

EBITDA and Adjusted EBITDA

Management believes that adjusted EBITDA is an aid in assessing repeatable operating performance that is not distorted by non-recurring items or market volatility and the ability of our assets to generate sufficient revenue, that when rendered to cash, will be available to pay interest on our indebtedness and make distributions to our unitholders.

We define EBITDA as net income (loss) before interest, income taxes, depreciation and amortization. We define adjusted EBITDA as EBITDA adjusted for the change in unrealized hedging gains (losses) with respect to refined products and natural gas inventory, prepaid forward contracts and natural gas transportation contracts, adjusted for changes in the fair value of contingent consideration, adjusted for the impact of acquisition related expenses, and adjusted for the impact of biofuel excise tax credits resulting from retroactive tax legislation changes that occurred in 2018.

EBITDA and adjusted EBITDA are used as supplemental financial measures by external users of our financial statements, such as investors, trade suppliers, research analysts and commercial banks to assess:

- The financial performance of our assets, operations and return on capital without regard to financing methods, capital structure or historical cost basis;
- The ability of our assets to generate sufficient revenue, that when rendered to cash, will be available to pay interest on our indebtedness and make distributions to our equity holders;
- Repeatable operating performance that is not distorted by non-recurring items or market volatility; and
- The viability of acquisitions and capital expenditure projects.

EBITDA and adjusted EBITDA are not prepared in accordance with GAAP and should not be considered alternatives to net income (loss) or operating income, or any other measure of financial performance presented in accordance with GAAP. EBITDA and adjusted EBITDA exclude some, but not all, items that affect net income (loss) and operating income (loss).

The GAAP measure most directly comparable to EBITDA and adjusted EBITDA is net income (loss). EBITDA and adjusted EBITDA should not be considered as an alternative to net income (loss) or cash provided by (used in) operating activities, or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and adjusted EBITDA are not presentations made in accordance with GAAP and have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of our results as reported under GAAP. Because EBITDA and adjusted EBITDA exclude some, but not all, items that affect net income (loss) and is defined differently by different companies, our definitions of EBITDA and adjusted EBITDA may not be comparable to similarly titled measures of other companies.

We recognize that the usefulness of EBITDA and adjusted EBITDA as an evaluative tool may have certain limitations, including:

- EBITDA and adjusted EBITDA do not include interest expense. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and impacts our ability to generate profits and cash flows. Therefore, any measure that excludes interest expense may have material limitations;
- EBITDA and adjusted EBITDA do not include depreciation and amortization expense. Because capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate profits, any measure that excludes depreciation and amortization expense may have material limitations;
- EBITDA and adjusted EBITDA do not include provision for income taxes. Because the payment of income taxes is a necessary element of our costs, any measure that excludes income tax expense may have material limitations;
- EBITDA and adjusted EBITDA do not reflect capital expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA and adjusted EBITDA do not reflect changes in, or cash requirements for, working capital needs; and
- EBITDA and adjusted EBITDA do not allow us to analyze the effect of certain recurring and non-recurring items that materially affect our net income or loss.

Sprague Resources LP

Non-GAAP Measures

Adjusted Gross Margin

Management trades, purchases, stores and sells energy commodities that experience market value fluctuations. To manage the Partnership's underlying performance, including its physical and derivative positions, management utilizes adjusted gross margin. In determining adjusted gross margin, management adjusts its segment results for the impact of unrealized gains and losses with regard to refined products and natural gas inventory, prepaid forward contracts and natural gas transportation contracts, which are not marked to market for the purpose of recording unrealized gains or losses in net income (loss). These adjustments align the unrealized hedging gains and losses to the period in which the revenue from the sale of inventory, prepaid fixed forwards and the utilization of transportation contracts relating to those hedges is realized in net income (loss). Adjusted gross margin is also used by external users of our consolidated financial statements to assess our economic results of operations and its commodity market value reporting to lenders.

We define adjusted gross margin as net sales less cost of products sold (exclusive of depreciation and amortization) and decreased by total commodity derivative gains and losses included in net income (loss) and increased by realized commodity derivative gains and losses included in net income (loss), in each case with respect to refined products and natural gas inventory, prepaid forward contracts and natural gas transportation contracts. Adjusted gross margin has no impact on reported volumes or net sales.

Adjusted gross margin is used as supplemental financial measures by management to describe our operations and economic performance to investors, trade suppliers, research analysts and commercial banks to assess:

- The economic results of our operations;
- The market value of our inventory and natural gas transportation contracts for financial reporting to our lenders, as well as for borrowing base purposes; and
- Repeatable operating performance that is not distorted by non-recurring items or market volatility.

Adjusted gross margin is not prepared in accordance with GAAP and should not be considered as alternatives to net income (loss) or operating income (loss) or any other measure of financial performance presented in accordance with GAAP.

We define adjusted unit gross margin as adjusted gross margin divided by units sold, as expressed in gallons for refined products, and in MMBtus for natural gas.

For a reconciliation of adjusted gross margin and adjusted EBITDA to the GAAP measures most directly comparable, see the reconciliation tables included in "Results of Operations." included in our Annual Report on Form 10-K. See "Segment Reporting" included under Notes to our Consolidated Financial Statements for a presentation of our financial results by reportable segment.

Distributable Cash Flow

Sprague defines distributable cash flow as adjusted EBITDA less cash interest expense (excluding imputed interest on deferred acquisition payments), cash taxes, and maintenance capital expenditures. Distributable cash flow calculations also reflect the elimination of compensation expense expected to be settled with the issuance of Partnership units, expenses related to business combinations and other adjustments. Distributable cash flow is a significant performance measure used by Sprague and by external users of its financial statements, such as investors, commercial banks and research analysts, to compare the cash generating performance of the Partnership in relation to the cash distributions expected to be paid to its unitholders. Distributable cash flow is also an important financial measure for Sprague's unitholders since it serves as an indicator of its success in providing a cash return on investment. Additionally, distributable cash flow is utilized as a performance measure in certain of its compensation plans. Distributable cash flow indicates to investors whether or not Sprague can generate performance that can sustain or support an increase in quarterly distribution rates. Distributable cash flow is also a quantitative standard used throughout the investment community with respect to publicly-traded partnerships because the value of a unit of such an entity is generally determined by the unit's yield, which in turn is based on the amount of cash distributions the entity pays to a unitholder.

Sprague Resources LP

Non-GAAP Measures

Distribution Coverage Ratio

Sprague also calculates the ratio of distributable cash flow to the total cash distribution declared for the period (the distribution coverage ratio) as it provides important information relating to the relationship between Sprague's financial operating performance and its cash distribution capability. Sprague defines the distribution coverage ratio as the ratio of distributable cash flow to the quarterly distribution payable on all outstanding common and subordinated units and incentive distributions.

Permanent Leverage Ratio

Sprague uses the term "permanent leverage" or "permanent leverage ratio" when referring to its Consolidated Senior Secured Leverage Ratio as contained in its Credit Agreement. Sprague's permanent leverage ratio equates to the aggregate of its acquisition facility borrowings, capital lease obligations, debentures and other debt divided by the consolidated trailing twelve-month adjusted EBITDA, as defined by the Credit Agreement. For computing compliance with the Credit Agreement, Sprague makes modifications to adjusted EBITDA to reflect the pro forma effect of acquisitions and adjusts for interest income, non-cash expenses, gain (loss) on sale of assets and other adjustments as allowed under the Credit Agreement. Management believes the permanent leverage ratio is helpful to investors in assessing the Partnership's overall debt profile and is used by management to evaluate its ability to finance capital expenditures and acquisitions.

Liquidity

Sprague defines liquidity as the potential availability under its Credit Agreement (consisting of maximum credit commitments, less balances outstanding) less adjustments associated with compliance with financial covenants and other provisions of the Credit Agreement that may limit borrowings.

Guidance

Reconciliation of non-GAAP adjusted EBITDA guidance to the closest corresponding GAAP measure (expected net income (loss)) is not available without unreasonable efforts on a forward-looking basis due to the inherent difficulty and impracticality of forecasting certain amounts required by GAAP such as unrealized gains and losses on derivative hedges, which can have a significant and potentially unpredictable, impact on our future GAAP financial results.

Sprague Resources LP
Reconciliations of Non-GAAP Measures

| <i>\$ in thousands</i> | Three Months Ended December 31, 2018 | Three Months Ended September 30, 2018 | Three Months Ended June 30, 2018 | Three Months Ended March 31, 2018 | Three Months Ended December 31, 2017 | Three Months Ended September 30, 2017 | Three Months Ended June 30, 2017 | Three Months Ended March 31, 2017 |
|--|---|--|-------------------------------------|--------------------------------------|---|--|-------------------------------------|--------------------------------------|
| Net Income (Loss) to EBITDA, Adjusted EBITDA and Distributable Cash Flow | | | | | | | | |
| Net income (loss) | \$ 36,527 | \$ (18,434) | \$ (13,195) | \$ 74,921 | \$ (12,894) | \$ (14,316) | \$ (7,792) | \$ 64,499 |
| Add/(deduct): | | | | | | | | |
| Interest expense, net | 10,389 | 8,950 | 9,243 | 9,772 | 8,649 | 7,095 | 8,191 | 7,071 |
| Tax provision (benefit) | 2,048 | 295 | (286) | 2,975 | 54 | 853 | 813 | 2,102 |
| Depreciation and amortization | 8,232 | 8,343 | 8,378 | 8,425 | 8,588 | 6,655 | 6,950 | 5,932 |
| EBITDA | \$ 57,196 | \$ (846) | \$ 4,140 | \$ 96,093 | \$ 4,397 | \$ 287 | \$ 8,162 | \$ 79,604 |
| Add/(deduct): | | | | | | | | |
| Change in unrealized gain on inventory | (13,651) | 3,281 | 971 | (23,561) | 15,498 | 13,673 | (4,539) | (24,508) |
| Change in unrealized value on prepaid forward contracts | — | — | — | — | (169) | (667) | (267) | 27 |
| Change in unrealized value on natural gas transportation contracts | (14,701) | 5,939 | 3,716 | (14,068) | 16,546 | 760 | 949 | (7,814) |
| Biofuel tax credit | — | — | — | (4,022) | 4,022 | — | — | — |
| Acquisition related expenses | 22 | 30 | 252 | 443 | 1,331 | 722 | 636 | 349 |
| Other adjustments (1) | 176 | 204 | 197 | 194 | 231 | — | — | — |
| Adjusted EBITDA | \$ 29,042 | \$ 8,608 | \$ 9,276 | \$ 55,079 | \$ 41,856 | \$ 14,775 | \$ 4,941 | \$ 47,658 |
| Add/(deduct): | | | | | | | | |
| Cash interest expense, net (excluding imputed interest on deferred acquisition payments) | (9,061) | (7,619) | (7,908) | (8,433) | (7,275) | (5,360) | (5,739) | (6,056) |
| Cash taxes | (1,921) | (973) | 308 | (2,369) | (152) | (723) | (1,251) | (840) |
| Maintenance capital expenditures | (2,297) | (2,586) | (3,473) | (2,262) | (3,893) | (4,322) | (2,673) | (1,540) |
| Elimination of expense relating to incentive compensation and directors fees expected to be paid in common units | (805) | (335) | (594) | 838 | 586 | (243) | 1,018 | 928 |
| Other | 54 | (265) | — | 304 | 126 | 159 | 742 | (4) |
| Distributable cash flow | \$ 15,012 | \$ (3,170) | \$ (2,391) | \$ 43,157 | \$ 31,248 | \$ 4,286 | \$ (2,962) | \$ 40,146 |
| | | | | | | | | |
| Distributions declared and equivalent rights paid for the period | \$ 17,230 | \$ 17,230 | \$ 17,225 | \$ 18,304 | \$ 15,861 | \$ 15,063 | \$ 14,550 | \$ 14,901 |
| | | | | | | | | |
| Distribution coverage ratio | 0.9x | (0.2)x | (0.1)x | 2.4x | 2.0x | 0.3x | (0.2)x | 2.7x |
| | | | | | | | | |
| Trailing twelve month distribution coverage ratio | 0.8x | 1.0x | 1.1x | 1.6x | 1.2x | 1.1x | 1.3x | 1.6x |

(1) Represents the change in fair value of contingent consideration related to the 2017 Coen Energy acquisition and other expense.

Sprague Resources LP
Reconciliations of Non-GAAP Measures

| <i>\$ in thousands</i> | Three Months Ended December 31, 2018 | Three Months Ended September 30, 2018 | Three Months Ended June 30, 2018 | Three Months Ended March 31, 2018 | Three Months Ended December 31, 2017 | Three Months Ended September 30, 2017 | Three Months Ended June 30, 2017 | Three Months Ended March 31, 2017 |
|--|---|--|-------------------------------------|--------------------------------------|---|--|-------------------------------------|--------------------------------------|
| Cash Flows | | | | | | | | |
| Net cash provided by (used in) operating activities | \$ (32,323) | \$ (14,030) | \$ 148,597 | \$ 56,735 | \$ (69,849) | \$ (96,469) | \$ 117,948 | \$ 105,412 |
| Net cash provided by (used in) investing activities | (3,899) | (3,701) | (5,603) | (3,652) | (42,222) | (20,610) | (24,499) | (65,938) |
| Net cash provided by (used in) financing activities | 25,256 | 27,690 | (139,975) | (54,286) | 115,739 | 116,562 | (104,344) | (27,671) |
| Other | (125) | 55 | (21) | (3) | (47) | 63 | 37 | 21 |
| Net change in cash and cash equivalents | \$ (11,091) | \$ 10,014 | \$ 2,998 | \$ (1,206) | \$ 3,621 | \$ (454) | \$ (10,858) | \$ 11,824 |
| Cash Flow from Operations to Distributable Cash Flow | | | | | | | | |
| Net cash provided by (used in) operating activities | \$ (32,323) | \$ (14,030) | \$ 148,597 | \$ 56,735 | \$ (69,849) | \$ (96,469) | \$ 117,948 | \$ 105,412 |
| Add/(deduct): | | | | | | | | |
| Changes in assets and liabilities | 78,128 | 3,649 | (152,364) | 29,639 | 67,071 | 88,761 | (115,164) | (31,927) |
| Change in unrealized gain on inventory | (13,651) | 3,281 | 971 | (23,561) | 15,498 | 13,673 | (4,539) | (24,508) |
| Change in unrealized value on prepaid forward contracts | — | — | — | — | (169) | (667) | (267) | 27 |
| Change in unrealized value on natural gas transportation contracts | (14,701) | 5,939 | 3,716 | (14,068) | 16,546 | 760 | 949 | (7,814) |
| Maintenance capital expenditures | (2,297) | (2,586) | (3,473) | (2,262) | (3,893) | (4,322) | (2,673) | (1,540) |
| Biofuel tax credit | — | — | — | (4,022) | 4,022 | — | — | — |
| Acquisition related expenses | 22 | 30 | 252 | 443 | 1,331 | 722 | 636 | 349 |
| Other | (166) | 547 | (90) | 253 | 691 | 1,828 | 148 | 147 |
| Distributable cash flow | \$ 15,012 | \$ (3,170) | \$ (2,391) | \$ 43,157 | \$ 31,248 | \$ 4,286 | \$ (2,962) | \$ 40,146 |
| Capital Expenditures | | | | | | | | |
| Maintenance capital expenditures per distributable cash flow | \$ 2,297 | \$ 2,586 | \$ 3,473 | \$ 2,262 | \$ 3,893 | \$ 4,322 | \$ 2,673 | \$ 1,540 |
| Less: principal payments on maintenance capital leases | 299 | 272 | 242 | 227 | 256 | 222 | 219 | 210 |
| Maintenance capital expenditures | 1,998 | 2,314 | 3,231 | 2,035 | 3,637 | 4,100 | 2,454 | 1,330 |
| Expansion capital expenditures | 1,072 | 1,722 | 2,386 | 1,646 | 3,448 | 8,088 | 9,488 | 5,846 |
| Other capital expenditures | 845 | — | — | — | 96 | 8,468 | — | — |
| Total capital expenditures | \$ 3,915 | \$ 4,036 | \$ 5,617 | \$ 3,681 | \$ 7,181 | \$ 20,656 | \$ 11,942 | \$ 7,176 |

Sprague Resources LP
Reconciliations of Non-GAAP Measures

| <i>\$ in thousands</i> | <u>Year Ended December 31, 2018</u> | <u>Year Ended December 31, 2017</u> | <u>Year Ended December 31, 2016</u> | <u>Year Ended December 31, 2015</u> | <u>Year Ended December 31, 2014</u> |
|--|---|---|---|---|---|
| Net Income (Loss) to EBITDA, Adjusted EBITDA and Distributable Cash Flow | | | | | |
| Net income (loss) | \$ 79,819 | \$ 29,497 | \$ 10,166 | \$ 78,348 | \$ 122,814 |
| Add/(deduct): | | | | | |
| Interest expense, net | 38,354 | 31,006 | 27,145 | 26,911 | 29,082 |
| Tax provision | 5,032 | 3,822 | 2,108 | 1,816 | 5,509 |
| Depreciation and amortization | 33,378 | 28,125 | 21,237 | 20,342 | 17,625 |
| EBITDA | <u>\$ 156,583</u> | <u>\$ 92,450</u> | <u>\$ 60,656</u> | <u>\$ 127,417</u> | <u>\$ 175,030</u> |
| Add/(deduct): | | | | | |
| Change in unrealized gain on inventory | (32,960) | 124 | 31,304 | 2,079 | (11,070) |
| Change in unrealized value on prepaid forward contracts | — | (1,076) | (1,552) | 2,628 | — |
| Change in unrealized value on natural gas transportation contracts | (19,114) | 10,441 | 18,612 | (21,695) | (58,694) |
| Biofuel tax credit | (4,022) | 4,022 | — | — | — |
| Acquisition related expenses | 747 | 3,038 | 1,177 | 2,919 | 3,017 |
| Other adjustments | 771 | 231 | — | — | — |
| Adjusted EBITDA | <u>\$ 102,005</u> | <u>\$ 109,230</u> | <u>\$ 110,197</u> | <u>\$ 113,348</u> | <u>\$ 108,283</u> |
| Add/(deduct): | | | | | |
| Cash interest expense, net | (33,021) | (24,430) | (23,170) | (23,359) | (24,265) |
| Cash taxes | (4,955) | (2,966) | (1,719) | (1,668) | (3,042) |
| Maintenance capital expenditures | (10,618) | (12,428) | (9,379) | (8,855) | (8,290) |
| Elimination of expense relating to incentive compensation and directors fees expected to be paid in common units | (896) | 2,289 | 3,075 | 8,437 | 8,182 |
| Other | 93 | 1,023 | 48 | 1,786 | (5,971) |
| Distributable cash flow | <u>\$ 52,608</u> | <u>\$ 72,718</u> | <u>\$ 79,052</u> | <u>\$ 89,689</u> | <u>\$ 74,897</u> |
| | | | | | |
| Distributions declared for the period | \$ 69,989 | \$ 60,375 | \$ 49,098 | \$ 42,084 | \$ 35,490 |
| | | | | | |
| Distribution coverage ratio | 0.8x | 1.2x | 1.6x | 2.1x | 2.1x |

Sprague Resources LP
Reconciliations of Non-GAAP Measures

| <i>\$ in thousands</i> | As of December 31, 2018 | As of September 30, 2018 | As of June 30, 2018 | As of March 31, 2018 |
|---|----------------------------|-----------------------------|------------------------|-------------------------|
| Permanent Leverage Ratio | | | | |
| Acquisition facility | \$ 376,100 | \$ 379,100 | \$ 379,100 | \$ 379,100 |
| Capital leases and other debt | 6,314 | 5,296 | 4,411 | 3,688 |
| Indebtedness for Credit Agreement Leverage Ratio | <u>\$ 382,414</u> | <u>\$ 384,396</u> | <u>\$ 383,511</u> | <u>\$ 382,788</u> |
| Credit Agreement EBITDA ⁽¹⁾ | | | | |
| Adjusted EBITDA | \$ 102,005 | \$ 114,819 | \$ 120,986 | \$ 116,651 |
| Plus acquisition pro forma adjustments | — | — | 2,000 | 4,691 |
| Plus interest income | 576 | 496 | 449 | 367 |
| Plus non-cash expenses | 1,598 | 837 | 899 | 299 |
| Plus loss (minus gain) on sale of assets | (293) | (218) | 77 | (40) |
| Plus extraordinary, unusual or non-recurring losses and charges | 1,649 | — | — | — |
| Credit Agreement EBITDA | <u>\$ 105,535</u> | <u>\$ 115,934</u> | <u>\$ 124,411</u> | <u>\$ 121,968</u> |
| Permanent Leverage Ratio | 3.6x | 3.3x | 3.1x | 3.1x |
| Liquidity - Working Capital Facility | | | | |
| Working capital borrowing base | \$ 512,467 | \$ 402,421 | \$ 341,460 | \$ 474,603 |
| Working capital facility borrowings | (284,998) | (236,400) | (190,384) | (312,968) |
| Outstanding letters of credit | (65,520) | (41,280) | (18,572) | (24,644) |
| Liquidity - Working Capital Facility | <u>\$ 161,949</u> | <u>\$ 124,741</u> | <u>\$ 132,504</u> | <u>\$ 136,991</u> |
| Liquidity - Acquisition Facility | | | | |
| Acquisition borrowing base | \$ 550,000 | \$ 550,000 | \$ 550,000 | \$ 550,000 |
| Acquisition facility borrowings | (376,100) | (379,100) | (379,100) | (379,100) |
| Liquidity - Acquisition Facility | <u>\$ 173,900</u> | <u>\$ 170,900</u> | <u>\$ 170,900</u> | <u>\$ 170,900</u> |

(1) On a trailing twelve month basis