

VALUE FOCUS

Convenience Stores



SEGMENT FOCUS
Alternative Fuels & Consumer Transportation

2016

Overview

Equity Market Overview	1
Valuations	2

Publicly Traded Companies

4

C-Store Trends

Margins	6
Government/	
Regulatory & Industry Trends	8

Recent M&A

Activity	9
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Segment Focus:

Alternative Fuels & Consumer Transportation	10
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Fuel Pricing & Supply Charts	12
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About Mercer Capital	14
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Q1: Motor Fuels

Q2: Grocery Stores

Q3: Alternative Fuels
& Transportation

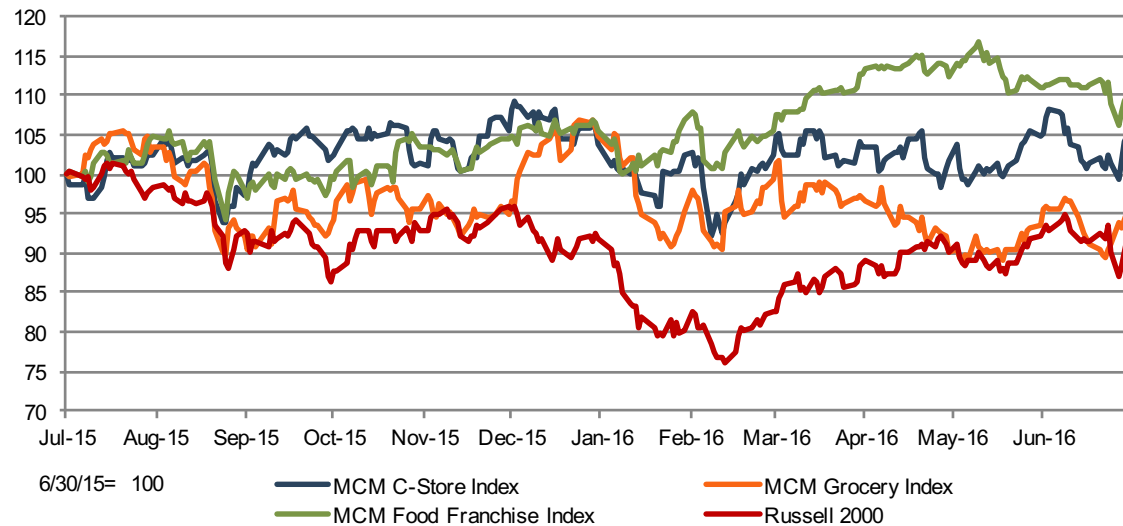
Q4: Foodservices

Overview

Equity Market Overview

During the three months ending June 2016, equity market pricing for the convenience store index edged up by 1.2%, underperforming the Russell 2000 which rose 3.7% during the quarter. With the exception of **ANCUF** (-4.9%), performance was up across the board. **TA** and **MUSA** were both up over 20%, and **RUT**, **CASY**, and **CST** posted smaller gains. The grocery store index posted a 1.8% decrease for the second quarter, and is down 4.7% compared to June 30, 2015. The second quarter decline was largely led by **SVU** with an 18.1% decrease. **Kroger**, which has the largest market capitalization in our grocery index, posted a 3.5% quarterly decline. All other companies within our grocery index posted gains. The fast food index posted a quarterly decrease of 2.4%, but the index is up 10% year-over-year.

C-Store, Grocery Store, & QSR Stock Indices



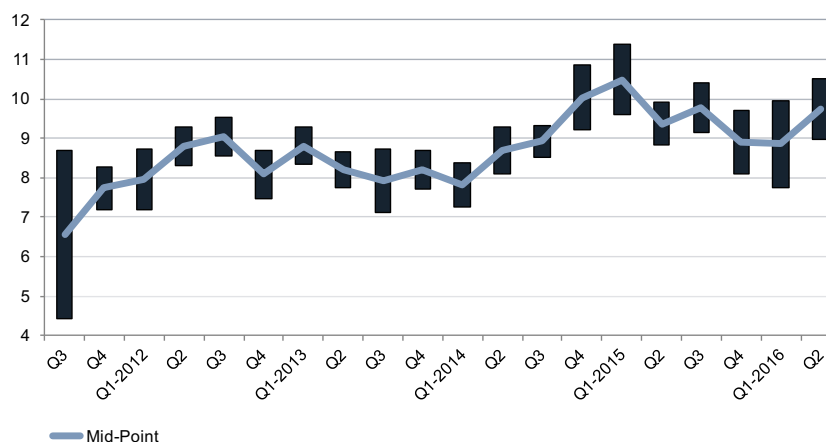
Data Source: S&P Global Market Intelligence / Bloomberg

Overview

Valuations Down, Ranges Widen for C-stores

EBITDA multiples were up for c-stores, grocery stores, and fast food operators for the second quarter. The multiples for c-stores rose by the largest percentage (10.1%), while multiples for grocery stores and fast food operators both increased approximately 7.5%. Multiples for public c-store operators rose from 8.8x EBITDA at the end of the first quarter of 2016 to 9.7x at the end of the second quarter.¹ C-store multiples remained well above their five-year average (8.7x).

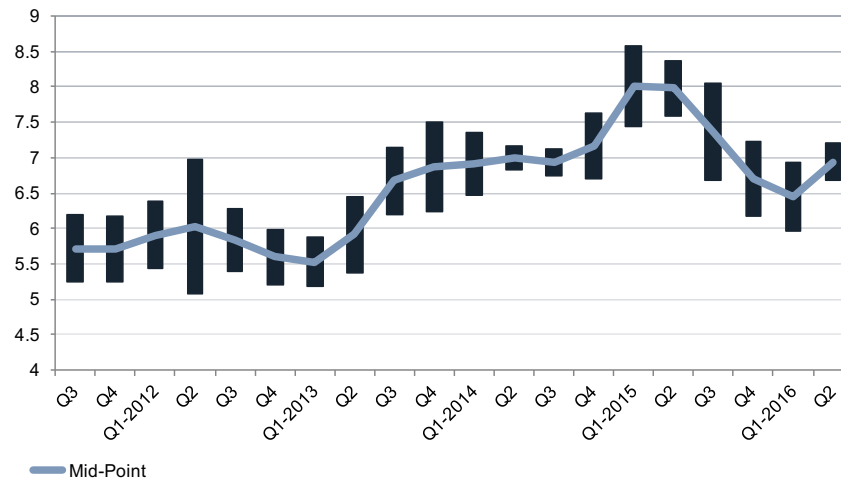
C-Store EBITDA Valuations // Quarterly Range of Mean Highs & Lows



Data Source: S&P Global Market Intelligence

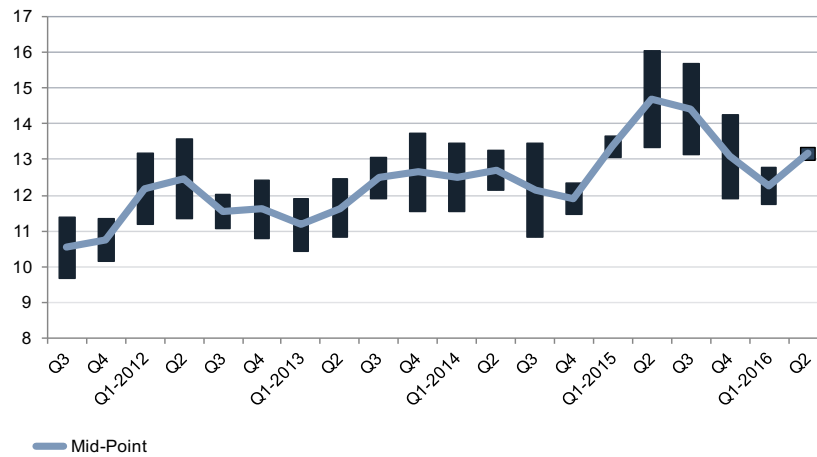
¹ As measured by the average of : (1) the median of the highest EBITDA measure of all the companies in the Mercer Capital index over the entire quarter and (2) the median of the lowest EBITDA measures of all the companies in the Mercer Capital index over the entire quarter. Current and historical multiple data was obtained from Capital IQ. In some prior newsletters, data was sourced from Bloomberg.

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



Data Source: S&P Global Market Intelligence

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



Data Source: S&P Global Market Intelligence

Publicly Traded Companies

Ticker	Stock Price at 6/30/16	LTM Price Range		Equity Market Cap	Enterprise Value	Revenue			EBITDA			EBITDA Margins			
		High	Low			LTM	2016 Est.	2017 Est.	LTM	2016 Est.	2017 Est.	LTM	2016 Est.	2017 Est.	
Convenience Stores															
Alimentation Couche Tard Inc	ANCUF	\$42.25	\$47.22	\$37.00	\$23,914	\$26,683	\$34,033	\$34,775	\$40,273	\$2,101	\$2,284	\$2,556	6.17%	6.57%	6.35%
Casey's General Stores Inc	CASY	\$131.51	\$131.52	\$94.53	\$5,136	\$5,974	\$7,122	\$7,129	\$7,626	\$560	\$565	\$589	7.86%	7.92%	7.72%
TravelCenters of America LLC	TA	\$8.16	\$16.95	\$6.41	\$317	\$1,053	\$5,607	\$5,641	\$6,446	\$113	\$130	\$162	2.01%	2.31%	2.52%
CST Brands Inc	CST	\$43.08	\$45.21	\$29.64	\$3,261	\$5,081	\$11,145	\$9,578	\$10,868	\$488	\$394	\$431	4.38%	4.11%	3.97%
Murphy USA Inc	MUSA	\$74.16	\$74.20	\$47.73	\$2,922	\$3,610	\$12,318	\$12,028	\$13,714	\$362	\$425	\$432	2.94%	3.53%	3.15%
Average C-Stores					\$7,110	\$8,480	\$14,045	\$13,830	\$15,785	\$725	\$759	\$834	4.67%	4.89%	4.74%
Median C-Stores					\$3,261	\$5,081	\$11,145	\$9,578	\$10,868	\$488	\$425	\$432	4.38%	4.11%	3.97%
Grocery Stores															
Fresh Market Inc/The	TFM	\$28.51	\$33.82	\$17.81	\$1,339	\$1,372	\$1,857	\$1,857	\$1,954	\$177	\$193	\$201	9.55%	10.42%	10.26%
Village Super Market Inc	VLGEA	\$28.89	\$31.54	\$23.05	\$408	\$453	\$1,603	na	na	\$66	na	na	4.10%	na	nm
SpartanNash Co	SPTN	\$30.58	\$33.12	\$17.48	\$1,147	\$1,662	\$7,618	\$7,664	\$7,738	\$203	\$230	\$240	2.67%	3.00%	3.10%
Weis Markets Inc	WMK	\$50.55	\$53.59	\$36.90	\$1,360	\$1,360	\$2,903	na	na	\$174	na	na	5.99%	na	nm
Ingles Markets Inc	IMKTA	\$37.30	\$57.17	\$31.63	\$756	\$1,663	\$3,774	\$3,774	\$3,850	\$237	\$239	\$246	6.28%	6.33%	6.39%
Whole Foods Market Inc	WFM	\$32.02	\$41.26	\$27.82	\$10,400	\$11,452	\$15,595	\$15,797	\$16,693	\$1,301	\$1,324	\$1,390	8.34%	8.38%	8.32%
SUPERVALU Inc	SVU	\$4.72	\$9.37	\$3.94	\$1,251	\$3,775	\$17,529	\$17,588	\$17,533	\$730	\$777	\$756	4.16%	4.42%	4.31%
Kroger Co/The	KR	\$36.79	\$42.50	\$27.08	\$35,576	\$47,655	\$109,830	\$109,914	\$116,378	\$5,665	\$5,686	\$6,120	5.16%	5.17%	5.26%
Average Grocery Stores					\$6,530	\$8,674	\$20,089	\$26,099	\$27,358	\$1,069	\$1,408	\$1,492	5.78%	6.29%	6.28%
Median Grocery Stores					\$1,295	\$1,663	\$5,696	\$11,730	\$12,215	\$220	\$508	\$501	5.57%	5.75%	5.82%

Source: Bloomberg

Publicly Traded Companies (continued)

Ticker	Stock Price at 6/30/16	LTM Price Range		Equity Market Cap	Enterprise Value	Revenue			EBITDA			EBITDA Margins			
		High	Low			LTM	2016 Est.	2017 Est.	LTM	2016 Est.	2017 Est.	LTM	2016 Est.	2017 Est.	
Fast Foods (QSR)															
McDonald's Corp	MCD	\$120.34	\$131.00	\$84.79	\$113,336	\$136,689	\$25,358	\$24,590	\$23,181	\$9,094	\$9,374	\$9,803	35.86%	38.12%	42.29%
Wendy's Co/The	WEN	\$9.62	\$11.31	\$8.28	\$3,503	\$6,005	\$1,797	\$1,385	\$1,172	\$451	\$392	\$386	25.07%	28.33%	32.95%
Yum! Brands Inc	YUM	\$82.92	\$90.29	\$64.22	\$35,821	\$40,652	\$13,102	\$13,398	\$13,578	\$2,723	\$3,026	\$3,225	20.78%	22.58%	23.75%
Dunkin' Brands Group Inc	DNKN	\$43.62	\$55.39	\$35.96	\$4,145	\$6,594	\$815	\$854	\$891	\$366	\$454	\$480	44.92%	53.13%	53.82%
Krispy Kreme Doughnuts Inc	KKD	\$20.96	\$21.75	\$12.90	\$1,355	\$1,366	\$523	\$520	\$546	\$67	\$73	\$81	12.81%	14.01%	14.86%
Panera Bread Co	PNRA	\$211.94	\$221.44	\$165.17	\$5,518	\$5,921	\$2,718	\$2,818	\$3,060	\$385	\$404	\$451	14.15%	14.33%	14.73%
Chipotle Mexican Grill Inc	CMG	\$402.76	\$758.61	\$384.77	\$12,548	\$12,548	\$4,247	\$4,197	\$4,977	\$654	\$355	\$709	15.39%	8.45%	14.26%
Jack in the Box Inc	JACK	\$85.92	\$96.71	\$61.53	\$3,212	\$4,147	\$1,546	\$1,598	\$1,583	\$298	\$320	\$343	19.30%	20.06%	21.70%
Restaurant Brands International Inc	QSR	\$41.60	\$44.02	\$29.06	\$9,693	\$21,727	\$4,037	\$4,167	\$4,445	\$1,463	\$1,834	\$1,982	36.25%	44.02%	44.58%
Sonic Corp	SONC	\$27.05	\$36.22	\$22.47	\$1,409	\$1,926	\$619	\$624	\$648	\$170	\$176	\$186	27.45%	28.15%	28.72%
Average Fast Foods					\$19,054	\$23,757	\$5,476	\$5,415	\$5,408	\$1,567	\$1,641	\$1,765	25.20%	27.12%	29.17%
Median Fast Foods					\$4,831	\$6,299	\$2,258	\$2,208	\$2,321	\$418	\$398	\$465	22.92%	25.36%	26.24%

Source: Bloomberg

C-Store Trends

Margins

According to OPIS, nationwide retail gasoline margins ended the second quarter of 2016 at 22.2 cents per gallon, up from 17.1 cents per gallon twelve weeks earlier, and above the historical five-year average of 19.7 cents.² Between the end of the second quarter and the time of this publication, retail fuel margins have fluctuated, but are now nearly equal to the level displayed at the end of the second quarter. The last few months have been plagued by disruptions in gasoline supply due to several major pipeline problems and regional hurricanes. Each disruption has caused the wholesale price of fuel to rise. However, the abundance of inventory has kept prices in check. The prospect of a new OPEC production agreement has led to speculation on fuel prices.

Diesel margins ended the fourth quarter at 24.5 cents per gallon, down from a 32.8 cent margin twelve weeks earlier. Diesel margins are not as robust as 2015 levels due to relatively weak demand.

²National Association of Convenience Stores 2016 Retail Fuels Report.

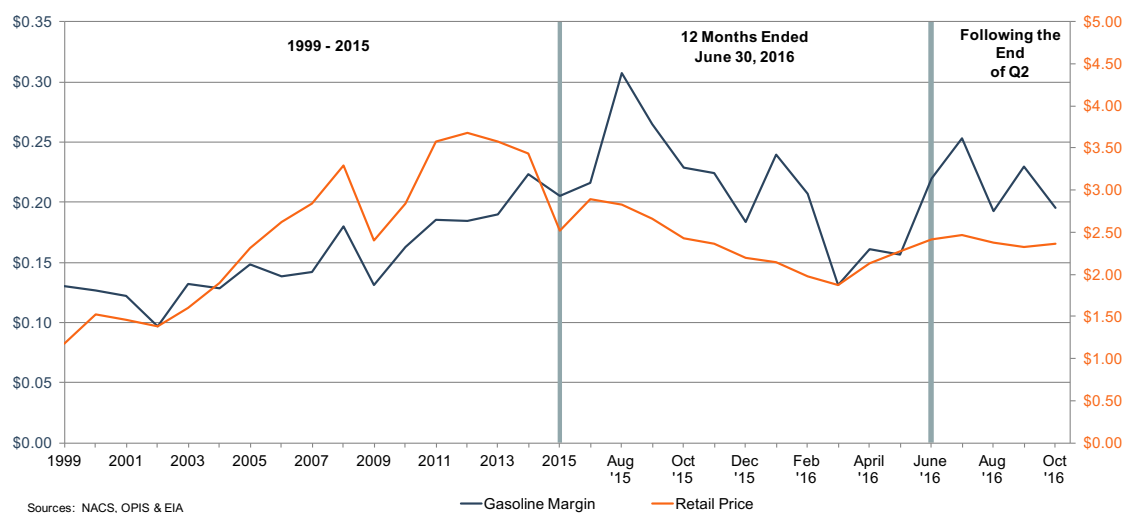
C-Store Trends

Margins

According to the U.S. Energy Information Association, the consumption of gasoline in the United States reached an all-time monthly high of 9.7 million barrels per day in June. The previous high level occurred in July 2007. The increase in consumption was lower than the increase in miles traveled, highlighting the gains made in fuel efficiency in newer vehicles. The chart below presents the relationship between retail gasoline prices and margin.

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. Despite periodic fluctuations, fuel margins have been relatively consistent on an annual basis, averaging 19.7 cents per gallon for 2011 through 2015. There is a relatively modest delay between the time crude prices increase and the time that pump prices rise. Similarly, retail price reductions typically lag when wholesale prices drop. Retailers tend to reduce their markups when costs are escalating. Conversely, when costs are declining, retailers tend to leave their pump prices elevated – 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 are significant influencers 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 19.7 cents, this translates to a typical three to seven cents per gallon of bottom line profit.

Gasoline Price and Spread Per Gallon



C-Store Trends

Government/ Regulatory & Industry Trends

Wages

The state of Massachusetts has made equal pay for comparable work mandatory in the state. The new law also prevents potential employers from inquiring about previous salaries and prevents employers from penalizing employees for having discussions regarding salaries with their coworkers.

Republican governor Chris Christie has vetoed legislation regarding a New Jersey minimum wage increase. The legislation would have ramped up the minimum wage to \$15 per hour over the next five years.

The U.S. House of Representatives has voted to delay implementation of the new overtime rules by six months. The new requirements were set to be implemented on December 1st of this year but will now go into effect June 1, 2017.

Tobacco

A group of Walgreens' shareholders have pushed to remove tobacco products from Walgreens' stores. In response to a shareholder proposal, Walgreens' shareholders will have the opportunity to vote on this issue at the Company's annual meeting in January.

Nearly a year ago, major tobacco product manufacturers filed suit against the U.S. Food and Drug Administration in response to the restrictions introduced in late 2015. A federal judge recently ruled partially in favor of the tobacco companies. Therefore, FDA approval will not be needed for label changes, but it will be required if the volume of product within a new package is altered.

Amazon

Two recent announcements made by Amazon in recent months are seen as potential threats to both c-store and grocery operators. The retail giant announced its intention to add more than 60 new brands to its Amazon Dash Button program. Also, it plans to open 2,000 grocery stores within the United States within the next ten years. One type of store is expected to be a pick up site for orders previously made online. The other type of store will most likely be comparable to a traditional grocery store.

Recent M&A Activity

The following chart summarizes M&A activity since the publication of our most recent newsletter. In addition to the major transactions listed, there were several transactions involving 50 or fewer units since our last publication. 2014 and 2015 were busy in terms of M&A activity, but overall activity seems to be slowing in 2016.

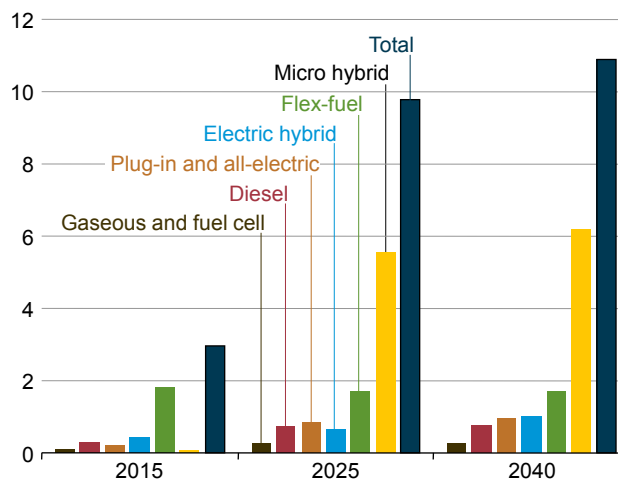
Acquirer	Target	# of Stores	Locations	Comments
Alimentation Couche-Tard	CST Brands, Inc.	2,000+ c-stores	North America	Entered into a definitive merger agreement with total enterprise value of approximately \$4.4 billion (a 42% premium to CST's pre-announcement stock price); expected to close early 2017; EBITDA multiple approximately 10x
The Guess Corp.		1,000+ c-stores	North America	Actual purchaser would be a Guess Corp. subsidiary; purchases will be over the course of the next year
Alimentation Couche-Tard	Imperial Oil	279 stores	Canada	Regulatory approval granted; expected to close in October 2016
FamilyMart Co. & Uny Group Holdings Co.		Combined company will operate approximately 17,000 locations	Japan	The majority of stores will be rebranded as FamilyMart; the merger creates the second largest c-store chain in Japan
Seven-Eleven Japan		10,000+ c-stores	United States	Seven-Eleven Japan also plans to expand by 1,000 stores in the Japanese market
Alimentation Couche-Tard	Cracker Barrel c-store sites held by American General Investments LLC and North American Financial Group, LLC	53 stores	Louisiana	With this deal, Cracker Barrel exits the c-store industry
U.S. subsidiary of Compania de Petroleos de Chile S.A.	Delek U.S. Holdings, Inc.'s 100% equity interest in Mapco Express, Inc.	348 c-stores	Primarily the southeastern United States	The acquirer is the largest c-store operator in Chile; acquisition represents its first entry into the U.S. market; expected to close by the end of 2016
Sunoco LP subsidiary	Denny's Oil	6 company operated locations; 120 independent dealer-owned and operated locations	Eastern Texas and Louisiana	This acquisition reinforces Sunoco's market position in east Texas and Louisiana

Source: Convenience Store Decisions

SEGMENT FOCUS

Alternative Fuels & Consumer Transportation

There has been a general waning of interest in the past two years in alternative fuel technology given the large decrease in fuel prices. However, governments remain committed (in word, if not deed) to reducing dependency on foreign oil and to reducing greenhouse emissions, and Light Duty Vehicles (“LDV”) that use diesel, alternative-fuel, hybrid-electric, or all-electric systems are expected to play a major role in meeting the CAFÉ standards. The following chart, taken from the Energy Information Association’s *Annual Energy Outlook 2016*, presents the expected sales of LDV’s capable of using non-gasoline technologies in 2015, 2025, and 2040.³



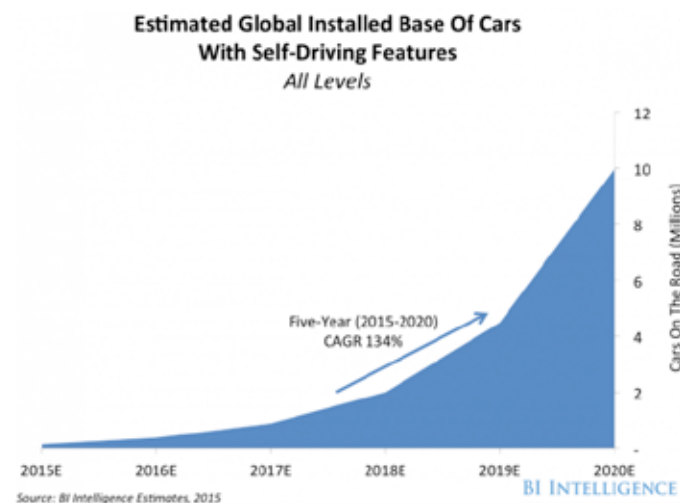
According to an article by AAA, fuel comprises nearly 15% of the annual cost of owning a vehicle, so retail fuel price is an important issue for most consumers. A tenuous balance exists between mitigating consumer price concerns while shifting to newer, alternative fuels in response to economic and environmental issues. One school of thought pushes for public policy that would reduce the initial-cost impact to retailers and encourage technological innovation.

³Energy Information Administration. *Annual Energy Outlook 2016*. p. MT-14.

SEGMENT FOCUS

Alternative Fuels & Consumer Transportation (continued)

The hurdles to alternative-fuel vehicle ownership (range anxiety, price, and recharge time) are slowly dissipating. In fact, an article by NACS expresses the possibility that electric vehicles could claim one-third of new vehicle sales by 2035.⁴ Adding to the potential for enhanced efficiency is the movement toward self-driving vehicles. During the past year a number of companies have introduced new vehicles with varying degrees of autonomy. Many in the industry feel that autonomous vehicles will be the future of light-duty vehicle travel. It remains to be seen how regulation will impact implementation of this technology, but according to *BI Intelligence*, sales of vehicles with self-driving features (accelerating, braking, parking, etc.) are expected to increase at a CAGR of over 130% in the next four years, as shown in the chart below.⁵ Google, Tesla, Daimler, Honda, Audi, Nissan, and Toyota have all announced their intention to debut fully autonomous vehicles by 2020, and many other manufacturers are increasing the number of autonomous features on new cars.



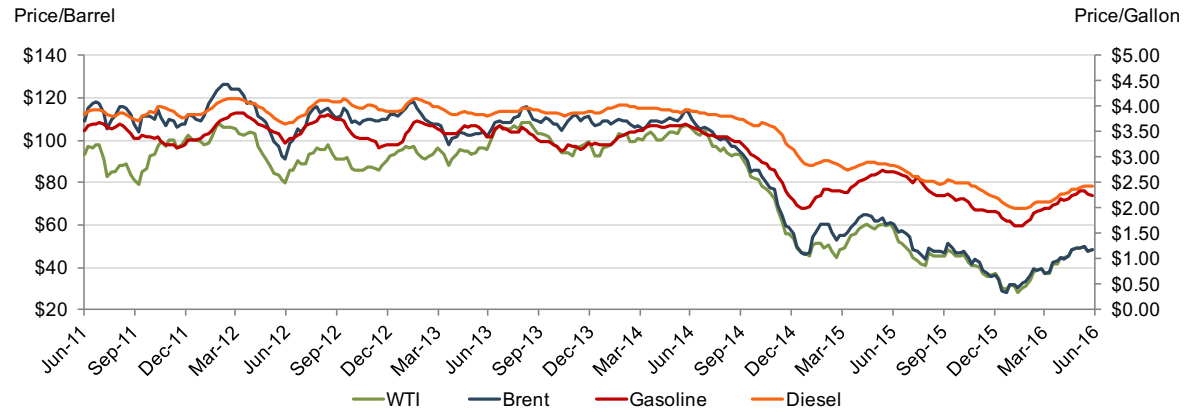
We expect a longer-term push toward alternative fuel investment, but no major changes in the near term. In the short-term, we expect a push toward improved fuel efficiency in traditional, light-duty, gasoline powered vehicles and an increase in the use of ride sharing programs and autonomous vehicle development.

⁴ www.nacs.com *Ch-Ch-Changes*. May 2016

⁵ *BI Intelligence* "10 Million Self Driving Cars will be on the Road by 2020." John Greenough

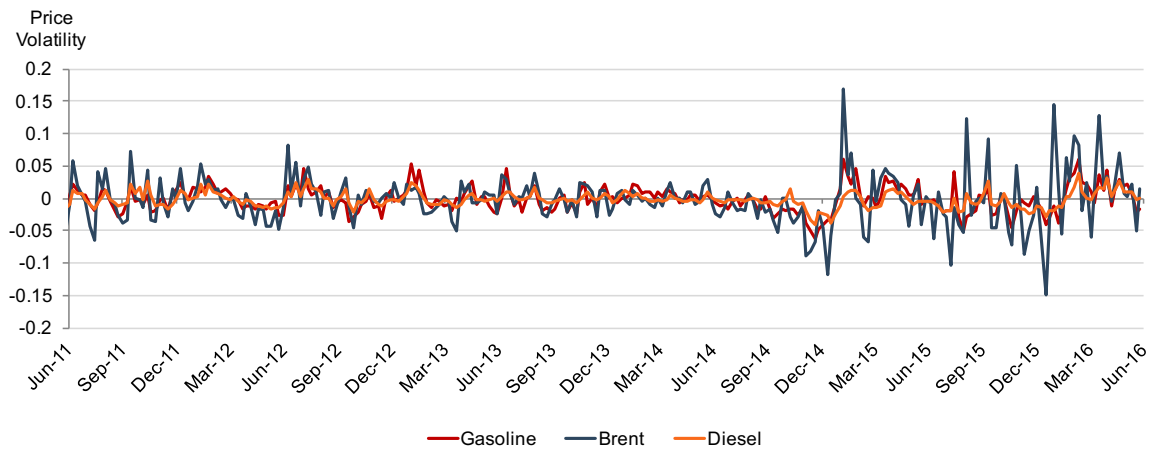
Fuel Pricing & Supply Charts

Wholesale and Retail Prices



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

Motor Fuel and Brent Crude Price Fluctuation

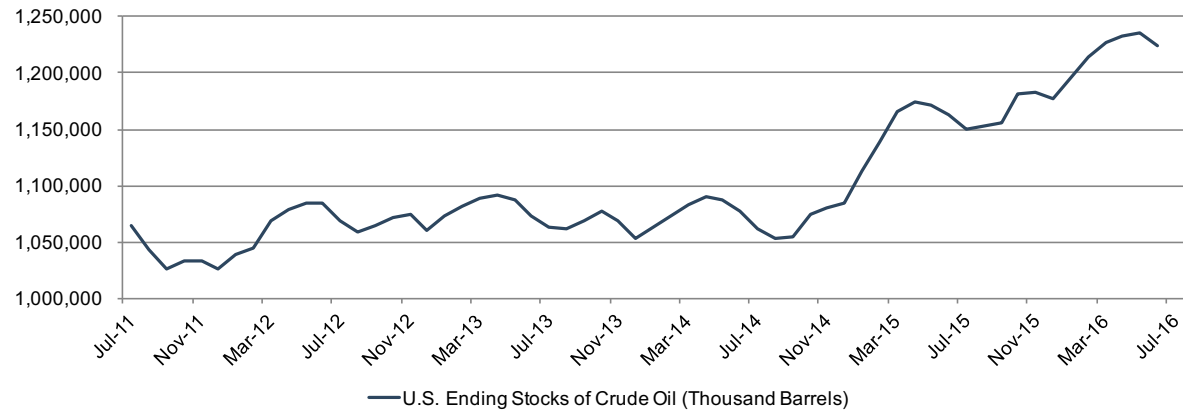


Data Source: Calculated by Mercer Capital from raw data obtained from the US Energy Information Administration (EIA.gov)

Fuel Pricing & Supply Charts (continued)

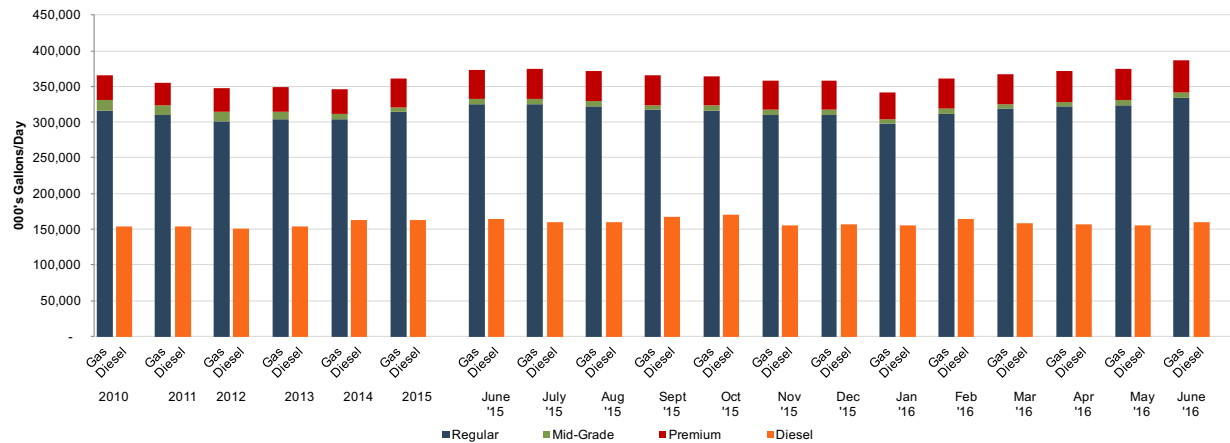
U.S. Ending Stocks of Crude Oil

Thousand Barrels



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

Prime Supplier Sales Volumes



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

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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