MERCER CAPITAL

VALUE FOCUS

Convenience Stores

SEGMENT FOCUS

Motor Fuels

2015

Q1: Motor Fuels

Q2: Grocery Stores

Q3: Alternative Fuels & Transportation

Q4: Foodservices

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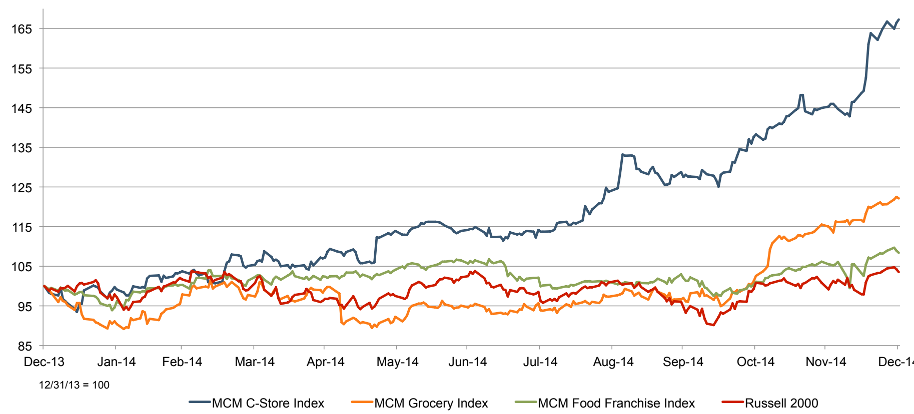
Value Focus

Convenience Stores

First Quarter 2015

Equity Market Overview. During the three months ending December 2014, median stock market pricing for the convenience store index was up an impressive 30.6%. The grocery store index posted a smaller, but still sizable, increase of 25.9%. Although the fast food index also posted a quarterly increase (6.3%), its growth lagged the Russell 2000 index (+9.4%). A portion of the increase in the c-store index was attributable to the 83.2% rise in PTRY's stock. The sizable increase was driven by ANCUF's announcement to merge with the North Carolina-based retailer. The $1.7 billion deal was announced on December 16th, and the stock price jumped $6.66/share overnight (+23.1%). ANCUF was up 31.8% for the quarter.

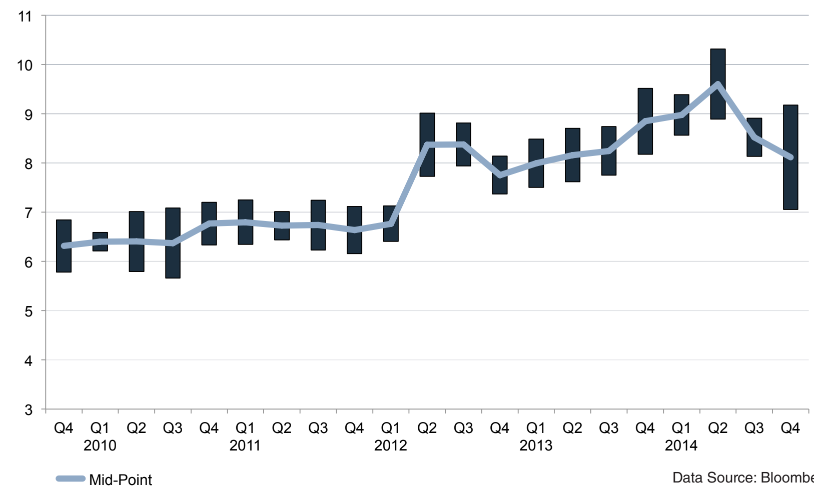
C-Store, Grocery Store, & QSR Stock Indices



Data Source: Capital IQ / Bloomberg

Valuations Down Slightly, Ranges Widen for C-Stores. EBITDA multiples were down slightly for convenience stores and fast food enterprises but up slightly for grocery store operators. Multiples for public c-store operators fell from 8.5x EBITDA at the end of the third quarter of 2014 to 8.1x at the end of the fourth quarter of 2014.[1] Despite the decrease, c-store multiples remained above their five-year average (7.6x). More important than the slight downturn in the multiples is the widening of the range of multiples. This widening is indicative of the volatility and uncertainty of fuel markets during the fourth quarter.

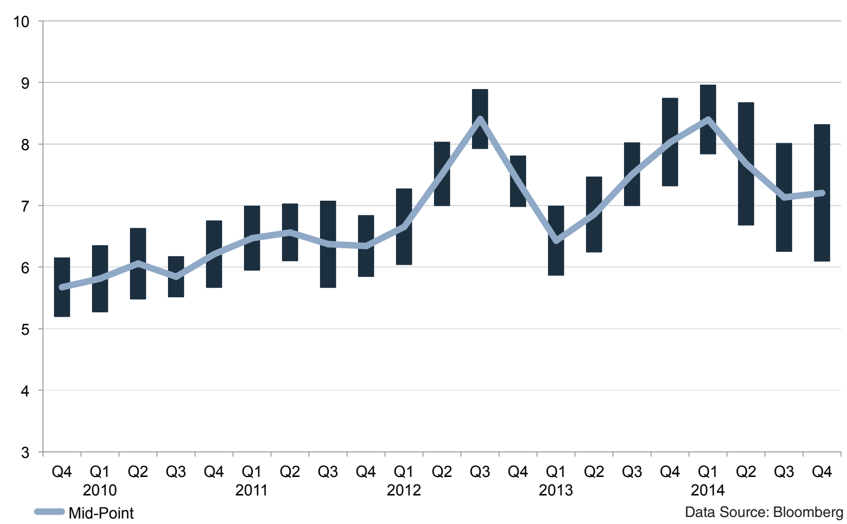
C-Store EBITDA Valuations // Quarterly Range of Mean Highs & Lows



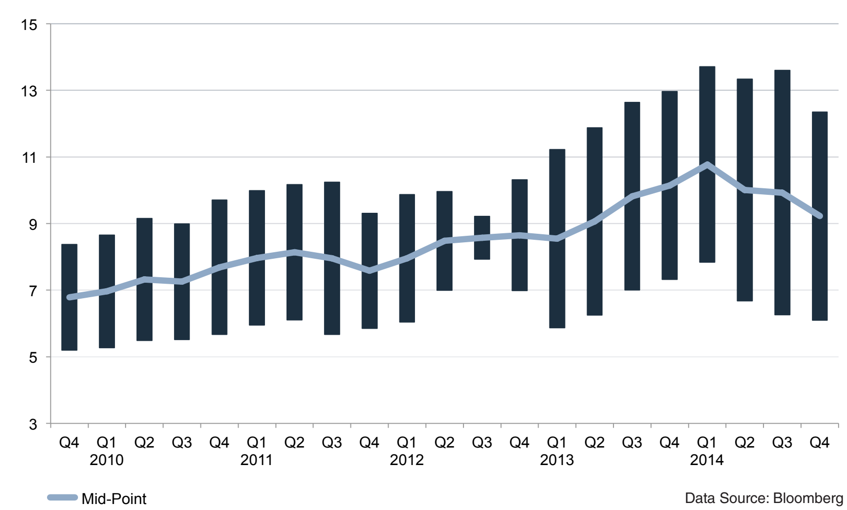
Data Source: Bloomberg

[1] As measured by the average of : (1) end-of-quarter high EBITDA measures of all the companies in the Mercer Capital index and (2) the end-of-quarter low EBITDA measures of all the companies in the Mercer Capital index. Travel Centers of America is currently excluded due to underperformance. Harris Teeter was eliminated from the Mercer Capital grocery index during the second quarter due to its recent acquisition. Susser was eliminated during the third quarter due to its acquisition by ETP during the quarter.

Grocery Store EBITDA Valuations // Quarterly Range of Mean Highs & Lows



Fast Food (QSR) EBITDA Valuations // Quarterly Range of Mean Highs & Lows



Publicly Traded Companies

	Ticker	Stock Price at 12/31/14	LTM Price Range High	LTM Price Range Low	Equity Market Cap	Enterprise Value	Revenue LTM	Revenue 2014 Est.	Revenue 2015 Est.	EBITDA LTM	EBITDA 2014 Est.	EBITDA 2015 Est.	EBITDA Margins LTM	EBITDA Margins 2014 Est.	EBITDA Margins 2015 Est.
Convenience Stores															
Alimentation Couche Tard Inc	ANCUF	$41.88	$42.40	$23.32	$23,694	$25,843	$38,179	$36,697	$41,096	$1,685	$1,925	$2,105	4.41%	5.24%	5.12%
Casey's General Stores Inc	CASY	$90.12	$91.22	$63.63	$3,490	$4,344	$8,151	$7,957	$8,280	$398	$445	$464	4.88%	5.59%	5.60%
Pantry Inc/The	PTRY	$37.06	$37.28	$12.30	$867	$1,797	$7,418	$6,699	$7,117	$252	$252	$238	3.40%	3.76%	3.34%
TravelCenters of America LLC	TA	$12.62	$12.85	$7.18	$475	$952	$7,959	$7,700	$8,002	$111	$146	$150	1.40%	1.89%	1.87%
CST Brands Inc	CST	$43.61	$44.82	$29.32	$3,291	$4,312	$12,545	$12,529	$13,499	$366	$394	$433	2.92%	3.14%	3.21%
Murphy USA Inc	MUSA	$68.86	$70.17	$37.09	$3,220	$3,713	$17,210	$17,832	$19,500	$474	$348	$387	2.76%	1.95%	1.98%
Average C-Stores					**$5,840**	**$6,827**	**$15,244**	**$14,902**	**$16,249**	**$548**	**$585**	**$629**	**3.29%**	**3.60%**	**3.52%**
Median C-Stores					**$3,255**	**$4,012**	**$10,348**	**$10,243**	**$10,889**	**$382**	**$371**	**$410**	**3.16%**	**3.45%**	**3.27%**
Grocery Stores															
Fresh Market Inc/The	TFM	$41.20	$42.12	$28.60	$1,990	$2,020	$1,698	$1,755	$1,992	$136	$188	$215	8.00%	10.73%	10.81%
Village Super Market Inc	VLGEA	$27.37	$30.85	$18.83	$385	$431	$1,541	na	na	$55	na	na	3.54%	na	na
SpartanNash Co	SPTN	$26.14	$26.89	$19.07	$984	$1,540	$6,546	$7,935	$7,969	$190	$241	$253	2.90%	3.03%	3.17%
Weis Markets Inc	WMK	$47.51	$51.34	$37.72	$1,278	$1,278	$2,749	na	na	$152	na	na	5.54%	na	na
Ingles Markets Inc	IMKTA	$36.94	$37.55	$21.42	$748	$1,719	$3,855	$3,911	$3,994	$234	$237	$254	6.06%	6.06%	6.36%
Roundy's Inc	RNDY	$4.84	$10.38	$2.80	$239	$895	$3,950	$4,028	$4,325	-$172	$125	$142	-4.35%	3.10%	3.28%
Whole Foods Market Inc	WFM	$50.29	$56.99	$35.88	$18,126	$18,188	$14,194	$15,738	$17,485	$1,311	$1,437	$1,591	9.24%	9.13%	9.10%
SUPERVALU Inc	SVU	$9.70	$9.95	$5.38	$2,503	$5,726	$17,409	$17,801	$18,227	$690	$772	$789	3.96%	4.34%	4.33%
Safeway Inc	SWY	$35.12	$35.25	$26.03	$8,095	$10,913	$36,182	$36,826	na	$1,458	$1,600	$1,413	4.03%	4.35%	na
Kroger Co/The	KR	$64.04	$64.81	$34.54	$31,126	$42,662	$106,480	$108,556	$112,849	$4,826	$5,071	$5,333	4.53%	4.67%	4.73%
Average Grocery Stores					**$6,547**	**$8,537**	**$19,461**	**$24,569**	**$23,834**	**$888**	**$1,209**	**$1,249**	**4.34%**	**5.68%**	**5.97%**
Median Grocery Stores					**$1,634**	**$1,869**	**$5,248**	**$11,836**	**$7,969**	**$212**	**$506**	**$522**	**4.28%**	**4.51%**	**4.73%**

Source: Bloomberg

Publicly Traded Companies (cont.)

	Ticker	Stock Price at 12/31/14	LTM Price Range High	LTM Price Range Low	Equity Market Cap	Enterprise Value	Revenue LTM	Revenue 2014 Est.	Revenue 2015 Est.	EBITDA LTM	EBITDA 2014 Est.	EBITDA 2015 Est.	EBITDA Margins LTM	EBITDA Margins 2014 Est.	EBITDA Margins 2015 Est.
Fast Foods															
McDonald's Corp	MCD	$93.70	$101.17	$87.62	$91,189	$106,319	$27,441	$25,921	$25,927	na	$9,181	$9,566	nm	35.42%	36.89%
Wendy's Co/The	WEN	$9.03	$10.03	$7.56	$3,298	nm	$2,061	$1,900	$1,487	$411	$401	$404	19.96%	21.08%	27.15%
Burger King Worldwide Inc	BKW	$35.50	$37.41	$21.79	$12,495	$15,522	$1,046	$1,118	$1,226	$491	$765	$834	46.92%	68.48%	68.03%
Yum! Brands Inc	YUM	$72.44	$82.61	$64.46	$31,438	$34,782	$13,279	$14,189	$15,367	$2,296	$2,975	$3,407	17.29%	20.97%	22.17%
Dunkin' Brands Group Inc	DNKN	$42.65	$52.25	$40.09	$4,461	$6,272	$749	$794	$849	$377	$405	$440	50.38%	51.05%	51.77%
Krispy Kreme Doughnuts Inc	KKD	$19.74	$21.30	$14.82	$1,279	$1,287	$478	$494	$554	$60	$67	$81	12.57%	13.52%	14.57%
Panera Bread Co	PNRA	$174.80	$193.18	$142.41	$4,714	nm	$2,529	$2,771	$3,027	$400	$413	$462	15.82%	14.91%	15.25%
Chipotle Mexican Grill Inc	CMG	$684.51	$697.93	$472.41	$21,238	$21,238	$4,108	$4,828	$5,527	$821	$1,006	$1,181	19.99%	20.84%	21.37%
Jack in the Box Inc	JACK	$79.96	$80.94	$47.33	$3,083	$3,591	$1,484	$1,519	$1,625	$254	$286	$314	17.09%	18.81%	19.32%
Sonic Corp	SONC	$27.15	$27.89	$16.81	$1,451	$1,912	$566	$592	$617	$147	$161	$172	25.94%	27.13%	27.85%
Average Grocery Stores					**$17,465**	**$23,865**	**$5,374**	**$5,413**	**$5,620**	**$584**	**$1,566**	**$1,686**	**25.11%**	**29.22%**	**30.44%**
Median Grocery Stores					**$4,588**	**$10,897**	**$1,773**	**$1,710**	**$1,556**	**$400**	**$409**	**$451**	**19.96%**	**21.02%**	**24.66%**

Source: Bloomberg

Margins

Nationwide retail gasoline margins ended the quarter at 33.5 cents per gallon, up from 21.4 cents per gallon in the last week of the third quarter and well above the historical five-year average. Between the end of the fourth quarter and the time of this publication, retail fuel margins have contracted back to more normal levels (approximately 10 to 18 cents per gallon) as gasoline and diesel prices finally reached a nadir. Retail fuel prices during the fourth quarter reached their lowest levels in five years. Margins during December reached 38 cents per gallon, their highest level of 2014 and near some of the best margins of the past decade. Retail diesel prices are also quite low, and diesel margins have continued to rally, ending the quarter at 76.5 cents per gallon. Diesel margins during the quarter were the highest ever recorded, according to OPIS. The expected trend in early 2015 reflects continuing fuel price volatility, which makes expectations for margin difficult to pin down.

Generally, over 70% of a c-store's sales are motor fuels; however, fuel typically contributes only one-third of total convenience store gross margin dollars. Fuel margins were relatively consistent on an annual basis, averaging 18.9 cents per gallon for 2010 through 2014. Historically, there is a modest delay between the time crude prices increase and the time that pump prices rise. Conversely, retail price reductions typically lag when wholesale prices decline. Retailers tend to reduce their markups when costs are escalating. Conversely, when costs are declining, retailers tend to maintain their pump prices – leading to increased fuel margins – until competition forces pump pricing downward. The time lag between cost changes and retail price adjustments, as well as the duration of cost trends, is a significant influencer of operator margin. On average, it costs retailers approximately 12 to 16 cents to dispense a gallon of fuel. Given that the average five-year markup on gasoline was 17.1 cents, this translates to a typical two to three cents per gallon of bottom line profit.

Fuel Prices

The big story of the quarter (declining fuel prices) is discussed in more detail in the segment focus below. In sum, prices were low, production was high, consumers were happy, and there is an apparent price war between OPEC and U.S. oil producers.

Government and Regulatory

Swipe Fees. In early 2015 the U.S. Supreme Court announced that it would not hear the appeal from NACS and other retailers challenging the Fed's rules on swipe fees. The NACS remains hopeful that it can pursue other avenues to alleviate the high interchange fees faced by retailers and ultimately borne by consumers. Swipe fees on credit card transactions in the U.S. are eight times higher than in Europe.

Gas Taxes. Several states have begun raising their fuel taxes in response to deteriorating roadways. A push has begun at the national level to increase the federal gas tax for the first time in over 20 years. Congressional members on both sides of the aisle seem to agree that the Highway Trust Fund needs replenishment, and there may be no better time to push for a much-needed increase than when fuel prices are at such a low level.

E-Cigarette Regulation. Many states are growing impatient waiting for the federal government's policy regarding the regulation of e-cigarettes and are introducing their own legislation in response.

FDA Menu Labeling. The FDA decided late in the fourth quarter that the menu labeling regulations of the ACA are applicable to many c-store foodservice operators, a decision that many c-store operators and industry insiders are deeply unhappy with. The NACS remains hopeful that legislation can be passed to define a restaurant in a more specific way that would exclude many c-store operators.

Fuel Prices and Consumer Optimism

According to NACS, 54% of consumers feel optimistic about the economy in February, up from 46% last quarter. Consumers remain optimistic about the economy despite the rising fuel prices they have witnessed over the past few weeks and an expectation that they will rise even higher.

Recent M&A Activity

- The biggest story of the fourth quarter was **Alimentation Couche-Tard's** announcement to merge with **The Pantry, Inc.** The $1.7 billion deal is expected to close during the first half of 2015. There has been some difficulty post-announcement as an investor group alleges that the deal was not appropriately shopped in order to receive the best price for Pantry shareholders.
- **Global Partners, LP** announced its intention to purchase **Warren Equities, Inc.**, the operator of over 500 Xtra Mart c-stores.
- **CrossAmerica Partners** announced in December that it has agreed to purchase **Erickson Oil Products, Inc.**, an operator of 64 c-stores.
- **Junonia Capital, LLC** of Florida purchased 13 c-stores and QSRs from **TimeSaver Food Stores Co.** of Port St. Lucie, Florida.
- **GPM Investments** announced its intention to acquire 43 c-stores from **Road Ranger, LLC.** In a separate agreement, a **GPM affiliate** agreed to acquire eight **One Stop Food Store** c-stores.

SEGMENT FOCUS

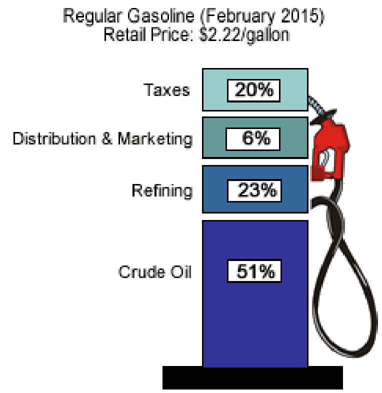
Motor Fuel

Gasoline sales represent more than 3% of the country's overall GDP, and fuel costs make up approximately 5% of overall consumer spending. It has been consistently proven that price is the most important factor for consumers in selecting a location to purchase fuel, even when prices have declined as much as they have in the past several months. According to NACS, nearly 80% of consumers say that gas prices impact their impressions about the overall economy. However, changes in gasoline prices have little impact on overall demand for gasoline. According to EIA, it takes a 25% to 50% decrease in the price of gasoline to raise automobile travel by 1%. Lower gas prices do seem to positively impact inside sales at c-stores as consumers feel justified in "treating themselves" to a higher margin product.

U.S. gasoline demand increased 1.1% in 2014. According to the *Short Term Energy Outlook* (STEO) issued in February by the U.S. Department of Energy's Energy Information Administration (EIA), the monthly average North Sea Brent crude oil price decreased for the seventh consecutive month to close at $48 per barrel in January. The global benchmark Brent crude is expected to average $58 per barrel in 2015 and $75 per barrel in 2016. The EIA and other analysts expect a higher than normal level of price volatility for both Brent and WTI in the coming year.

Falling crude prices led to some of the lowest retail prices in recent history – more than $1 per gallon lower, on average, than year-end 2013 levels. Regular gasoline prices in early 2015 were the lowest seen since April 2009. OPEC surprised the world in December by announcing its intention to hold production steady no matter how low crude prices drop. At the same time, U.S. oil production was at its highest level since 1986 and inventories reached their highest level since 2010. OPEC production targets are widely viewed as challenging the burgeoning U.S. shale industry. While the OPEC countries are in a position to wait out the lower crude prices, it is unclear what percentage of the U.S. producers will be willing and able to do likewise. Crude and retail prices have begun to rise in early 2015 as refineries cycle through annual maintenance, as they switch to summer blend fuel, and as certain labor disputes have erupted. GasBuddy analysts expect first quarter 2015 fuel price increases consistent with increases seen in recent years and expect the 2015 average price of gasoline to be $2.64 per gallon.

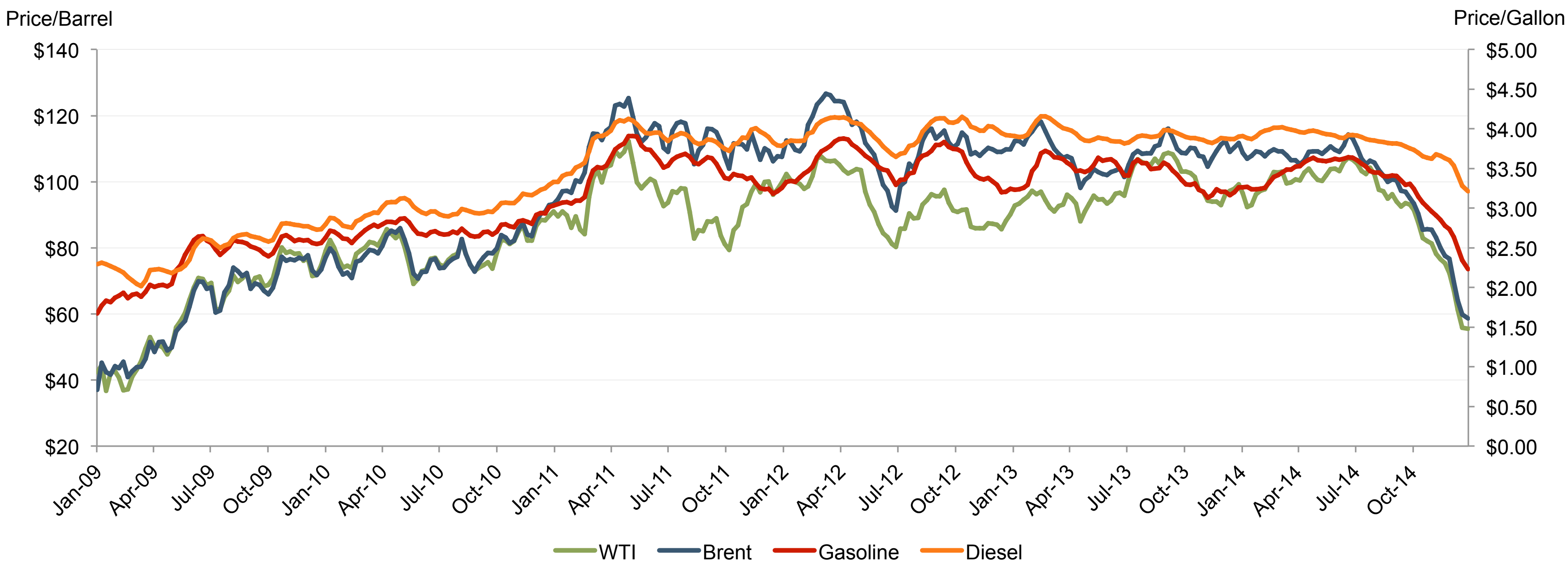
As shown below, crude oil prices contribute 51% to the overall price of gasoline at the pump. An increase in gas taxes at both the state and federal levels could come into play during 2015.



Source: EIA.gov

Fuel Pricing and Supply Charts

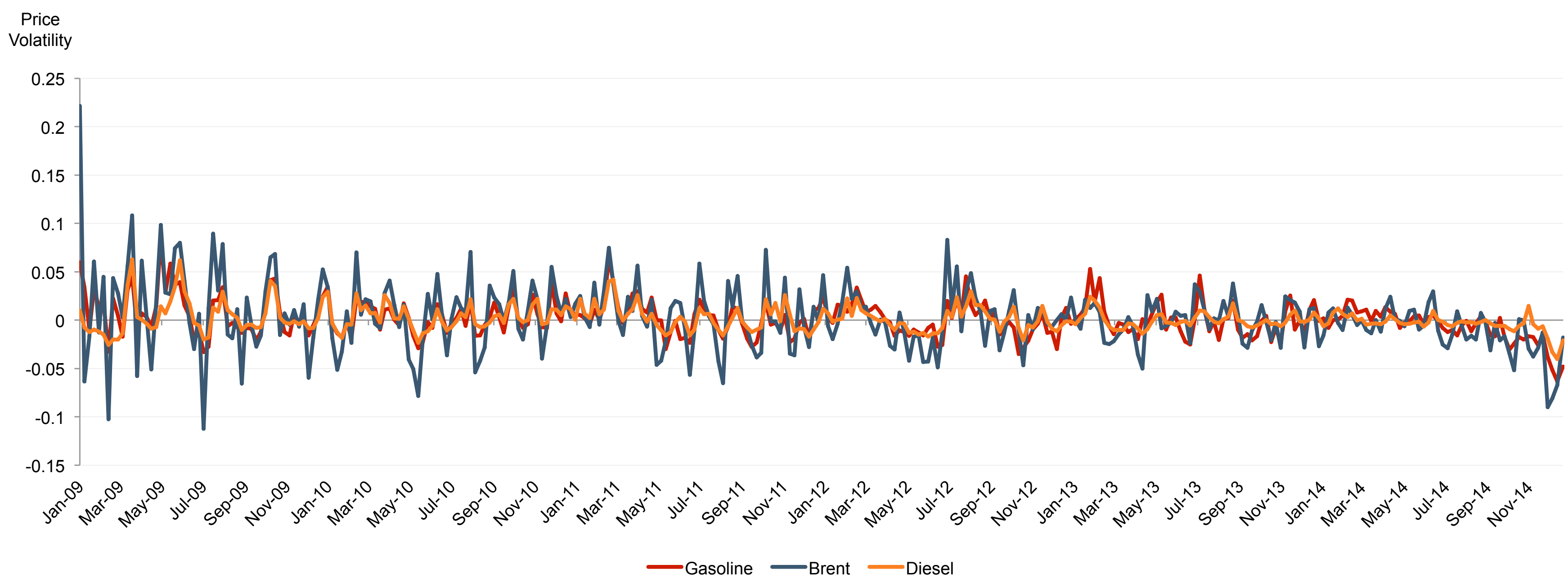
Fuel Prices & Supply



Data Source: Calculated by Mercer Capital from raw data obtained from the US Energy Information Administration (EIA.gov)

Fuel Pricing and Supply Charts

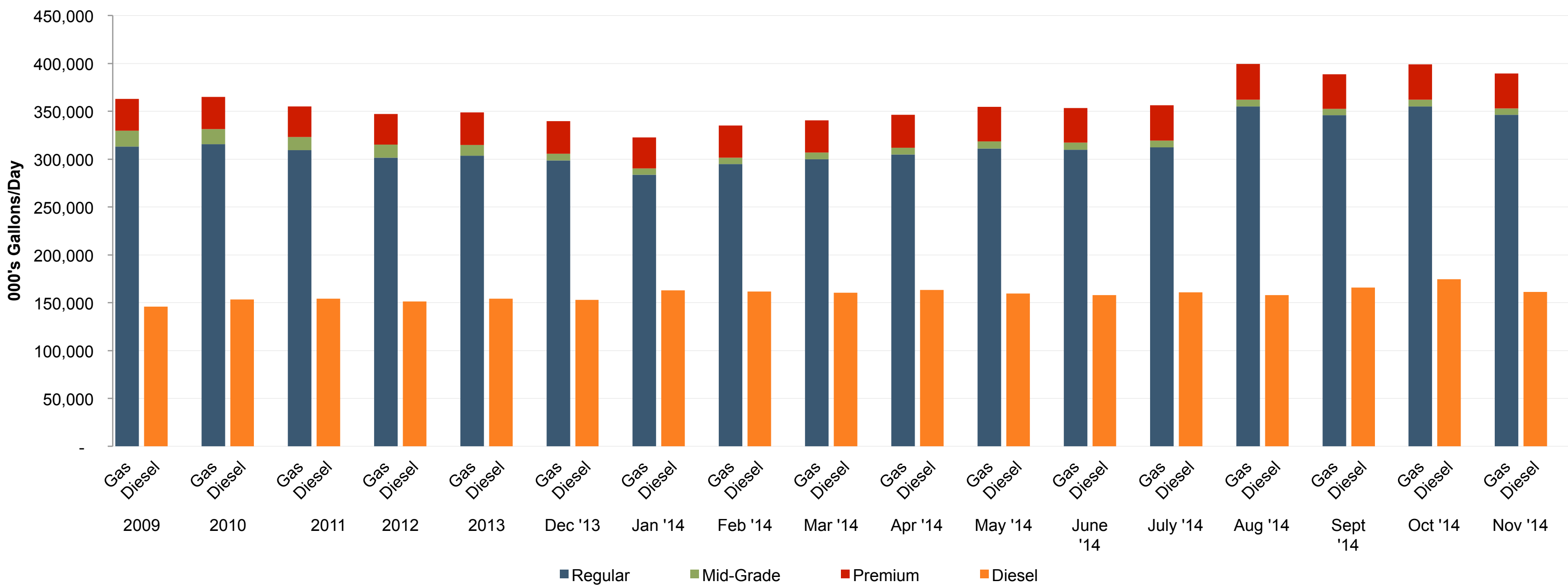
Motor Fuel and Brent Crude Price Fluctuation



Data Source: Calculated by Mercer Capital from raw data obtained from the US Energy Information Administration (EIA.gov)

Fuel Pricing and Supply Charts

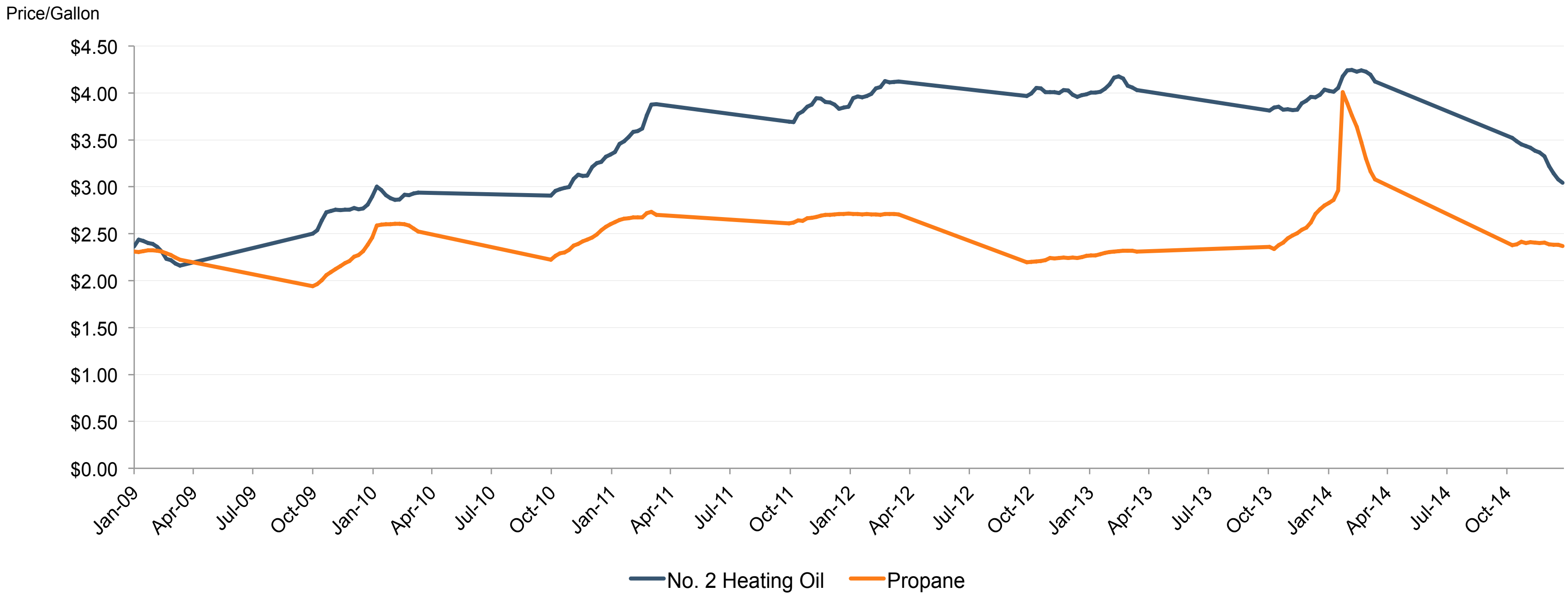
Prime Supplier Sales Volumes



Data Source: US Energy Information Administration (EIA.gov)

Fuel Pricing and Supply Charts

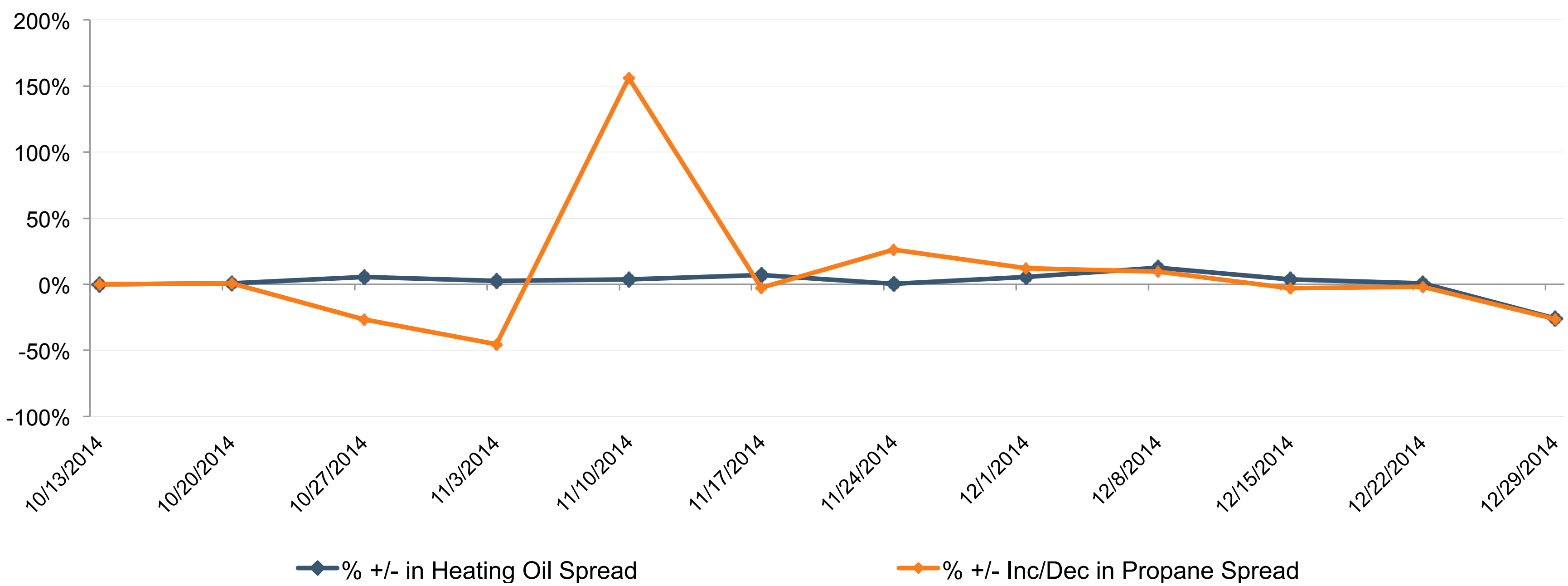
Non-Motor Fuel Prices



Data Source: US Energy Information Administration (EIA.gov)

Fuel Pricing and Supply Charts

Percentage Change in Non-Motor Fuel Spread by Month



Mercer Capital

Convenience Store Industry Services

Mercer Capital provides the multi-unit retailing and QSR industries with corporate valuation, financial reporting, transaction advisory, and related services.

Industry Segments

Mercer Capital serves the following industry segments:

- Motor Fuels
- Grocery Stores
- Alternative Fuels & Consumer Transportation
- Foodservices

Mercer Capital Experience

- Family and management succession planning
- Buy-side and sell-side transaction advisory assistance
- Conflict resolution and litigation support
- Trust and estate planning
- Buy-sell agreement valuation, design, and funding advisory

Contact a Mercer Capital professional to discuss your needs in confidence.

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Fairness Opinions

Evaluating a Buyer's Shares from the Seller's Perspective

M&A activity in the U.S. (and globally) has accelerated in 2014 after years of gradual improvement following the financial crisis. According to Dealogic, M&A volume where the target was a U.S. company totaled $1.4 trillion YTD through November 10, the highest YTD volume on record and up 43% from the same period last year. Excluding cross-border acquisitions, domestic-only M&A was $1.1 trillion, which represented the second highest YTD volume since 1999 and up 27% from last year. Healthcare and telecommunications were the first and second most targeted sectors.

The improvement has taken a long time even though corporate cash is high, financing costs are very low and organic revenue growth in most industries has been sluggish. Aside from improving confidence, another key foundation for increased M&A activity fell into place in 2013 when equity markets staged a strong rally as the S&P 500 rose 30% (32% with dividends) and the Russell 2000 increased 37% (39%). The absence of a meaningful pullback in 2014 and a 12% advance in the S&P 500 and 2% in the Russell 2000 have further supported activity.

The rally in equities, like low borrowing rates, has reduced the cost to finance acquisitions because the majority of stocks experienced multiple expansion rather than material growth in EPS. It is easier for a buyer to issue shares to finance an acquisition if the shares trade at rich valuation than issuing "cheap" shares. As of November 24, the S&P 500's P/E based upon trailing earnings (as reported) was 20.0x compared to 18.2x at year-end 2013, 17.0x at year-end 2012 and 14.9x at year-end 2011. The long-term average P/E since 1871 is 15.5x (Source: http://www.multpl.com).

High multiple stocks can be viewed as strong acquisition currencies for acquisitive companies because fewer shares have to be issued to achieve a targeted dollar value. As such, it is no surprise that the extended rally in equities has supported deal activity this year. However, high multiple stocks may represent an under-appreciated risk to sellers who receive the shares as consideration. Accepting the buyer's stock raises a number of questions, most which fall into the genre of: what are the investment merits of the buyer's shares? The answer may not be as obvious as it seems, even when the buyer's shares are actively traded.

Our experience is that some, if not most, members of a board weighing an acquisition proposal do not have the background to thoroughly evaluate the buyer's shares. Even when financial advisors are involved there still may not be a thorough vetting of the buyer's shares because there is too much focus on "price" instead of, or in addition to, "value."

A fairness opinion is more than a three or four page letter that opines as to the fairness from a financial point of a contemplated transaction; it should be backed by a robust analysis of all of the relevant factors considered in rendering the opinion, including an evaluation of the shares to be issued to the selling company's shareholders. The intent is not to express an opinion about where the shares may trade in the future, but rather to evaluate the investment merits of the shares before and after a transaction is consummated.

Key questions to ask about the buyer's shares include the following:

- **Liquidity of the Shares.** What is the capacity to sell the shares issued in the merger? SEC registration and even NASDAQ and NYSE listings do not guarantee that large blocks can be liquidated efficiently. Generally, the higher the institutional ownership, the better the liquidity. Also, liquidity may improve with an acquisition if the number of shares outstanding and shareholders increase sufficiently.

- **Profitability and Revenue Trends.** The analysis should consider the buyer's historical growth and projected growth in revenues, and operating earnings, (usually EBITDA or EBITDA less capital expenditures) in addition to EPS. Issues to be vetted include customer concentrations, the source of growth, the source of any margin pressure and the like. The quality of earnings and a comparison of core vs. reported earnings over a multi-year period should be evaluated.

- **Pro Forma Impact.** The analysis should consider the impact of a proposed transaction on revenues, EBITDA, margins, EPS and capital structure. The per share accretion and dilution analysis of such metrics as earnings, EBITDA and dividends should consider both the buyer's and seller's perspectives.

- **Dividends.** In a yield starved world, dividend paying stocks have greater attraction than in past years. Sellers should not be overly swayed by the pick-up in dividends from swapping into the buyer's shares; however, multiple studies have demonstrated that a sizable portion of an investor's return comes from dividends over long periods of time. If the dividend yield is notably above the peer average, the seller should ask why? Is it payout related, or are the shares depressed? Worse would be if the market expected a dividend cut. These same questions should also be asked in the context of the prospects for further increases.

- **Capital Structure.** Does the acquirer operate with an appropriate capital structure given industry norms, cyclicality of the business and investment needs to sustain operations? Will the proposed acquisition result in an over-leveraged company, which in turn may lead to pressure on the buyer's shares and/or a rating downgrade if the buyer has rated debt?

- **Balance Sheet Flexibility.** Related to the capital structure should be a detailed review of the buyer's balance sheet that examines such areas as liquidity, access to bank credit, and the carrying value of assets such as deferred tax assets.

- **Ability to Raise Cash to Close.** What is the source of funds for the buyer to fund the cash portion of consideration? If the buyer has to go to market to issue equity and/or debt, what is the contingency plan if unfavorable market conditions preclude floating an issue?

- **Consensus Analyst Estimates.** If the buyer is publicly traded and has analyst coverage, consideration should be given to Street expectations vs. what the diligence process determines. If Street expectations are too high, then the shares may be vulnerable once investors reassess their earnings and growth expectations.

- **Valuation.** Like profitability, valuation of the buyer's shares should be judged relative to its history and a peer group presently as well as relative to a peer group through time to examine how investors' views of the shares may have evolved through market and profit cycles.

- **Share Performance.** Sellers should understand the source of the buyer's shares performance over several multi-year holding periods. For example, if the shares have significantly outperformed an index over a given holding period, is it because earnings growth accelerated? Or, is it because the shares were depressed at the beginning of the measurement period? Likewise, underperformance may signal disappointing earnings, or it may reflect a starting point valuation that was unusually high.

- **Strategic Position.** Assuming an acquisition is material for the buyer, directors of the selling board should consider the strategic position of the buyer, asking such questions about the attractiveness of the pro forma company to other acquirers.

- **Contingent Liabilities.** Contingent liabilities are a standard item on the due diligence punch list for a buyer. Sellers should evaluate contingent liabilities too.

The list does not encompass every question that should be asked as part of the fairness analysis, but it does illustrate that a liquid market for a buyer's shares does not necessarily answer questions about value, growth potential and risk profile.

We at Mercer Capital have extensive experience in valuing and evaluating the shares (and debt) of financial and non-financial service companies garnered from over three decades of business. Feel free to contact us to discuss your situation in confidence.

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