

# VALUE FOCUS

## Convenience Stores



SEGMENT FOCUS

**Alternative Fuels & Transportation**

**2015**

<b>Overview</b>	<b>1</b>	<b>Segment Focus:</b>	
Equity Market	1	<b>Alternative Fuels &amp;</b>	
Valuations	2	<b>Consumer Transportation</b>	<b>9</b>
<b>Publicly Traded Companies</b>	<b>4</b>	<b>Fuel Pricing</b>	
<b>C-Store Trends</b>		<b>and Supply Charts</b>	<b>11</b>
Margins	6	<b>About Mercer Capital</b>	<b>14</b>
Government and Regulatory	7	<b>Erickson Partners</b>	
<b>Recent M&amp;A Activity</b>	<b>8</b>	<b>Merges with Mercer Capital</b>	<b>15</b>

Q1: Motor Fuels

Q2: Grocery Stores

Q3: Alternative Fuels  
& Transportation

Q4: Foodservices

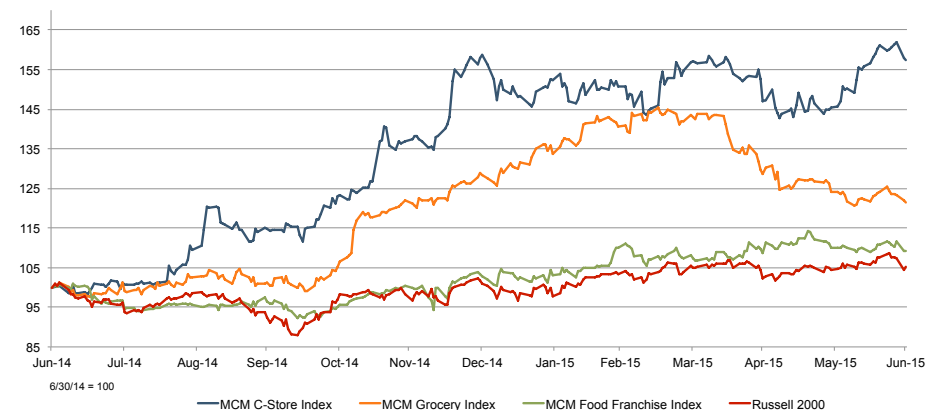
# Value Focus

## Convenience Stores

## Third Quarter 2015

**Equity Market Overview.** During the three months ending June 2015, equity market pricing for the convenience store index was essentially flat (0.1% increase), tracking the performance of the Russell 2000 index. However, performance among individual index participants was mixed. TA, CST, and MUSA experienced substantial stock price declines (-14.9%, -10.7%, and -22.9%, respectively) while ANCUF and CASY's prices increased by 6.2% and 6.5%, respectively. Since ANCUF carries a large amount of weight in our index due to its relative market cap, the overall index was essentially unchanged from its value at the end of the first quarter. The grocery store index posted a decrease of 15.1% during the quarter, largely led by Whole Foods (WFM) which posted a 23.8% decrease. WFM has the second largest market capitalization in our grocery index. The fast food index posted a modest quarterly increase (1.7%).

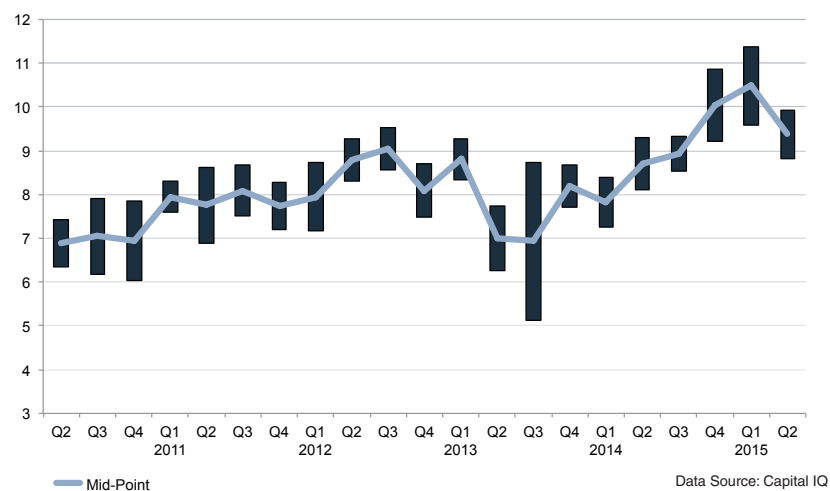
### C-Store, Grocery Store, & QSR Stock Indices



Data Source: Capital IQ / Bloomberg

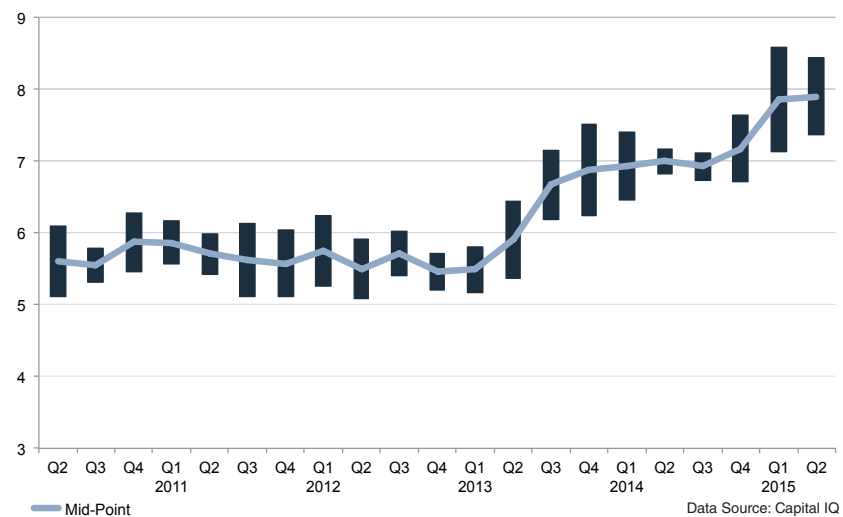
**Valuations Down, Ranges Tighten for C-stores.** EBITDA multiples were down slightly for convenience stores and relatively flat for grocery stores and fast food operators. Multiples for public C-store operators fell from 10.5x EBITDA at the end of the first quarter of 2015 to 9.4x at the end of the second quarter of 2015.<sup>1</sup> 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, although margin compression is anticipated beyond 2015. Despite the rich multiples, some business owners are hesitant to sell given current fuel margins and the attractiveness of their prevailing cash flows.

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

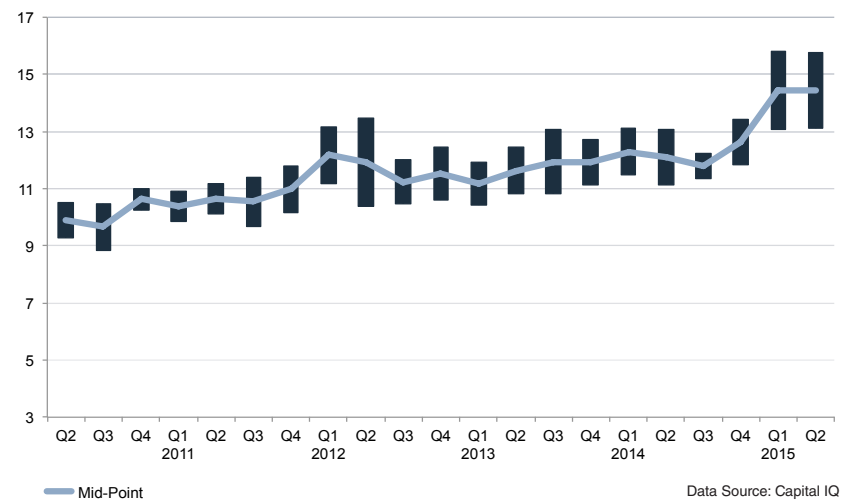


<sup>1</sup> As measured by the average of : (1) the median of the highest EBITDA measure of all the companies in the Mercer Capital index over the entire quarter and (2) the median of the lowest EBITDA measures of all the companies in the Mercer Capital index over the entire quarter. Pantry was eliminated 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 6/30/15	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	\$42.86	\$44.08	\$26.76	\$24,254	\$25,933	\$36,192	\$34,758	\$39,478	\$1,771	\$1,916	\$2,112	4.89%	5.51%	5.35%
Casey's General Stores Inc	CASY	\$95.74	\$98.22	\$65.24	\$3,723	\$4,577	\$7,767	\$7,754	\$7,792	\$483	\$470	\$494	6.21%	6.06%	6.33%
TravelCenters of America LLC	TA	\$14.85	\$18.10	\$8.37	\$348	\$940	\$7,219	\$6,762	\$7,591	\$208	\$170	\$174	2.88%	2.51%	2.29%
CST Brands Inc	CST	\$39.06	\$45.12	\$32.28	\$1,498	\$2,909	\$12,427	\$10,362	\$11,747	\$494	\$358	\$386	3.98%	3.46%	3.29%
Murphy USA Inc	MUSA	\$55.82	\$73.97	\$47.20	\$4,291	\$4,780	\$16,008	\$14,582	\$17,243	\$494	\$361	\$375	3.09%	2.47%	2.17%
Average C-Stores					\$6,823	\$7,828	\$15,923	\$14,844	\$16,770	\$690	\$655	\$708	4.21%	4.00%	3.89%
Median C-Stores					\$3,723	\$4,577	\$12,427	\$10,362	\$11,747	\$494	\$361	\$386	3.98%	3.46%	3.29%
Grocery Stores															
Fresh Market Inc/The	TFM	\$32.14	\$42.12	\$29.31	\$1,559	\$1,592	\$1,784	\$1,755	\$1,943	\$164	\$188	\$216	9.21%	10.73%	11.14%
Village Super Market Inc	VLGEA	\$31.69	\$34.31	\$18.54	\$449	\$495	\$1,575	na	na	\$66	na	na	4.21%	na	nm
SpartanNash Co	SPTN	\$32.54	\$33.89	\$18.90	\$1,229	\$1,764	\$7,895	\$7,927	\$8,019	\$198	\$239	\$251	2.51%	3.02%	3.13%
Weis Markets Inc	WMK	\$42.15	\$51.57	\$37.47	\$1,134	\$1,134	\$2,802	na	na	\$149	na	na	5.30%	na	nm
Ingles Markets Inc	IMKTA	\$47.77	\$54.59	\$22.91	\$968	\$1,896	\$3,823	\$3,857	\$3,929	\$241	\$242	\$256	6.30%	6.27%	6.52%
Roundy's Inc	RNDY	\$3.24	\$6.12	\$2.80	\$160	\$818	\$4,003	\$3,999	\$4,200	-\$177	\$118	\$131	-4.42%	2.94%	3.13%
Whole Foods Market Inc	WFM	\$39.44	\$57.24	\$35.67	\$14,210	\$14,273	\$14,951	\$15,603	\$17,185	\$1,378	\$1,448	\$1,589	9.22%	9.28%	9.25%
SUPERVALU Inc	SVU	\$8.09	\$12.00	\$7.83	\$2,103	\$4,831	\$17,820	\$17,826	\$18,130	\$709	\$774	\$800	3.98%	4.34%	4.41%
Kroger Co/The	KR	\$72.51	\$77.54	\$48.02	\$34,877	\$46,184	\$108,555	\$108,541	\$110,810	\$5,296	\$5,096	\$5,530	4.88%	4.69%	4.99%
Average Grocery Stores					\$6,299	\$8,110	\$18,134	\$22,787	\$23,459	\$892	\$1,158	\$1,253	4.58%	5.90%	6.08%
Median Grocery Stores					\$1,229	\$1,764	\$4,003	\$7,927	\$8,019	\$198	\$242	\$256	4.88%	4.69%	4.99%

Source: Bloomberg

## Publicly Traded Companies (cont.)

	Ticker	Stock Price at 6/30/15	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	\$95.07	\$100.22	\$86.12	\$91,125	\$105,416	\$26,700	\$25,062	\$24,321	\$9,019	\$8,760	\$9,160	33.78%	34.95%	37.66%
Wendy's Co/The	WEN	\$11.28	\$11.71	\$7.49	\$4,121	\$5,570	\$2,004	\$1,795	\$1,235	\$369	\$397	\$380	18.41%	22.10%	30.74%
Yum! Brands Inc	YUM	\$90.08	\$95.90	\$65.10	\$39,005	\$42,392	\$13,177	\$14,049	\$15,292	\$2,230	\$2,989	\$3,329	16.92%	21.28%	21.77%
Dunkin' Brands Group Inc	DNKN	\$55.00	\$55.60	\$39.66	\$5,306	\$7,815	\$763	\$801	\$852	\$399	\$413	\$449	52.32%	51.64%	52.69%
Krispy Kreme Doughnuts Inc	KKD	\$19.26	\$22.32	\$14.82	\$1,245	\$1,256	\$501	\$494	\$536	\$63	\$67	\$81	12.57%	13.52%	15.09%
Panera Bread Co	PNRA	\$174.77	\$188.24	\$142.41	\$4,665	\$4,765	\$2,572	\$2,692	\$2,851	\$389	\$401	\$429	15.11%	14.90%	15.04%
Chipotle Mexican Grill Inc	CMG	\$604.99	\$727.97	\$575.92	\$18,786	\$18,786	\$4,293	\$4,752	\$5,443	\$888	\$1,018	\$1,196	20.69%	21.41%	21.97%
Jack in the Box Inc	JACK	\$88.16	\$99.65	\$54.51	\$3,295	\$3,899	\$1,520	\$1,544	\$1,643	\$267	\$288	\$318	17.56%	18.63%	19.32%
Jack in the Box Inc	JACK	\$38.31	\$45.59	\$32.83	\$7,750	\$20,209	\$1,197	\$3,952	\$4,240	\$473	\$1,574	\$1,735	39.54%	39.82%	40.92%
Sonic Corp	SONC	\$28.80	\$36.62	\$20.06	\$1,498	\$1,969	\$595	\$607	\$635	\$158	\$164	\$177	26.56%	27.02%	27.85%
Average Fast Foods					\$17,680	\$21,208	\$5,332	\$5,575	\$5,705	\$1,426	\$1,607	\$1,725	25.35%	26.53%	28.31%
Median Fast Foods					\$4,985	\$6,693	\$1,762	\$2,243	\$2,247	\$394	\$407	\$439	19.55%	21.76%	24.91%

Source: Bloomberg

## Margins

According to OPIS, nationwide retail gasoline margins ended the second quarter of 2015 at 22.1 cents per gallon, up from 16.1 cents per gallon twelve weeks earlier, and slightly above the historical five-year average of 18.9 cents.<sup>2</sup> Between the end of the second quarter and the time of this publication, retail fuel margins have expanded once again (30 to 40 cents per gallon) as a result of falling gasoline and diesel prices. There was a brief uptick in fuel prices during the second quarter which reversed course between the end of the second quarter and the time of this publication. For comparison, retail fuel prices during late 2014 reached their lowest levels in five years, and fuel margins during December reached 38 cents per gallon, nearing the best margins of the past decade. So, U.S. retailers have enjoyed favorable margins for the better part of a year. Diesel margins ended the second quarter at 37.2 cents per gallon, virtually unchanged from first quarter margins, but down significantly from 78.5 cents per gallon six months earlier. Although fuel prices are inherently volatile, consensus outlooks do not anticipate significant increases in price in the near future, especially after taking into account the near-term shift to winter-grade fuel (a generally more cost-effective blend of fuel).

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.

<sup>2</sup> National Association of Convenience Stores 2015 Retail Fuels Report.

## Government and Regulatory

**Affordable Care Act.** The Supreme Court recently upheld key provisions of the Affordable Care Act (ACA), ending at least some of the uncertainty for retailers related to implementation. It remains unclear what compliance with the law means for C-store profits, an industry with more part-time employees than most. Industry lobbyists are now focused on a push toward simplification, rather than elimination, of the ACA. Recently, retailers won a one-year extension to menu labeling requirements, and now have until December 2016 to comply with this component of the healthcare law.

**Gas Taxes.** The Highway Trust Fund (HTF) was set to expire (once again) at the end of July. President Obama signed a three-month extension (until October 29th) just short of the July expiration deadline. This marks the 34th 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. As it stands, the HTF regularly owes states more money than it collects in tax receipts.



# Recent M&A Activity

In addition to the few major transactions we have listed below, there were numerous transactions involving 50 or few units during the second quarter. 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.

- » **United Pacific** completed its acquisition of 251 gas station and convenience stores from **Pacific Convenience & Fuels LLC**.
- » **Global Partners LP** acquired 97 stations from **Capitol Petroleum Group** for approximately \$156 million.
- » **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, and the network could potentially yield an \$800 million plus valuation.
- » **Sunoco LP** purchased **Susser Holdings Corp.** in July. The transaction was valued at approximately \$1.93 billion, for a network of 680 Stripes branded c-stores. Sunoco also recently announced plans to purchase a fuel distributor valued at \$57 million.
- » At least two industry players made MLP-related IPOs during the quarter: **GPM Petroleum** and **Empire Petroleum Partners**.

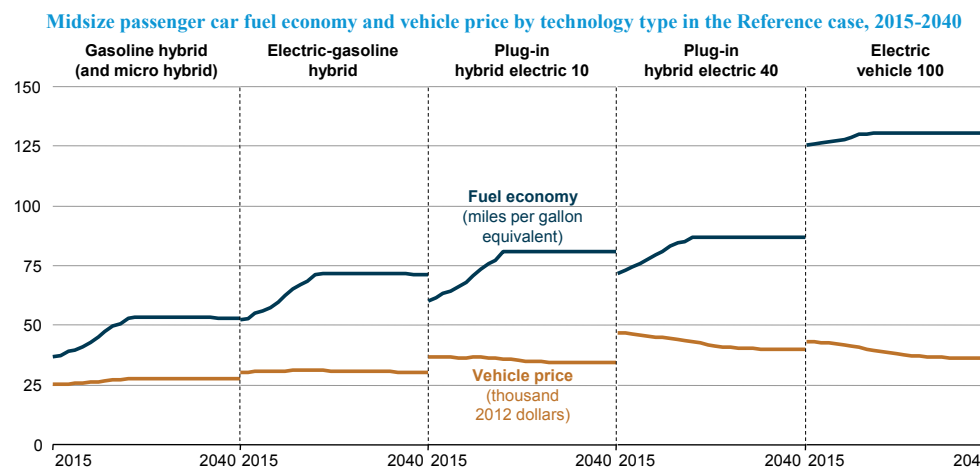
## SEGMENT FOCUS

# Alternative Fuels & Consumer Transportation

According to a recent NACS survey, four out of five consumers indicate that the primary motivator for purchasing an alternative fuel vehicle is to save on fuel costs. Given the recent dramatic drop in gasoline prices, interest in these types of vehicles has waned considerably.

The September issue of the *NACS Magazine*, contained an article entitled "In the Year 2035." This article discusses the impact that alternative fuels are expected to have on the retail fuel market based on the U.S. Energy Information Administration's (EIA) publication *Annual Energy Outlook 2015* (AEO2015). The AEO2015 bases its analyses on the full implementation of current and scheduled environmental regulations including the Corporate Average Fuel Economy standards (CAFE) and the Renewable Fuel Standards (RFS). The NACS article focuses on the impact of alternative fuels on light duty vehicles (LDV), since the driver of smaller vehicles is the primary customer for the convenience store industry. Fuel demand, consumption, and efficiency is particularly important for C-store operators considering that over 70% of C-store revenue is attributable to motor fuel. The following chart details the projected increase in fuel efficiency of LDV's through 2040.<sup>3</sup>

## Average fuel economy of new LDV's 2015-2040 (mpg)

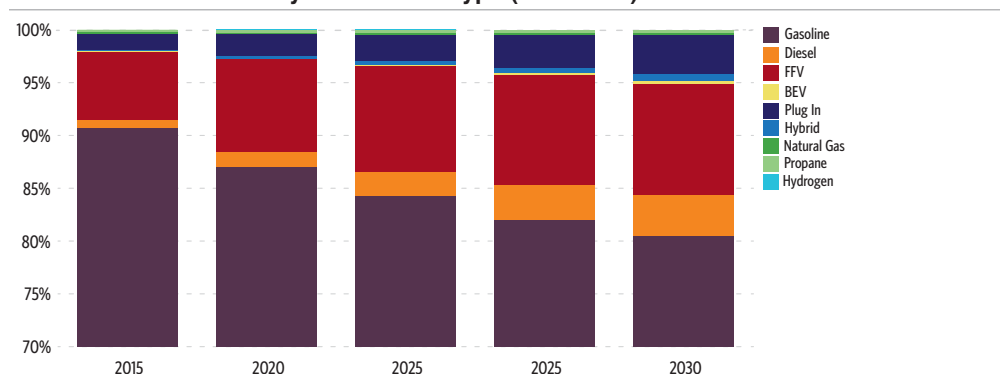


Source: U.S. Energy Information Administration Annual Energy Outlook

<sup>3</sup> U.S. Energy Information Administration Annual Energy Outlook 2015 p. 11.

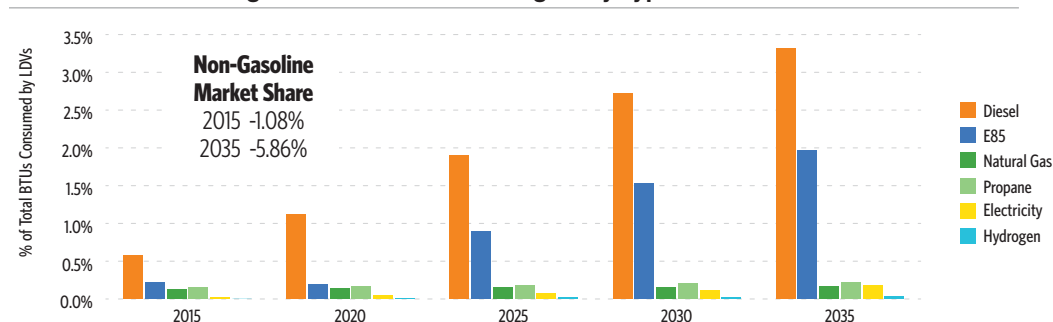
Gasoline is expected to remain the primary energy source for LDV's (94.4% of all energy consumed). However, gasoline volumes are expected to decline by more than 20% over the next 20 years as LDV's become more efficient.

**Vehicle Miles Traveled by Vehicle Fuel Type (2015-2035)<sup>4</sup>**



Source: NACS Magazine

**Share of LDV's Using Non-Gasoline Technologies by Type<sup>5</sup>**



Source: NACS Magazine

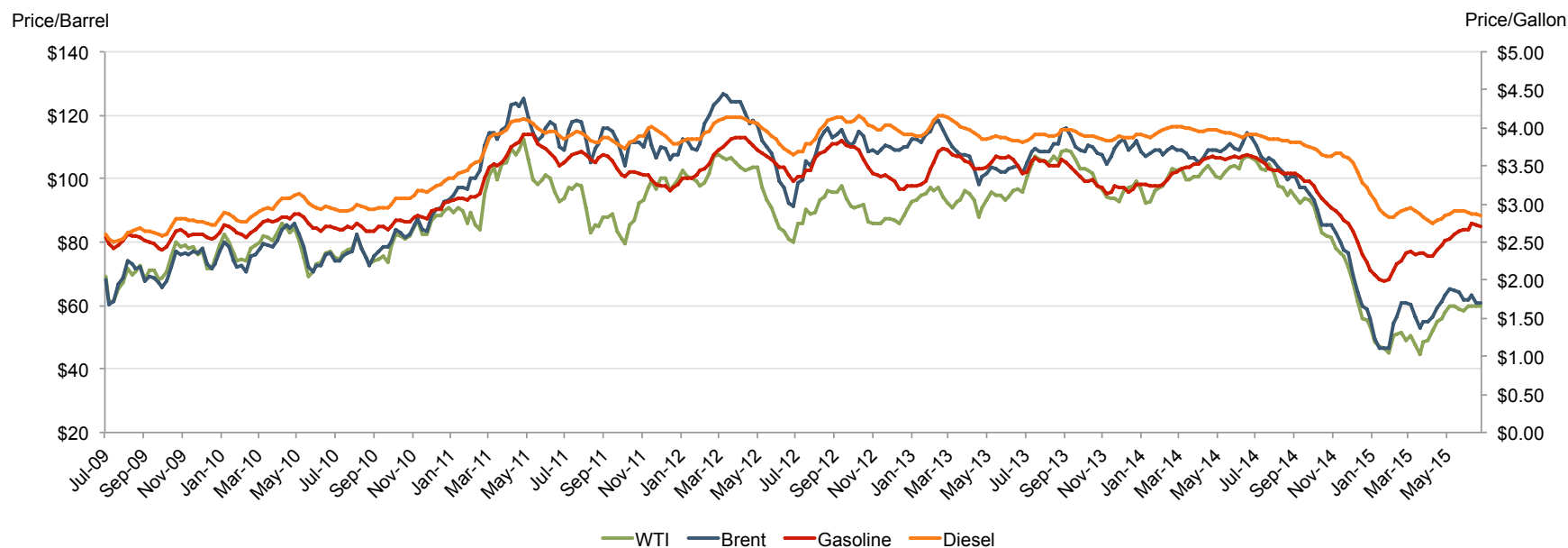
There has been a general lack of interest in the past twelve months in alternative fuel technology given the large decrease in fuel prices. However, governments remain committed (in word, if not deed) to reducing dependency on foreign oil and to reducing greenhouse emissions. We expect a longer-term 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.

<sup>4</sup> NACS Magazine, September 2015, "In the Year 2035"; page 70.

<sup>5</sup> NACS Magazine, September 2015, "In the Year 2035"; page 67.

# Fuel Pricing and Supply Charts

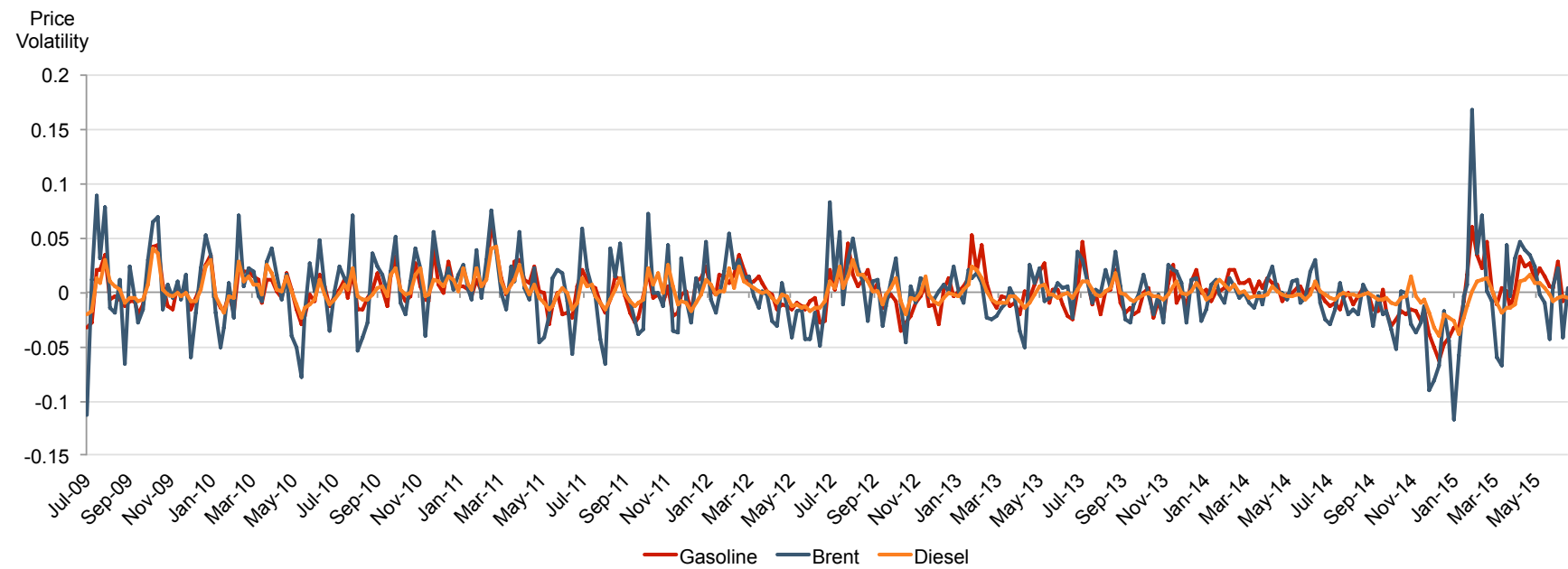
## Fuel Prices & Supply



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

# Fuel Pricing and Supply Charts

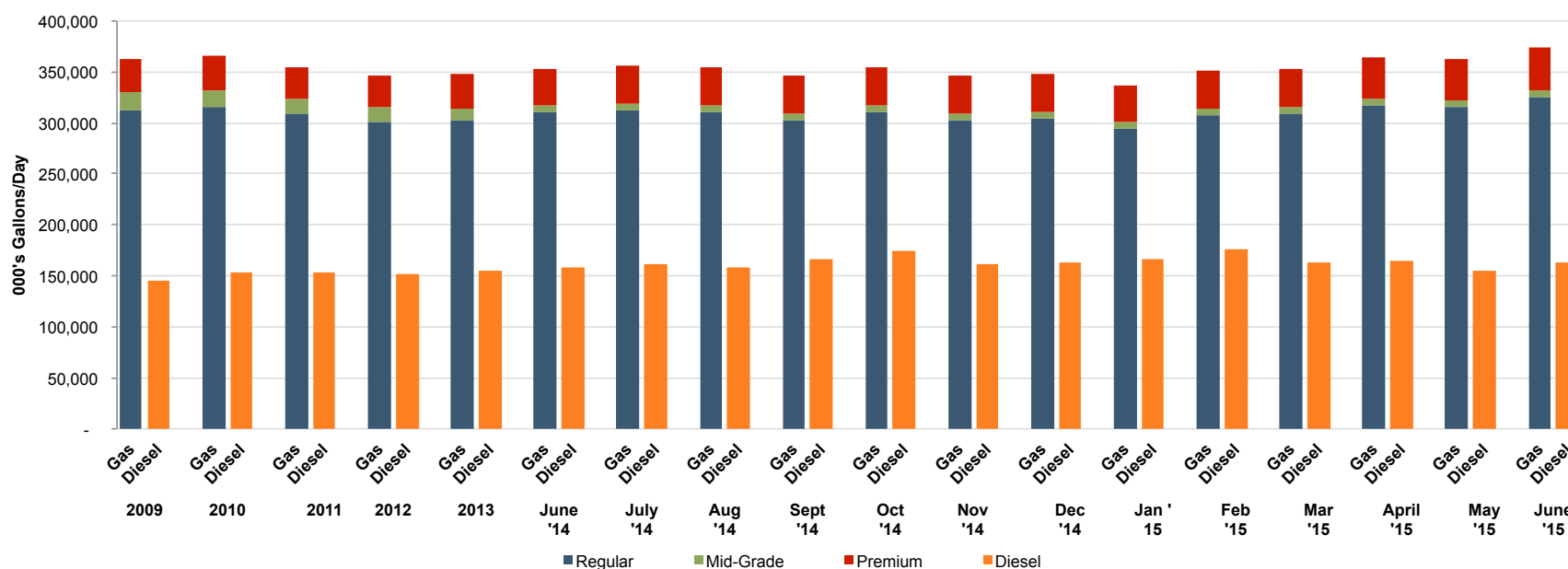
Motor Fuel and Brent Crude Price Fluctuation



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)

# 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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# Erickson Partners Merges with Mercer Capital



**Mercer Capital**, a national business valuation and financial advisory firm specializing in Corporate Valuation, Litigation Support, Financial Reporting Valuation, and Transaction Advisory Consulting, and **Erickson Partners, Inc.**, a Texas-based Valuation and Litigation Support firm, announce their merger effective July 1, 2015.

Mercer Capital, with its strong presence throughout the Southeast and Midwest, and Erickson Partners, with its strong presence in Texas and Oklahoma, are a perfect fit.

Both firms maintain the highest standards of quality for financial analysis and client service and believe deeply in hiring and developing the best professionals.

"The culture of both firms is so similar and that was important to us. The professionals of Erickson Partners are well-known in the valuation profession as some of the best and brightest. Their work product and reputation are stellar. This merger not only allows us to broaden our geographic reach but also our industry expertise," said **Matt Crow**, President of Mercer Capital.

Erickson Partners enhances Mercer Capital's broad base of industry concentrations with their exceptional history working with and knowledge of professional sports franchises and the energy sector.

"Over our 30 plus year history, Mercer Capital has developed several industry concentrations. By adding the knowledge, insight, and expertise of Don Erickson, Bryce Erickson, and the rest of the professionals of Erickson Partners, we now bring deep experience and insight to a broader range of industries than we could as separate firms," said **Chris Mercer**, CEO of Mercer Capital.

"Combining with Mercer Capital, we will now be able to offer new or expanded services that complement our existing services, as well as additional industry expertise," said **Bryce Erickson**, Managing

Director of Erickson Partners. "In addition to our sports franchise and energy industry concentrations, we will be able to offer deep industry concentrations in construction and building materials, agribusiness, manufacturing and financial institutions, which includes depository institutions, insurance companies, fintech companies, asset management firms, and PE firms."

"The combined firm will have over 40 valuation professionals positioned in five markets throughout the southwest and southeast. Such a deep bench will provide us with a tremendous opportunity to better serve the expanding needs of our clients," said **Don Erickson**, President of Erickson Partners. "Joining with Mercer Capital gives us national resources that will benefit our clients in Texas and beyond."

## About Mercer Capital

Mercer Capital is a national business valuation and financial advisory firm offering corporate valuation, litigation support, financial reporting valuation, and transaction advisory consulting services to a national client base. Clients include private and public operating companies, financial institutions, asset holding companies, high-net worth families, and private equity/hedge funds.

## About Erickson Partners, Inc.

Erickson Partners is a professional valuation and advisory firm specializing in business valuation, litigation support, financial investigations and strategic corporate advisory services. Founded by Don & Bryce Erickson, Erickson Partners has served large and small clients by providing complex financial and economic analysis, leading to reasonable valuation opinions that withstand scrutiny.

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