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Sprague Resources LP

Non-GAAP Supplement
Q4 2021

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.

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 earnings (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, the viability of acquisitions and capital expenditure projects and 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 as well as natural gas transportation contracts, changes in fair value of contingent consideration, acquisition related expenses and other operating income.

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 as well as natural gas transportation contracts, which are not marked to market for the purpose of recording unrealized gains or losses 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 as well as 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.

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 Total 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

\$ in thousands	Three Months Ended December 31, 2021	Three Months Ended September 30, 2021	Three Months Ended June 30, 2021	Three Months Ended March 31, 2021
Net (Loss) Income to EBITDA, Adjusted EBITDA and Distributable Cash Flow				
Net (loss) income	\$ 43,664	\$ (115,757)	\$ (45,603)	\$ 48,782
Add/(deduct):				
Interest expense, net	8,849	7,829	8,510	8,748
Tax provision	3,210	(1,814)	562	871
Depreciation and amortization	8,317	8,277	8,258	8,482
EBITDA	\$ 64,040	\$ (101,465)	\$ (28,273)	\$ 66,883
Add/(deduct):				
Unrealized gain (loss) on inventory	(9,168)	16,619	5,369	(26,257)
Unrealized (loss) gain on natural gas transportation contracts	(27,388)	103,233	35,592	21,116
Gain on sale of fixed assets not in the ordinary course of business and other operating income	2	25	(9,725)	(2)
Other adjustments (1)	36	34	35	35
Adjusted EBITDA	\$ 27,522	\$ 18,446	\$ 2,998	\$ 61,775
Add/(deduct):				
Cash interest expense, net (excluding imputed interest on deferred acquisition payments)	(7,520)	(6,494)	(6,664)	(7,367)
Cash taxes	(2,704)	(572)	(694)	(983)
Maintenance capital expenditures	(5,665)	(3,228)	(3,515)	(2,008)
Elimination of expense relating to incentive compensation and directors fees expected to be paid in common units	(3,557)	1,184	185	2,368
Other	—	—	(6)	6
Distributable cash flow	\$ 8,076	\$ 9,336	\$ (7,696)	\$ 53,791
Distributions declared and equivalent rights paid for the period	\$ 11,381	\$ 11,383	\$ 17,506	\$ 17,506
Distribution coverage ratio	0.7x	0.8x	-0.4x	3.1x
Trailing twelve month distribution coverage ratio	1.1x	1.1x	1.x	1.4x

Sprague Resources LP
Reconciliations of Non-GAAP Measures

\$ in thousands	Three Months Ended December 31, 2021	Three Months Ended September 30, 2021	Three Months Ended June 30, 2021	Three Months Ended March 31, 2021
Cash Flows				
Net cash (used in) provided by operating activities	\$ (303,611)	\$ 87,681	\$ 70,684	\$ 88,469
Net cash (used in) provided by investing activities	(4,687)	(3,414)	7,249	(1,924)
Net cash provided by (used in) financing activities	300,129	(82,154)	(78,275)	(83,220)
Other	(20)	(5)	(6)	2
Net change in cash and cash equivalents	\$ (8,189)	\$ 2,108	\$ (348)	\$ 3,327
Cash Flow from Operations to Distributable Cash Flow				
Net cash (used in) provided by operating activities	\$ (303,611)	\$ 87,681	\$ 70,684	\$ 88,468
Add/(deduct):				
Changes in assets and liabilities	357,321	(196,601)	(116,361)	(30,097)
Unrealized gain (loss) on inventory	(9,168)	16,619	5,369	(26,257)
Unrealized (loss) gain on natural gas transportation contracts	(27,388)	103,233	35,592	21,116
Maintenance capital expenditures	(5,665)	(3,228)	(3,515)	(2,008)
Other	(3,412)	1,632	535	2,569
Distributable cash flow	\$ 8,076	\$ 9,336	\$ (7,696)	\$ 53,791
Capital Expenditures				
Maintenance capital expenditures per distributable cash flow	\$ 5,665	\$ 3,228	\$ 3,515	\$ 2,008
Less: principal payments on maintenance capital leases	694	702	740	675
Maintenance capital expenditures	4,971	2,526	2,775	1,333
Expansion capital expenditures	(276)	867	894	798
Total capital expenditures	\$ 4,695	\$ 3,393	\$ 3,669	\$ 2,131

Sprague Resources LP
Reconciliations of Non-GAAP Measures

<i>\$ in thousands</i>	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019	Year Ended December 31, 2018
Net (Loss) Income to EBITDA, Adjusted EBITDA and Distributable Cash Flow				
Net (loss) income	\$ (68,916)	\$ 33,811	\$ 31,256	\$ 79,819
Add/(deduct):				
Interest expense, net	33,938	40,370	42,389	38,354
Tax provision	2,828	7,389	3,310	5,032
Depreciation and amortization	33,335	34,066	34,015	33,378
EBITDA	\$ 1,185	\$ 115,636	\$ 110,970	\$ 156,583
Add/(deduct):				
Unrealized gain (loss) on inventory	(13,437)	20,148	12,814	(32,960)
Unrealized (loss) gain on natural gas transportation contracts	132,554	(9,565)	(19,289)	(19,114)
Biofuel tax credit	—	—	—	(4,022)
Acquisition related expenses	—	1	14	747
Gain on sale of fixed assets not in the ordinary course of business and other operating income	(9,700)	(8,094)	—	—
Other non-operating income	—	(1,947)	—	—
Other adjustments	139	564	1,042	771
Adjusted EBITDA	\$ 110,741	\$ 116,743	\$ 105,551	\$ 102,005
Add/(deduct):				
Cash interest expense, net	(28,045)	(33,872)	(37,168)	(33,021)
Cash taxes	(4,953)	(7,756)	(4,805)	(4,955)
Maintenance capital expenditures	(14,416)	(8,281)	(9,269)	(10,618)
Elimination of expense relating to incentive compensation and directors fees expected to be paid in common units	180	4,209	1,591	(896)
Other	—	310	377	93
Distributable cash flow	\$ 63,507	\$ 71,353	\$ 56,277	\$ 52,608
Distributions declared for the period	\$ 57,773	\$ 69,522	\$ 66,882	\$ 69,989
Distribution coverage ratio	1.1x	1x	0.8x	0.8x

Sprague Resources LP
Reconciliations of Non-GAAP Measures

<i>\$ in thousands</i>	<u>As of December 31, 2021</u>	<u>As of September 30, 2021</u>	<u>As of June 30, 2021</u>	<u>As of March 31, 2021</u>
Permanent Leverage Ratio				
Acquisition facility	\$ 377,400	\$ 377,400	\$ 377,400	\$ 387,400
Carbo Indebtedness	16,912	17,559	18,195	18,819
Capital leases and other debt	9,529	10,232	10,869	11,190
Indebtedness for Credit Agreement Leverage Ratio	<u>\$ 403,841</u>	<u>\$ 405,191</u>	<u>\$ 406,464</u>	<u>\$ 417,409</u>
Credit Agreement EBITDA ⁽¹⁾				
Adjusted EBITDA	\$ 110,741	\$ 109,377	\$ 111,137	\$ 136,090
Plus interest income	170	190	194	190
Plus non-cash expenses	15	81	(16)	522
Plus other adjustments as allowed by the Credit Agreement	—	(525)	(532)	(4376)
Credit Agreement EBITDA	<u>\$ 110,926</u>	<u>\$ 109,123</u>	<u>\$ 110,783</u>	<u>\$ 132,426</u>
Permanent Leverage Ratio	3.6x	3.7x	3.7x	3.2x
Liquidity - Working Capital Facility				
Working capital borrowing base	\$ 750,000	\$ 548,649	\$ 384,364	\$ 436,410
Working capital facility borrowings	(497,582)	(184,377)	(246,597)	(291,106)
Outstanding letters of credit	(80,555)	(38,262)	(16,029)	(52,577)
Liquidity - Working Capital Facility	<u>\$ 171,863</u>	<u>\$ 326,010</u>	<u>\$ 121,738</u>	<u>\$ 92,727</u>
Liquidity - Acquisition Facility				
Acquisition borrowing base	\$ 450,000	\$ 450,000	\$ 450,000	\$ 430,000
Acquisition facility borrowings	(377,400)	(377,400)	(377,400)	(387,400)
Outstanding letters of credit	(18,800)	(15,800)	(13,900)	(14,500)
Liquidity - Acquisition Facility	<u>\$ 53,800</u>	<u>\$ 56,800</u>	<u>\$ 58,700</u>	<u>\$ 28,100</u>

(1) On a trailing twelve month basis