

VALUE FOCUS

Convenience Stores

SEGMENT FOCUS

Grocery Stores

Overview	1	Segment Focus:	
Equity Market	1	Grocery Stores	9
Valuations	2	Fuel Pricing	
Publicly Traded Companies	4	and Supply Charts	11
C-Store Trends		About Mercer Capital	16
Margins	6		
Government and Regulatory	7		
Recent M&A Activity	8		

2015

- Q1: Motor Fuels
- Q2: Grocery Stores
- Q3: Alternative Fuels
& Transportation
- Q4: Foodservices

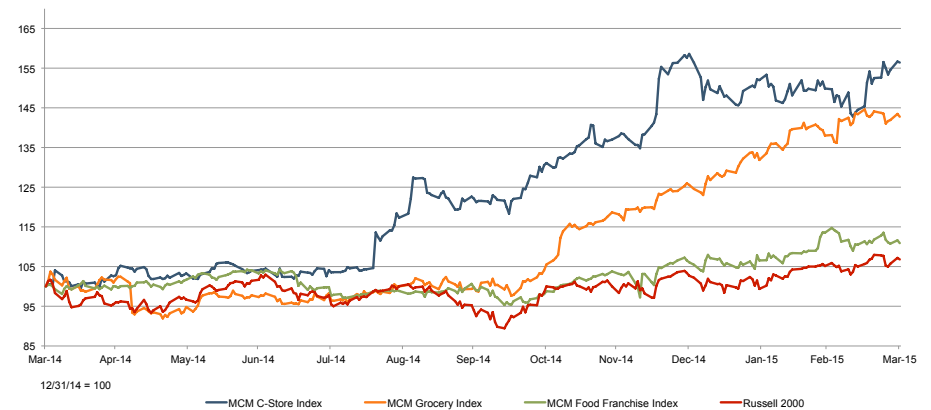
Value Focus

Convenience Stores

Second Quarter 2015

Equity Market Overview. During the three months ending March 2015, equity market pricing for the convenience store index was down 1.2%. Although five of the six index participants posted an increased share value during the first quarter, ANCUF posted a 3.7% decline, and it carries a large amount of weight in our index due to its relative size. The grocery store index posted an increase of 13.7% during the quarter, largely led by Kroger which posted a 19.7% increase. The fast food index also posted a quarterly increase (4.5%), matching pace with the Russell 2000 index over the same period. Pantry, Inc. posted a large increase in the fourth quarter of 2014, but was removed from our group this quarter due to its acquisition by Couche-Tard in March.

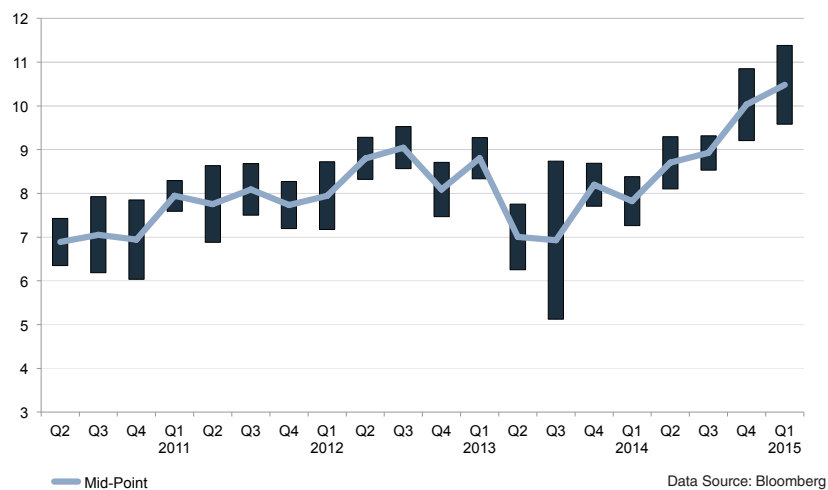
C-Store, Grocery Store, & QSR Stock Indices



Data Source: Capital IQ / Bloomberg

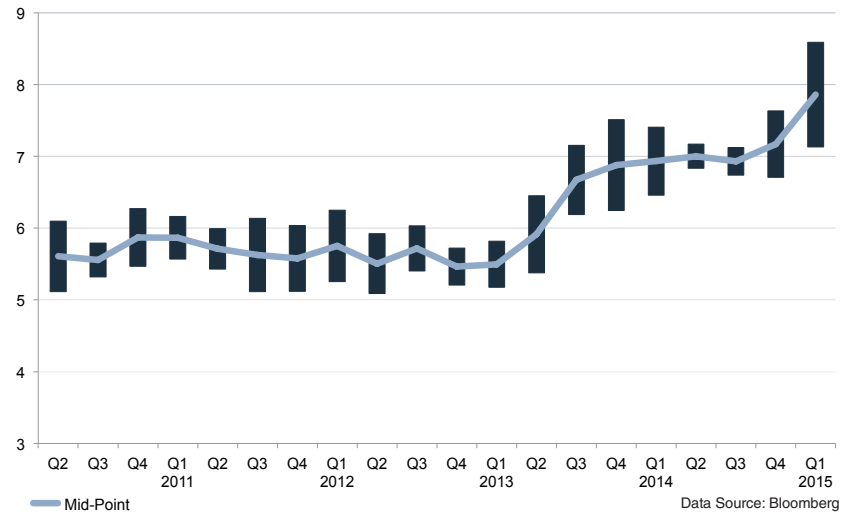
Valuations Up, Ranges Widen for C-stores. EBITDA multiples were up slightly for convenience stores and grocery stores, and up strongly for fast food operators. Multiples for public C store operators rose from 10.0x EBITDA at the end of the fourth quarter of 2014 to 10.5x at the end of the first quarter of 2015.¹ C-store multiples remained above their five-year average (8.2x). The favorable trend in multiples is expected to continue to fuel M&A activity in the near term.

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

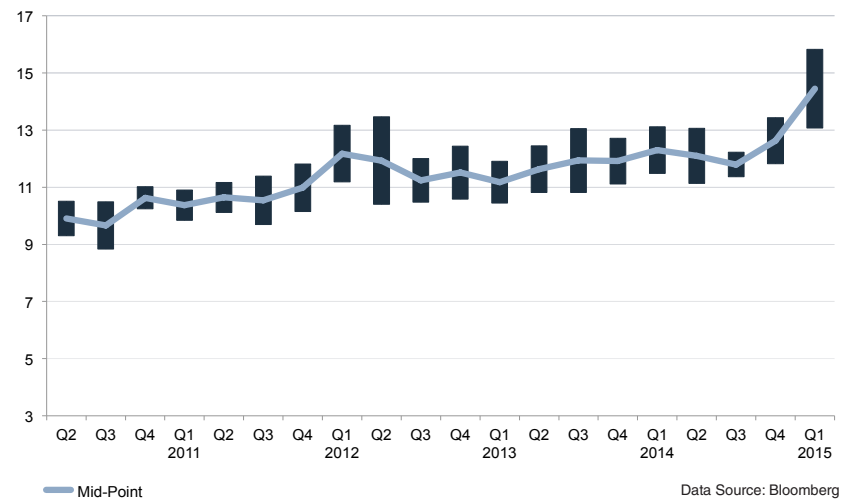


¹ As measured by the average of : (1) the median of the highest EBITDA measure of all the companies in the Mercer Capital index over the entire quarter and (2) the median of the lowest EBITDA measures of all the companies in the Mercer Capital index over the entire quarter. Pantry was eliminated from the Mercer Capital index this quarter due to its recent merger. Beginning with this quarter's newsletter, current and historical multiple data was obtained from Capital IQ. In prior newsletters, data was sourced from Bloomberg.

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 3/31/15	LTM Price Range		Equity Market Cap	Enterprise Value	Revenue			EBITDA			EBITDA Margins		
			High	Low			LTM	2015 Est.	2016 Est.	LTM	2015 Est.	2016 Est.	LTM	2015 Est.	2016 Est.
Convenience Stores															
Alimentation Couche Tard Inc	ANCUF	\$40.36	\$42.40	\$26.52	\$22,840	\$24,518	\$36,192	\$34,639	\$39,180	\$1,771	\$1,918	\$2,093	4.89%	5.54%	5.34%
Casey's General Stores Inc	CASY	\$90.10	\$94.47	\$63.63	\$3,501	\$4,373	\$8,033	\$7,700	\$7,793	\$445	\$457	\$469	5.54%	5.94%	6.02%
TravelCenters of America LLC	TA	\$17.44	\$14.91	\$7.18	\$657	\$1,134	\$7,959	\$7,701	\$8,002	\$122	\$146	\$150	1.53%	1.89%	1.87%
CST Brands Inc	CST	\$43.83	\$45.25	\$29.40	\$3,382	\$4,686	\$12,758	\$11,452	\$12,326	\$475	\$388	\$438	3.72%	3.39%	3.55%
Murphy USA Inc	MUSA	\$72.37	\$72.55	\$39.84	\$3,385	\$3,877	\$17,210	\$17,832	\$19,500	\$474	\$348	\$387	2.76%	1.95%	1.98%
Average C-Stores					\$6,753	\$7,718	\$16,430	\$15,865	\$17,360	\$658	\$651	\$707	3.69%	3.74%	3.75%
Median C-Stores					\$3,385	\$4,373	\$12,758	\$11,452	\$12,326	\$474	\$388	\$438	3.72%	3.39%	3.55%
Grocery Stores															
Fresh Market Inc/The	TFM	\$40.64	\$42.12	\$28.60	\$1,967	\$2,000	\$1,753	\$1,755	\$1,970	\$166	\$188	\$219	9.46%	10.73%	11.10%
Village Super Market Inc	VLGEA	\$31.44	\$30.06	\$18.83	\$442	\$488	\$1,560	na	na	\$62	na	na	3.97%	na	nm
SpartanNash Co	SPTN	\$31.56	\$27.99	\$19.07	\$1,184	\$1,755	\$7,916	\$7,868	\$7,888	\$203	\$235	\$245	2.57%	2.99%	3.10%
Weis Markets Inc	WMK	\$49.76	\$51.54	\$37.72	\$1,339	\$1,339	\$2,777	na	na	na	na	na	nm	na	nm
Ingles Markets Inc	IMKTA	\$49.48	\$50.50	\$21.79	\$1,002	\$1,973	\$3,855	\$3,911	\$3,994	\$234	\$237	\$254	6.06%	6.06%	6.36%
Roundy's Inc	RNDY	\$4.89	\$7.14	\$2.80	\$241	\$897	\$4,024	\$4,039	\$4,254	na	\$120	\$135	nm	2.97%	3.18%
Whole Foods Market Inc	WFM	\$52.08	\$57.57	\$35.88	\$18,764	\$18,828	\$14,626	\$15,751	\$17,513	\$1,341	\$1,436	\$1,589	9.17%	9.12%	9.07%
SUPERVALU Inc	SVU	\$11.63	\$11.08	\$6.55	\$3,001	\$6,224	\$17,409	\$17,826	\$18,247	\$690	\$774	\$792	3.96%	4.34%	4.34%
Kroger Co/The	KR	\$76.66	\$76.76	\$42.79	\$37,663	\$49,319	\$108,465	\$108,541	\$111,775	\$5,085	\$5,096	\$5,481	4.69%	4.69%	4.90%
Average Grocery Stores					\$7,289	\$9,202	\$18,043	\$22,813	\$23,663	\$1,112	\$1,155	\$1,245	5.70%	5.85%	6.01%
Median Grocery Stores					\$1,339	\$1,973	\$4,024	\$7,868	\$7,888	\$234	\$237	\$254	4.69%	4.69%	4.90%

Source: Bloomberg

Publicly Traded Companies (cont.)

Ticker	Stock Price at 3/31/15	LTM Price Range		Equity Market Cap	Enterprise Value	Revenue			EBITDA			EBITDA Margins			
		High	Low			LTM	2015 Est.	2016 Est.	LTM	2015 Est.	2016 Est.	LTM	2015 Est.	2016 Est.	
Fast Foods															
McDonald's Corp	MCD	\$97.44	\$101.09	\$86.87	\$93,825	\$108,815	\$27,441	\$25,608	\$25,643	\$9,594	\$9,047	\$9,470	34.96%	35.33%	36.93%
Wendy's Co/The	WEN	\$10.90	\$11.44	\$7.53	\$3,987	\$5,435	\$2,061	\$1,850	\$1,390	\$411	\$399	\$388	19.96%	21.55%	27.92%
Yum! Brands Inc	YUM	\$78.72	\$82.83	\$65.44	\$34,164	\$37,508	\$13,279	\$14,111	\$15,371	\$2,296	\$2,969	\$3,360	17.29%	21.04%	21.86%
Dunkin' Brands Group Inc	DNKN	\$47.56	\$49.92	\$39.86	\$4,976	\$6,795	\$749	\$794	\$849	\$384	\$405	\$441	51.34%	51.04%	51.95%
Krispy Kreme Doughnuts Inc	KKD	\$19.99	\$22.32	\$14.82	\$1,295	\$1,304	\$490	\$494	\$553	\$61	\$67	\$80	12.46%	13.52%	14.51%
Panera Bread Co	PNRA	\$160.00	\$179.03	\$142.41	\$4,292	\$4,392	\$2,529	\$2,732	\$2,923	\$400	\$405	\$433	15.82%	14.82%	14.81%
Chipotle Mexican Grill Inc	CMG	\$650.54	\$727.97	\$472.41	\$20,184	\$20,184	\$4,108	\$4,826	\$5,539	\$821	\$1,006	\$1,191	19.99%	20.86%	21.51%
Jack in the Box Inc	JACK	\$95.92	\$98.56	\$51.80	\$3,649	\$4,207	\$1,503	\$1,538	\$1,640	\$259	\$290	\$320	17.21%	18.84%	19.52%
Jack in the Box Inc	JACK	\$38.31	\$45.59	\$32.83	\$7,750	\$20,209	\$1,197	\$4,086	\$4,377	\$473	\$1,585	\$1,759	39.54%	38.78%	40.18%
Sonic Corp	SONC	\$31.70	\$34.20	\$18.49	\$1,697	\$2,157	\$582	\$604	\$630	\$153	\$164	\$177	26.26%	27.20%	28.11%
Average Fast Foods					\$17,582	\$21,101	\$5,394	\$5,664	\$5,892	\$1,485	\$1,634	\$1,762	25.48%	26.30%	27.73%
Median Fast Foods					\$4,634	\$6,115	\$1,782	\$2,291	\$2,282	\$406	\$405	\$437	19.97%	21.29%	24.89%

Source: Bloomberg

Margins

According to OPIS, nationwide retail gasoline margins ended the first quarter of 2015 at 18.7 cents per gallon, down from 30.5 cents per gallon twelve weeks earlier, and on par with the historical five-year average of 18.9 cents.² Between the end of the first quarter and the time of this publication, retail fuel margins have continued to contract toward normal levels (approximately 10 to 16 cents per gallon) as a result of rising gasoline and diesel prices. Retail fuel prices during the fourth quarter of 2014 reached their lowest levels in five years. Fuel margins during December reached 38 cents per gallon, their highest level of 2014 and nearing the best margins of the past decade. Diesel margins ended the first quarter at 46.6 cents per gallon, down significantly from 78.5 cents per gallon twelve weeks earlier, but still very robust. Although fuel prices are inherently volatile, consensus outlooks do not anticipate significant increases in price in the near future.

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. There is a relatively modest delay between the time crude prices increase and the time that pump prices rise. Conversely, 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 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 18.9 cents, this translates to a typical three to five cents per gallon of bottom line profit.

² National Association of Convenience Stores 2015 Retail Fuels Report.

Government and Regulatory

Swipe Fees. Several C-store entities and other retailers filed a joint lawsuit in Texas against Visa and MasterCard relating to swipe fees. Swipe fees on credit card transactions in the U.S. are eight times higher than in Europe, fueling a near-constant battle between retailers and card providers.

Gas Taxes. The Highway Trust Fund was set to expire (again) on May 30th. President Obama signed a two-month extension into law on May 29th. This marks the 33rd short-term extension of transportation funding since 2008. According to the CBO, the fund will be short by an estimated \$85 to \$90 billion in just six years if these short-term extensions continue, emphasizing that a permanent fix is sorely needed.

E-Cigarette Taxes. In early 2015, 22 states have introduced bills that would tax electronic cigarettes and nicotine solutions. This comes amidst news that vaping and e-cigarette sales may not be taking off as well as originally anticipated.

Renewable Fuel Standards. The EPA ruffled feathers of many industry participants with its announcement of the updated RFS program in late May. Critics of the RFS claim that the effort falls far short of that needed to wean the US off foreign oil and does little more than create a crop subsidy. Corn growers, who are generally supportive of the RFS, are frustrated that the RFS percentages were not higher.

Recent M&A Activity

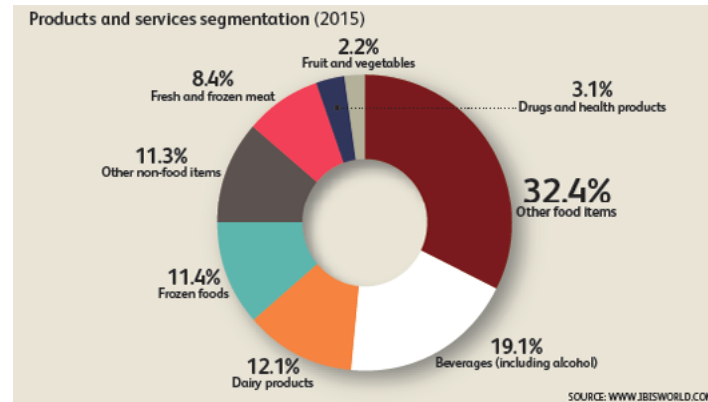
- » **Alimentation Couche-Tard** completed its merger with **The Pantry, Inc.** in March. This deal had an estimated value of \$1.7 billion. After the merger, the combined enterprise has approximately 7,800 stores. Shortly after the deal took place, Pantry laid off 250 employees.
- » In mid-May, **7-11** entered into a deal to acquire **Tedeschi Food Shops**, a 182 store chain with only 15 fueling operations. This deal more than doubles 7-11's operations in the Boston and New Hampshire areas.
- » Also in mid-May, **Imperial Oil Ltd.** announced that it has begun accepting proposals from interested buyers of its 500 company-owned Esso branded gas stations. According to unnamed sources, **Couche-Tard**, **CST Brands, Inc.**, and **Parkland Fuel** may be interested.
- » **OXXO** of Mexico's parent company announced its intention to invest approximately \$850 million to open 900 C-stores in Texas. At this point, the expansion plans could be thwarted by rules disallowing alcohol retailers from being owned by firms owning liquor businesses. OXXO's parent holds a large interest in Heineken.
- » **GPM Investments, LLC** entered into an agreement to purchase the Midwestern division of **VPS Convenience Store Group, LLC** which consists of 163 stores operating under the Village Pantry and Next Door Store brands. GPM had previously purchased 263 VPS stores in 2013.
- » **Delek US Holdings, Inc.** plans to purchase more than 48% of the stock of **Alon USA Energy, Inc.** Delek and Alon both have similar refining capacities and numbers of convenience stores (365 for Delek US, 294 for Alon US).
- » The **MLP trend** continued during the first part of 2015 with **Empire Petroleum Partners** and **GPM Petroleum LP** filing registrations with the SEC for IPOs to form MLPs. **CST Brands, Inc.** and **Energy Transfer Partners, LP** also announced asset drop downs during the same time period.
- » **Global Partners, LP** completed its purchase of **Warren Equities, Inc.**, the operator of over 500 Xtra Mart C-stores and has also completed a purchase of 97 gas stations and seven supply contracts from **Capitol Petroleum Group (CPG)**.
- » **Travel Centers of America** has entered into agreements with **Hospitality Properties Trust** for sale-leaseback transactions for 30 travel centers. Approximately \$352 million in net proceeds are expected to be realized by TA.

M&A activity in this sector is not expected to slow down. According to insiders, many private entities whose owners have never considered a sale are now exploring their options. Many owners fear this is their best opportunity to exit the market and have become frustrated at their inability to grow strategically through store unit acquisitions due to competition from larger players who are able to offer higher multiples.

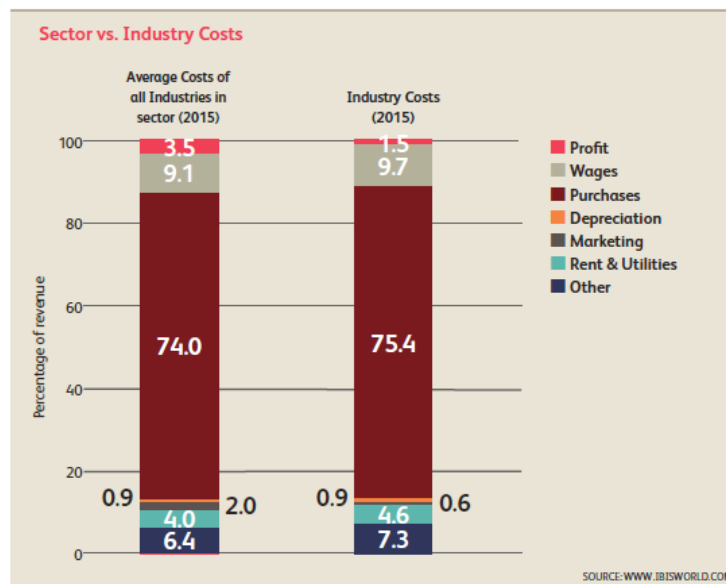
SEGMENT FOCUS

Grocery Stores

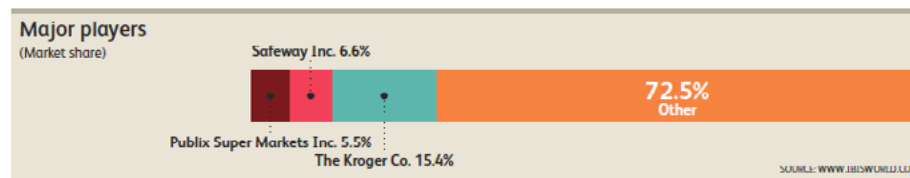
The Supermarkets and Grocery Store industry makes up the largest food retail channel in the United States. Industry revenue totaled approximately \$584.3 billion in 2014, and profit was \$8.8 billion. The following chart presents the products and services segmentation for the industry as estimated for 2015 by IBISWORLD.



This industry has grown over the past five years, benefitting from a strengthening economy and the trend toward organic and all-natural brands, especially as consumer spending has increased. However, the industry is mature, and revenue is expected to grow at a rate below national GDP over the next five years (0.8%, annualized) as compared to annualized growth of 1.3% from 2010 to 2015. The top four operators account for roughly 30% of industry revenue. Competition from superstores and warehouse clubs intensified during the recent recession, and remains high. As shown below, other sector operators enjoy modestly lower costs than grocery store retailers. They also tend to offer a convenience factor given that they stock a range of nonedible goods such as clothing and household supplies. This competition has led to stagnating profitability within the industry.

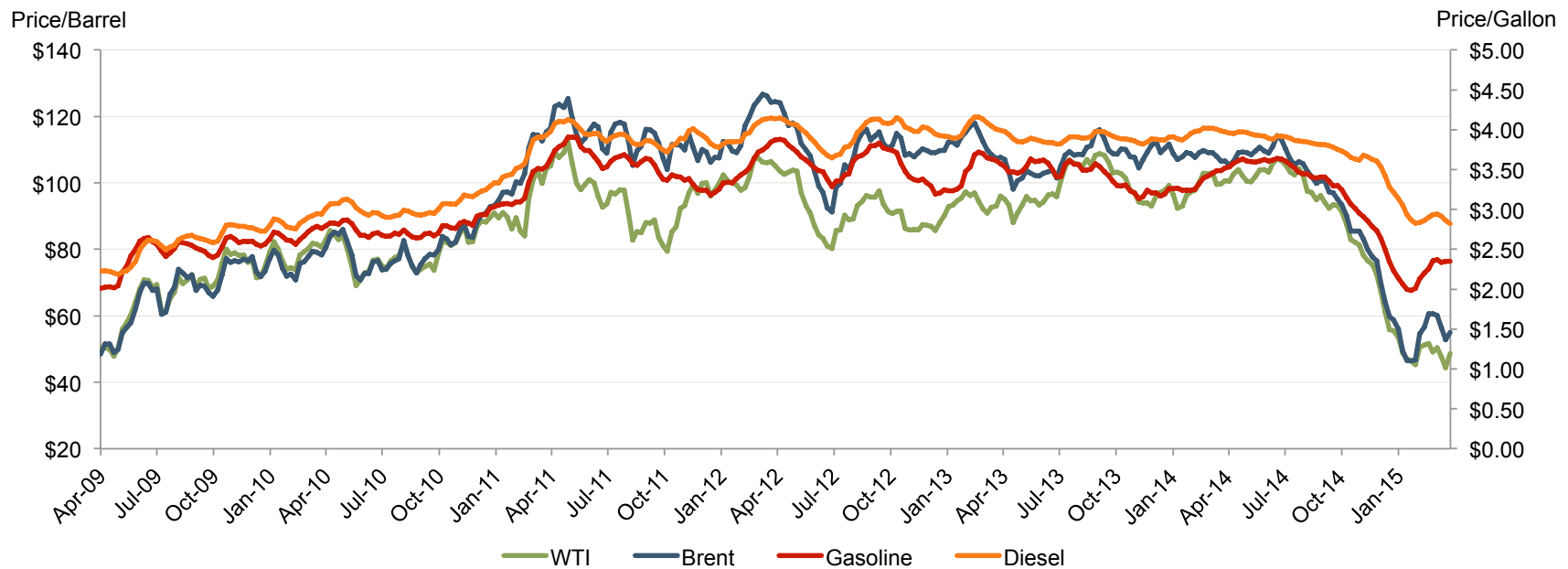


The industry is mature and continues to consolidate. Merger and acquisition activity has been high in recent quarters. The Kroger Company merged with Harris Teeter in 2014 to expand within the Southeast and Mid-Atlantic market areas and create a network of over 2,600 stores. Safeway and Albertsons merged in early 2015 to create a nationwide network of over 2,200 stores. M&A industry activity in 2014 was more robust than it had been in nearly a decade. This is an industry in which economies of scale are crucial; larger size helps enterprises better compete with mass merchandisers by lowering per-unit costs. The grocery store industry has been facing increasing competition from superstores and discount warehouse clubs, such as Wal-Mart. According to Wal-Mart's 10-K for the fiscal year ended January 31, 2015, grocery store segment revenues were 56% of total company revenues. Supermarkets are also increasingly facing competition from convenience stores, food service providers, and dollar stores.



Fuel Pricing and Supply Charts

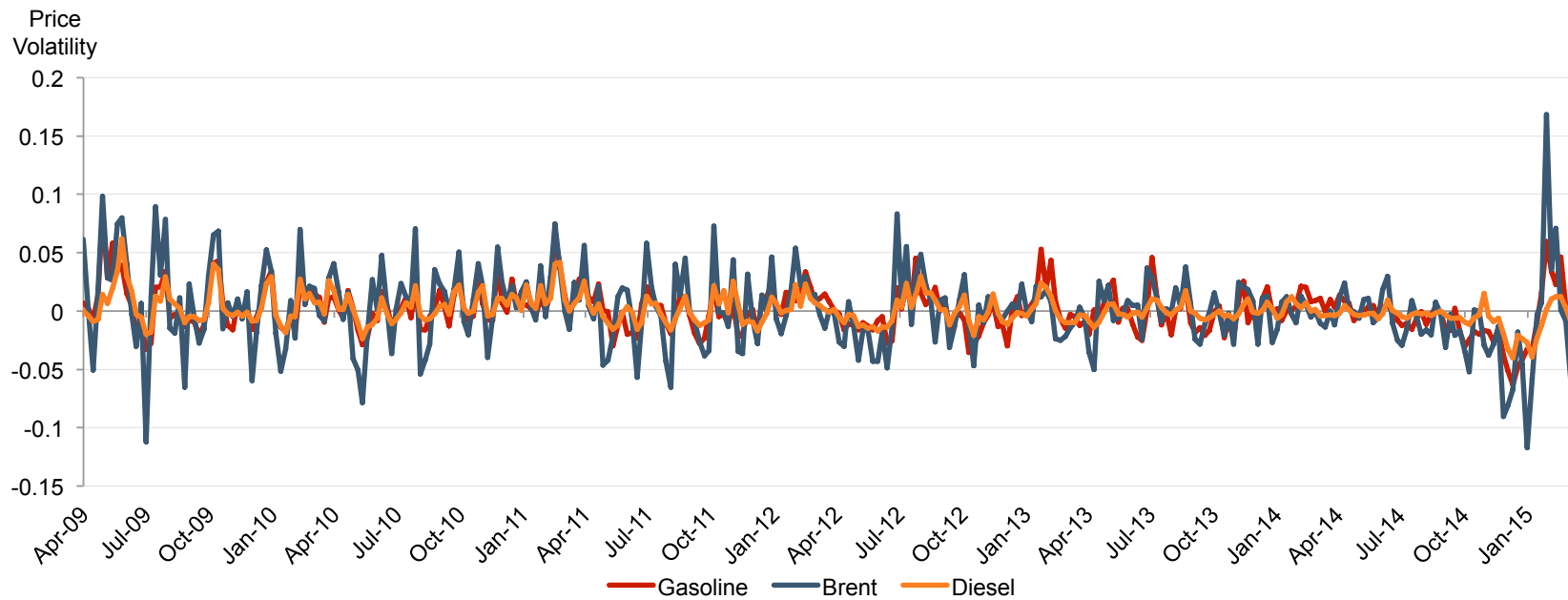
Fuel Prices & Supply



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

Fuel Pricing and Supply Charts

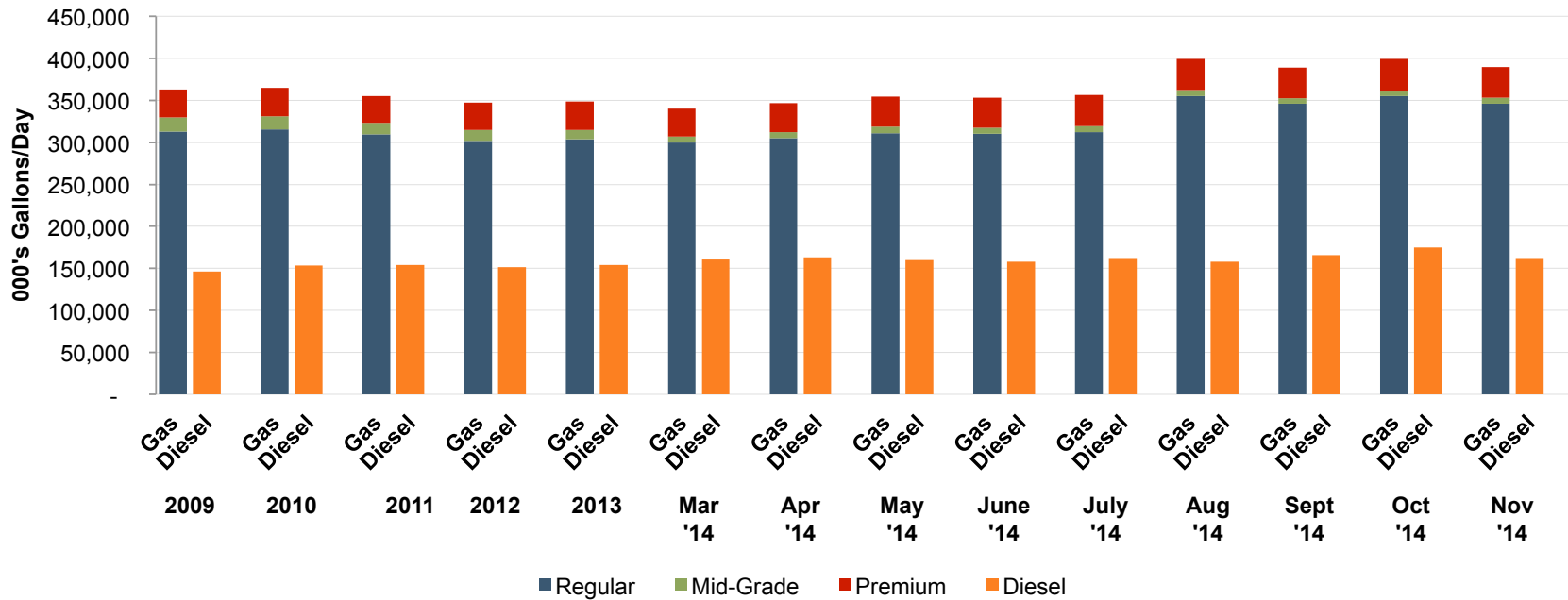
Motor Fuel and Brent Crude Price Fluctuation



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

Fuel Pricing and Supply Charts

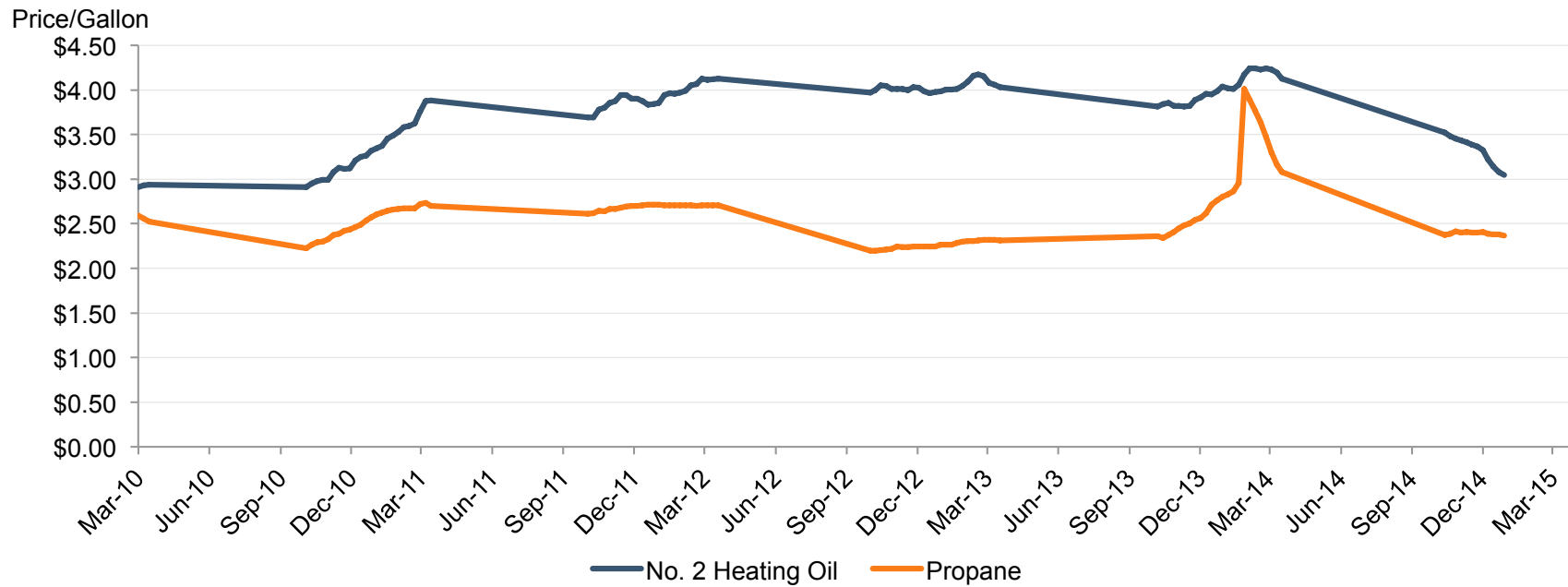
Prime Supplier Sales Volumes



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

Fuel Pricing and Supply Charts

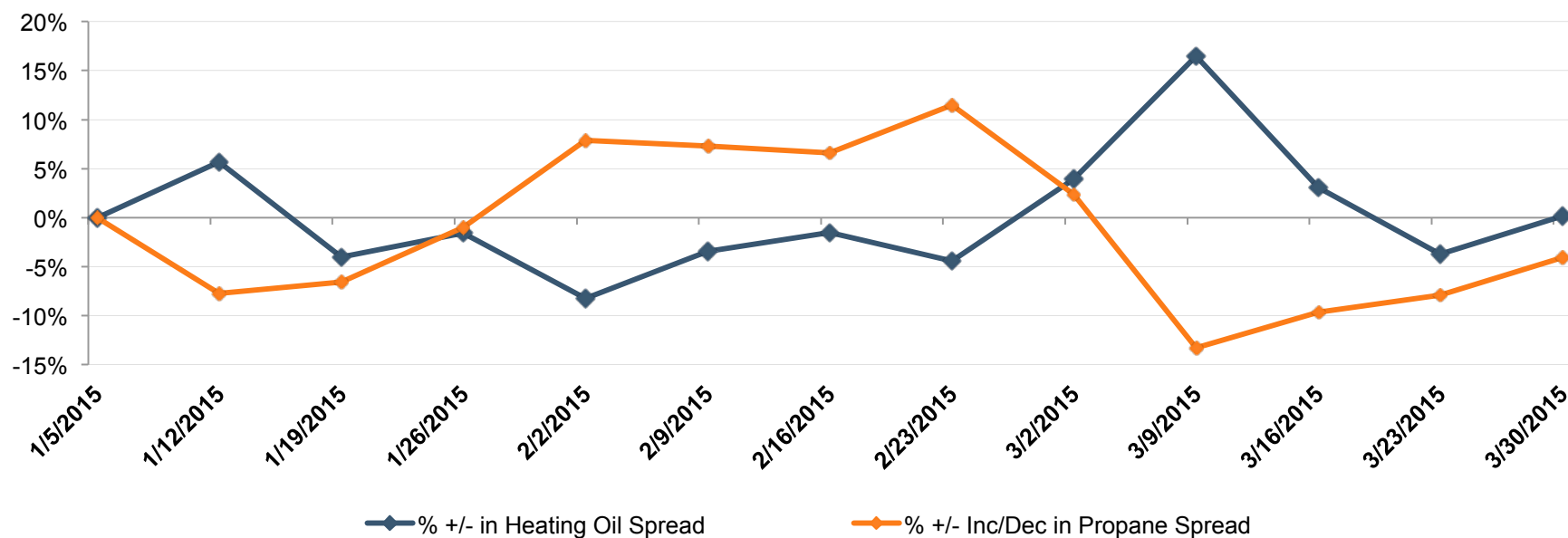
Non-Motor Fuel Prices



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.

Contact Us

Eden G. Stanton, CFA
901.270.7250
stantone@mercercapital.com

Timothy R. Lee, ASA
901.322.9740
leet@mercercapital.com

Mercer Capital
5100 Poplar Avenue, Suite 2600
Memphis, Tennessee 38137
901.685.2120 (P)

www.mercercapital.com