

VALUE FOCUS

Convenience Stores

SEGMENT FOCUS

Grocery Stores

2016

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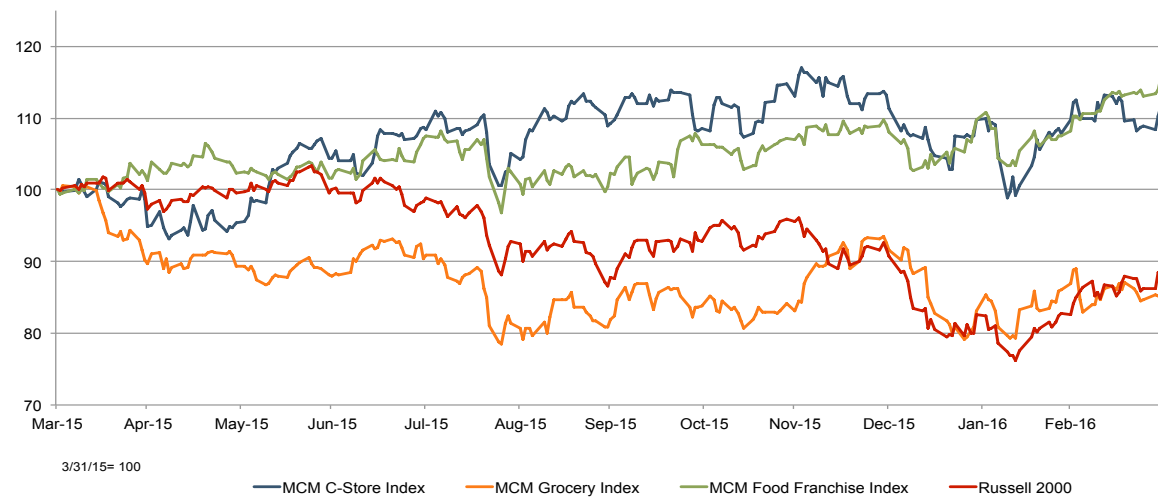
Q4: Foodservices

Overview

Equity Market Overview

During the three months ending March 2016, equity market pricing for the convenience store index remained essentially flat, outperforming the Russell 2000 which fell 2.2% during the quarter. Performance among individual index participants was mixed. **TA** continued to endure a steep price decline (-27.7%) as it failed to meet fourth quarter revenue and earnings expectations. **CASY** and **CST** posted relatively smaller declines of 5.2% and 1.9%, respectively. In comparison, **CASY**'s stock posted a 17.3% increase during the fourth quarter of 2015. The contrasting first quarter decline is attributable to declining same-store sales during the first part of 2016. The grocery store index posted a 6.7% decrease during the quarter. This decline was largely led by Kroger (**KR**) which posted an 8.7% decrease, spurred by lowering its same-store sales expectations. **KR** has the largest market capitalization in our grocery index. The fast food index posted a quarterly increase of 7.0%. With the exceptions of **CMG** and **JACK**, performance was up across the board.

C-Store, Grocery Store, & QSR Stock Indices



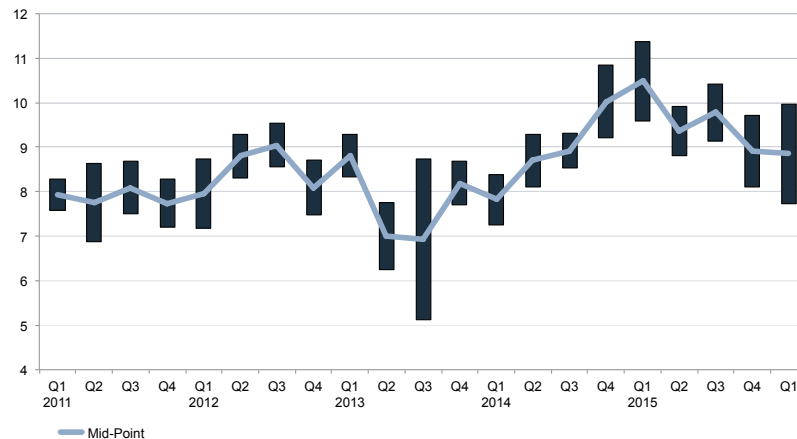
Data Source: S&P Global Market Intelligence / Bloomberg

Overview

Valuations Down, Ranges Widen for C-Stores

EBITDA multiples were down slightly for convenience stores during the quarter. The multiples for grocery stores fell by a larger percentage (3.5%), while multiples for fast food operators were up 2.5%. Multiples for public C-store operators fell from 9.8x EBITDA at the end of the third quarter of 2015 to 8.9x at the end of the fourth quarter of 2015. Multiples dropped further during the first quarter of 2016 to 8.8x EBITDA.¹ C-store multiples remained slightly above their five-year average (8.5x).

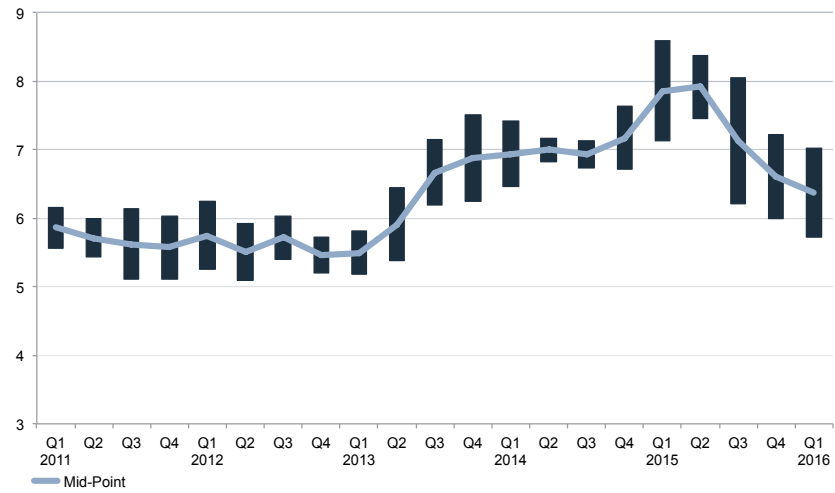
C-Store EBITDA Valuations // Quarterly Range of Mean Highs & Lows



Data Source: S&P Global Market Intelligence

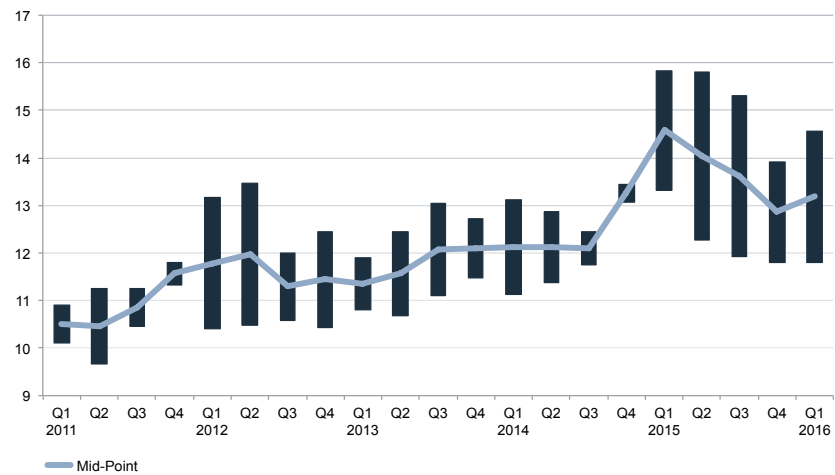
¹ As measured by the average of : (1) the median of the highest EBITDA measure of all the companies in the Mercer Capital index over the entire quarter and (2) the median of the lowest EBITDA measures of all the companies in the Mercer Capital index over the entire quarter. Current and historical multiple 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 3/31/16	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	\$43.97	\$47.22	\$37.00	\$24,885	\$27,087	\$33,810	\$34,734	\$35,180	\$2,004	\$1,909	\$2,290	5.9%	5.5%	6.5%
Casey's General Stores Inc	CASY	\$120.22	\$129.29	\$80.44	\$4,689	\$5,535	\$7,299	\$7,754	\$7,140	\$549	\$470	\$558	7.5%	6.1%	7.8%
TravelCenters of America LLC	TA	\$9.40	\$18.10	\$6.41	\$365	\$1,117	\$5,851	\$6,137	\$6,132	\$151	\$155	\$129	2.6%	2.5%	2.1%
CST Brands Inc	CST	\$39.08	\$44.58	\$29.68	\$2,955	\$4,411	\$11,444	\$9,776	\$10,152	\$476	\$416	\$402	4.2%	4.3%	4.0%
Murphy USA Inc	MUSA	\$60.74	\$73.64	\$47.73	\$2,532	\$3,022	\$12,790	\$13,172	\$12,765	\$342	\$369	\$406	2.7%	2.8%	3.2%
Average C-Stores					\$7,085	\$8,235	\$14,239	\$14,315	\$14,274	\$704	\$664	\$757	4.6%	4.2%	4.7%
Median C-Stores					\$2,955	\$4,411	\$11,444	\$9,776	\$10,152	\$476	\$416	\$406	4.2%	4.3%	4.0%
Grocery Stores															
Fresh Market Inc/The	TFM	\$23.42	\$41.70	\$17.81	\$1,099	\$1,131	\$1,818	\$1,755	\$1,857	\$169	\$188	\$193	9.3%	10.7%	10.4%
Village Super Market Inc	VLGEA	\$26.08	\$33.30	\$23.05	\$369	\$415	\$1,594	na	na	\$67	na	na	4.2%	na	nm
SpartanNash Co	SPTN	\$21.53	\$33.34	\$17.57	\$809	\$1,357	\$7,847	\$7,680	\$7,699	\$197	\$225	\$231	2.5%	2.9%	3.0%
Weis Markets Inc	WMK	\$43.95	\$49.16	\$37.14	\$1,182	\$1,182	\$2,877	na	na	\$161	na	na	5.6%	na	nm
Ingles Markets Inc	IMKTA	\$43.89	\$57.43	\$31.77	\$889	\$1,814	\$3,765	\$3,810	\$3,761	\$237	\$241	\$239	6.3%	6.3%	6.4%
Whole Foods Market Inc	WFM	\$33.36	\$51.70	\$28.07	\$11,639	\$11,704	\$15,388	\$15,420	\$15,963	\$1,300	\$1,405	\$1,349	8.4%	9.1%	8.4%
SUPERVALU Inc	SVU	\$6.78	\$12.00	\$3.94	\$1,797	\$4,511	\$17,947	\$17,826	\$17,601	\$769	\$774	\$779	4.3%	4.3%	4.4%
Kroger Co/The	KR	\$41.71	\$42.63	\$27.17	\$40,292	\$51,551	\$108,872	\$108,541	\$109,914	\$5,608	\$5,096	\$5,686	5.2%	4.7%	5.2%
Average Grocery Stores					\$7,260	\$9,208	\$20,013	\$25,839	\$26,132	\$1,064	\$1,322	\$1,413	5.7%	6.4%	6.3%
Median Grocery Stores					\$1,141	\$1,586	\$5,806	\$11,550	\$11,831	\$217	\$508	\$509	5.4%	5.5%	5.8%

Source: Bloomberg

Publicly Traded Companies (continued)

Ticker	Stock Price at 3/31/16	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	\$117.25	\$126.96	\$85.41	\$106,324	\$130,446	\$25,413	\$25,331	\$24,153	\$8,701	\$8,781	\$9,201	34.2%	34.7%	38.1%
Wendy's Co/The	WEN	\$10.70	\$11.50	\$8.33	\$2,925	\$5,328	\$1,908	\$1,871	\$1,320	\$383	\$396	\$386	20.1%	21.2%	29.2%
Yum! Brands Inc	YUM	\$72.57	\$94.22	\$64.58	\$30,478	\$34,455	\$13,105	\$13,195	\$13,464	\$2,668	\$2,744	\$2,977	20.4%	20.8%	22.1%
Dunkin' Brands Group Inc	DNKN	\$42.32	\$55.77	\$36.21	\$3,921	\$6,374	\$811	\$810	\$851	\$365	\$416	\$448	45.0%	51.3%	52.7%
Krispy Kreme Doughnuts Inc	KKD	\$15.07	\$20.45	\$12.90	\$950	\$962	\$514	\$494	\$520	\$66	\$67	\$73	12.9%	13.5%	14.0%
Panera Bread Co	PNRA	\$194.78	\$220.44	\$162.07	\$4,817	\$5,223	\$2,682	\$2,686	\$2,809	\$377	\$392	\$404	14.1%	14.6%	14.4%
Chipotle Mexican Grill Inc	CMG	\$479.85	\$758.61	\$399.14	\$14,676	\$14,676	\$4,501	\$4,513	\$4,367	\$894	\$884	\$415	19.9%	19.6%	9.5%
Jack in the Box Inc	JACK	\$76.38	\$97.10	\$61.78	\$2,733	\$3,448	\$1,540	\$1,543	\$1,607	\$287	\$291	\$321	18.6%	18.9%	19.9%
Restaurant Brands International Inc	QSR	\$37.21	\$44.12	\$29.16	\$8,398	\$20,417	\$4,050	\$4,031	\$4,104	\$1,368	\$1,627	\$1,713	33.8%	40.4%	41.7%
Sonic Corp	SONC	\$32.18	\$35.27	\$22.54	\$1,586	\$2,092	\$612	\$605	\$630	\$165	\$164	\$178	27.0%	27.0%	28.2%
Average Fast Foods					\$17,681	\$22,342	\$5,514	\$5,508	\$5,382	\$1,527	\$1,576	\$1,612	24.6%	26.2%	27.0%
Median Fast Foods					\$4,369	\$5,851	\$2,295	\$2,279	\$2,208	\$380	\$406	\$410	20.2%	21.0%	25.2%

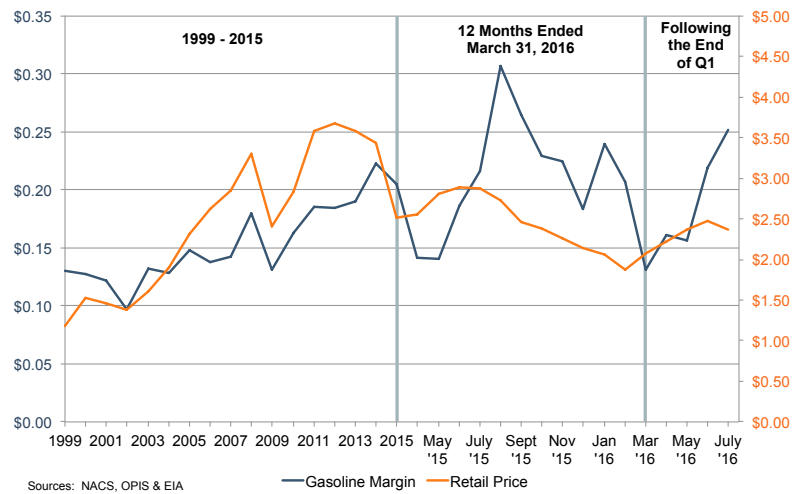
Source: Bloomberg

C-Store Trends

Margins

According to **OPIS**, nationwide retail gasoline margins ended the first quarter of 2016 at 12.8 cents per gallon, down from 24.8 cents per gallon 12 weeks earlier, and below the historical five-year average of 19.7 cents.² Between the end of the first quarter and the time of this publication, retail fuel margins have rebounded to approximately 25 cents per gallon, as shown in the chart below. Fuel retailers are facing a difficult environment in which retail price increases cannot keep pace with wholesale price increases. Fuel prices increased approximately a penny per day during March, but remain at their lowest levels since 2009. Diesel margins ended the fourth quarter at 26.9 cents per gallon, down from a 54.2 cent margin twelve weeks earlier. The chart below presents the relationship between retail gasoline prices and margin.

Gasoline Price and Spread Per Gallon



²National Association of Convenience Stores 2016 Retail Fuels Report.

C-Store Trends

Margins

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.

C-Store Trends

Government and Regulatory

Swipe Fees

Walmart, Kroger, and Home Depot have recently filed lawsuits against Visa regarding the rules surrounding chip debit cards. The retail giants argue that chip and PIN technology is a more secure payment method, and stores should be able to require a PIN entry. As it stands, the stores are required to accept only a customer signature as validation. Walmart also argues that the electronic signature verification is more expensive with Visa than the alternative PIN-based method. Walmart Canada is no longer accepting Visa cards. Home Depot has also filed suit against MasterCard.

The Second Court of Appeals overturned the class-action settlement from 2012 related to Visa/MasterCard lawsuits regarding the reasonableness of swipe fees. The court ruled that the settlement was inadequate.

H.R. 5465, which would repeal the 2010 Durbin Amendment, was recently introduced. A majority of retailers (including NACS) are opposed to the repeal as it would likely lead to substantially higher fees being borne by retailers and ultimately consumers. As it stands, the Durbin Amendment requires that banks impose fees that are reasonable and proportionate to the cost of processing the transaction. According to the National Retail Federation, 89% of consumers do not support a repeal of the Durbin Amendment. With the current laws in place, U.S. retailers still pay the highest swipe fees in the world.

Wages

The DOL finalized its new overtime rules in May. The new rules are slated to go into effect in December 2016. The current exemption (the dollar compensation level above which overtime rules would not apply) would nearly double under the new statutes. The NACS and other retail consortiums are opposed to the new rules, and continue to actively lobby for the rules to be withdrawn.

The Seattle minimum wage is set to increase to \$15 per hour. Businesses with more than 500 employees have until 2017 to comply, but companies below this threshold will be given an additional three to four years. The International Franchise Association argues that the relevant employee count for a franchisee's business should be the local franchisee's employee count, but both the U.S. District Court and the Ninth Circuit Court of appeals determined that the employee count of the franchisor will be considered the applicable amount. Opponents say that the lower court's decision inappropriately burdens franchisees which often operate more like small businesses. SCOTUS elected not to hear an appeal regarding Seattle's higher minimum wage law's applicability to franchises. This effectively ends the matter, but a similar suit has been filed in New York.

C-Store Trends

Government and Regulatory (continued)

Tobacco

The FDA issued its new regulations in May. The new regulations put cigars, chewing tobacco, and most, if not all, e-cigarette and vaping products under the purview of the FDA. Under the terms of the regulations, any product introduced to the market after February 15, 2007 must file an application for permission to market and sell the product. A slew of industry associations and individual retailers have filed suit in response alleging government overreach, and there is some controversy regarding what actually constitutes a "tobacco product." Some manufacturers utilize nicotine-like substances obtained from non-tobacco plants to create the vaping liquid, so those manufacturers argue that they should be exempt from the regulations. There is a movement in Congress to make the February 2007 date more current in order to exclude additional products.

Recent M&A Activity

The following table summarizes M&A activity since the publication of our last 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.

Acquirer	Target	# of Stores	Locations	Comments
7-Eleven	CST Brands, Inc.	79 c-stores	California, Wyoming	Transaction completed; \$408 million closing price
Island Energy Services	Chevron USA	58 c-stores and certain other assets	Hawaii	Expected to close during the second half of 2016; stations to be rebranded as Texaco stores
7-Eleven	Imperial Oil	148 c-stores	Canada	The Esso-branded stations are expected to be converted to 7-Eleven's brand
Croton Holding Co.	Par Mar Oil Co.	52 c-stores, several car washes, 16 quick-service restaurants	Ohio, Kentucky, West Virginia	NA
Sun Capital Partners affiliate	Admiral Petroleum	139 c-stores	Michigan, Indiana	NA
Dollar General	Walmart Express	41 c-stores	across 11 states	Represents Dollar General's first foray into the fuel market
Travel Centers of America	Quaker Steak & Lube	10 operated sites; 40 franchisee or licensee sites	North America	NA
Western Refining	Northern Tier Energy	260+ c-stores	Most in Minnesota and Wisconsin	Western Refining already owns a majority stake in Northern Tier Energy

Source: Convenience Store Decisions

Recent M&A Activity (continued)

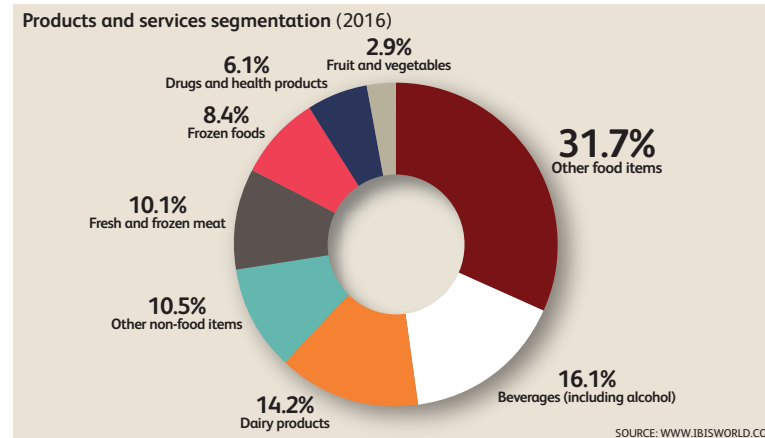
Acquirer	Target	# of Stores	Locations	Comments
Alimentation Couche-Tard	A/S Dansk Shell	286 company-operated stores; 197 dealer owned or operated stores; 211 automated sites	Denmark	6th largest acquisition in Couche-Tard's history
NA	Travel Centers of America	NA	NA	TA rejected a buyout offer from a private equity firm; deal value approximately \$540 million
The Guess Corp. is planning to acquire c-stations		1,000+ c-stores	North America	Actual purchaser would be a Guess Corp. subsidiary; purchases will be over the course of the next year
CST Brands, Inc. accepting offers for a potential sale		3,000+ c-stores	North America	Bidders include 7-Eleven, Couche-Tard, several private equity firms
Pilot Flying J and Speedway LLC formed a joint venture - SFJ Southeast		121 travel centers	Mostly Southeast	41 locations contributed by Speedway; 79 locations contributed by Pilot Flying J
Loblaws Cos. Ltd. looking for buyers of its retail sites		212 retail fuel sites located adjacent to grocery stores	Canada	NA
Global Partners, LP looking to sell assets		86 sites	Northeastern market	NA

Source: Convenience Store Decisions

SEGMENT FOCUS

Grocery Stores

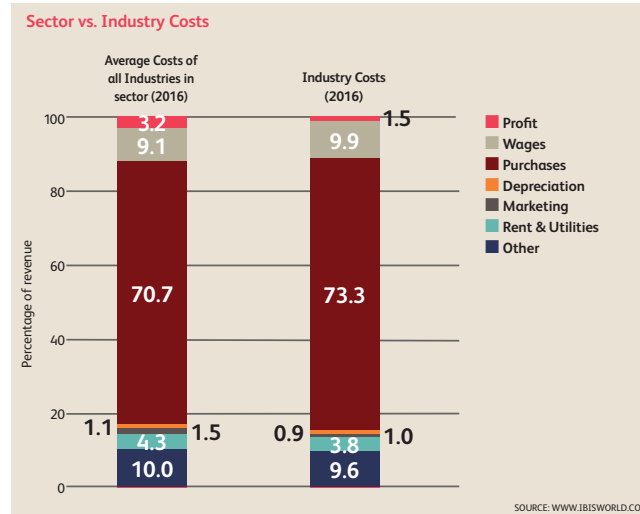
The Supermarkets and Grocery Store industry makes up the largest food retail channel in the United States. Industry revenue totaled approximately \$601.8 billion in 2015, and profit was \$9.0 billion. The following chart presents the products and services segmentation for the industry as estimated for 2016 by IBISWORLD.



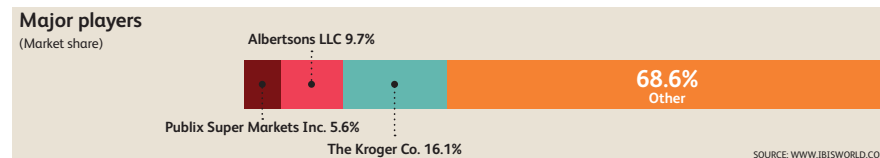
This industry has grown over the past five years, benefitting from a strengthening economy and the trend toward organic and all-natural brands, especially as consumer spending has increased. However, the industry is mature, and revenue is expected to grow at a rate below national GDP over the next five years (1.2%, annualized) as compared to annualized growth of 1.4% from 2011 to 2016. The top three operators (**Publix**, **Kroger**, and **Albertsons**) account for roughly 30% of industry revenue. Competition from superstores and warehouse clubs intensified during the recent recession, and remains high. On the other end of the spectrum, more consumers are gravitating toward specialty grocers like **Aldi**, **Fresh Market**, and **Trader Joe's**. Online competition has become especially prevalent in recent years.

As shown on page 13, 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.

Grocery Stores (continued)

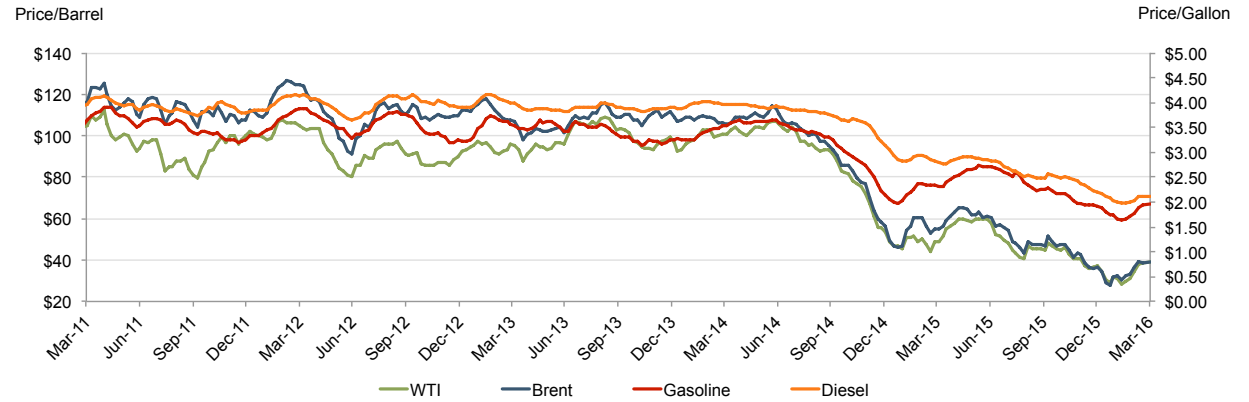


The industry is mature and continues to consolidate. Merger and acquisition activity among the larger players has been high in the past few years. The Kroger Company merged with Harris Teeter in 2014 to expand within the Southeast and Mid-Atlantic market areas and create a network of over 2,600 stores. Kroger also acquired Roundy's in 2015 adding 151 stores to its network. Safeway and Albertsons merged in early 2015 to create a nationwide network of over 2,200 stores. 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, 2016, 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.



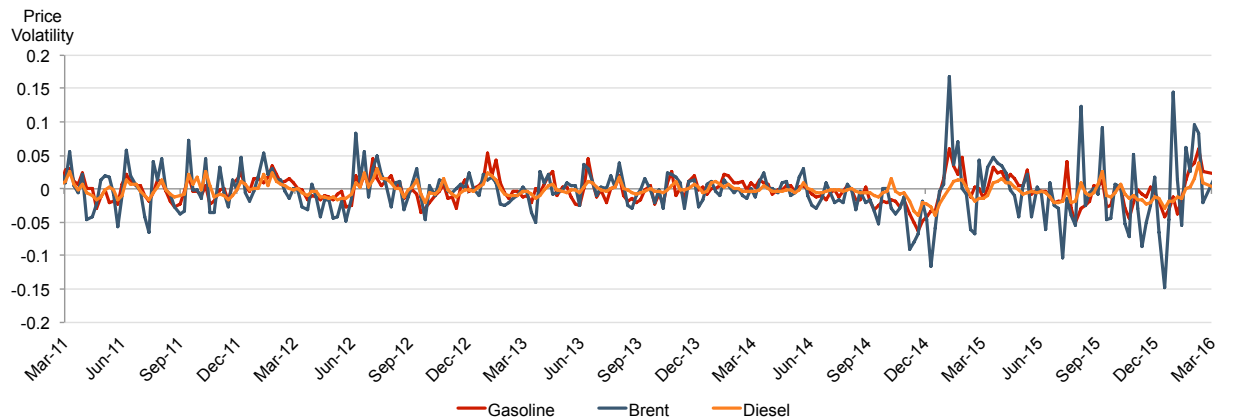
Fuel Pricing & Supply Charts

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

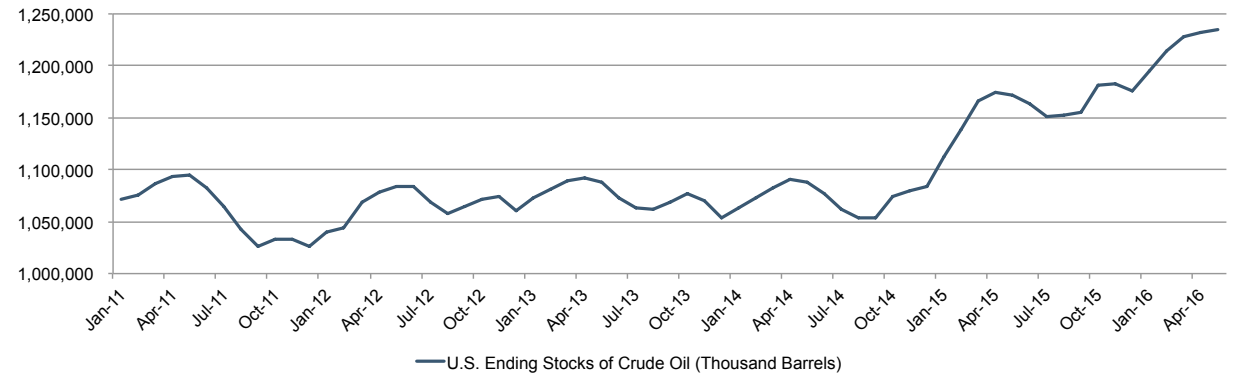


Data Source: Calculated by Mercer Capital from raw data obtained from the US Energy Information Administration (EIA.gov)

Fuel Pricing & Supply Charts (continued)

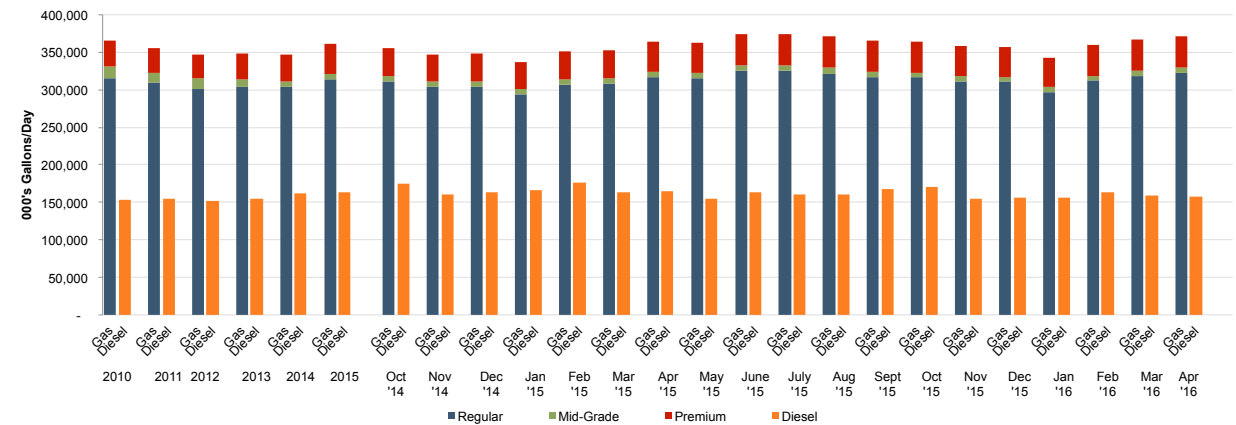
U.S. Ending Stocks of Crude Oil

Thousand Barrels



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

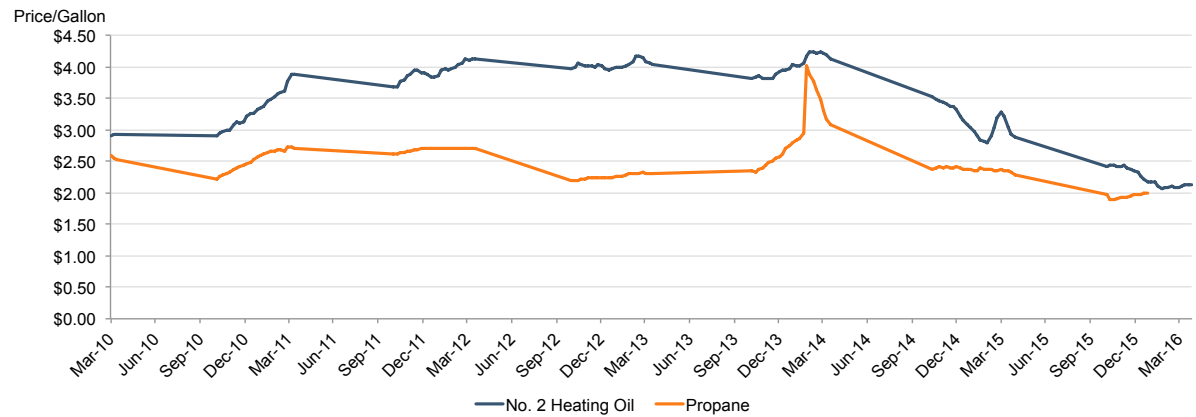
Prime Supplier Sales Volumes



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

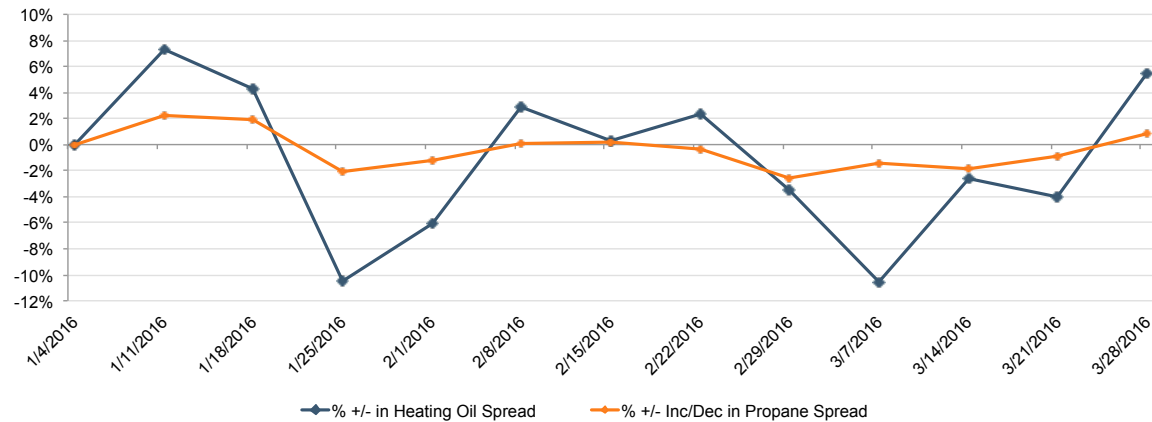
Fuel Pricing & Supply Charts (continued)

Non-Motor Fuel Prices



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

Percentage Change in Non-Motor Fuel Spread by Month



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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