

# VALUE FOCUS

# Convenience Stores



**SEGMENT FOCUS**  
**Foodservices**

**2016**

**Overview**

Equity Market Overview	1
Valuations Up, Ranges Widen for C-stores	2

<b>Publicly Traded Companies</b>	<b>4</b>
----------------------------------	----------

**C-Store Trends**

Margins	6
Government/Regulatory & Industry Trends	8

<b>Recent M&amp;A Activity</b>	<b>10</b>
--------------------------------	-----------

<b>Segment Focus: Foodservices</b>	<b>11</b>
------------------------------------	-----------

<b>Fuel Pricing &amp; Supply Charts</b>	<b>13</b>
---	-----------

<b>About Mercer Capital</b>	<b>15</b>
-----------------------------	-----------

Q1: Motor Fuels

Q2: Grocery Stores

Q3: Alternative Fuels  
& Transportation

**Q4: Foodservices**

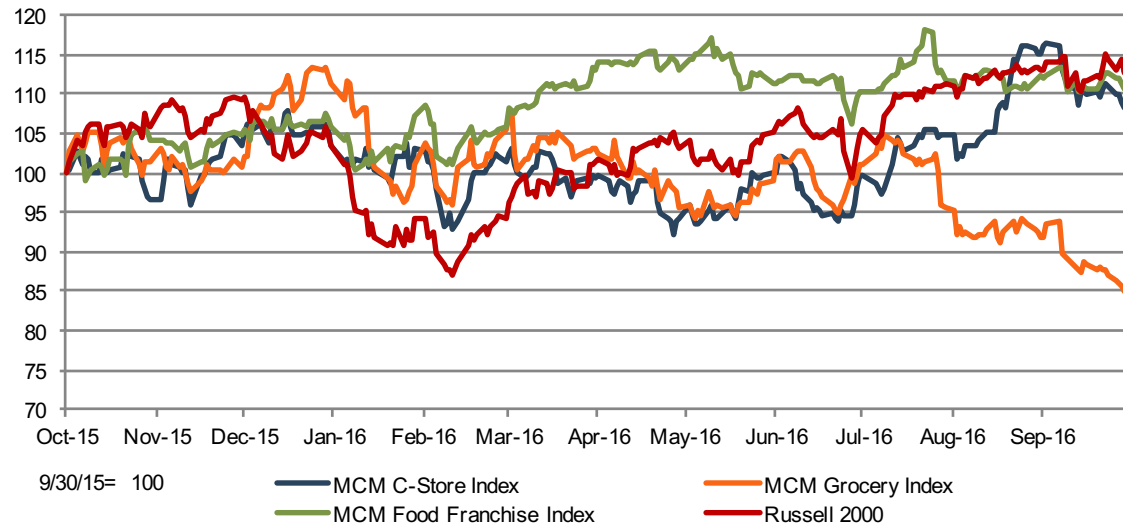
# Overview

## Equity Market Overview

During the three months ending September 2016, equity market pricing for the convenience store index increased by a considerable 9.7%, outperforming the Russell 2000 which was up 8.7% for the quarter. The increase was led by **ANCUF** (+13.9%) and **CST** (+11.6%). Our other index participants (**CASY**, **TA**, and **MUSA**) posted stock price reductions ranging from 4% to 12%; however, ANCUF's market cap at \$36 billion is by far the largest in our group, so its performance carries more weight in the index. ANCUF has had a flurry of acquisition activity recently, and expects to acquire CST in the near future. Since the end of the third quarter, ANCUF's stock price has pulled back due to lower-than-expected profits.

The grocery store index posted a 15.2% decrease for the third quarter, and is down a similar amount year-over-year. Kroger, which has the largest market capitalization in our grocery index, posted a 19% quarterly decline. Analysts largely blame food price deflation and Kroger's high leverage for its sinking stock price since the company has reported profit and revenue increases over the same time span. Performance within the grocery index was mixed with three companies having lower stock prices and four companies posting increases as compared to the end of the second quarter. The fast food index posted a quarterly increase of 1.3%, but the index is up 12% year-over-year.

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



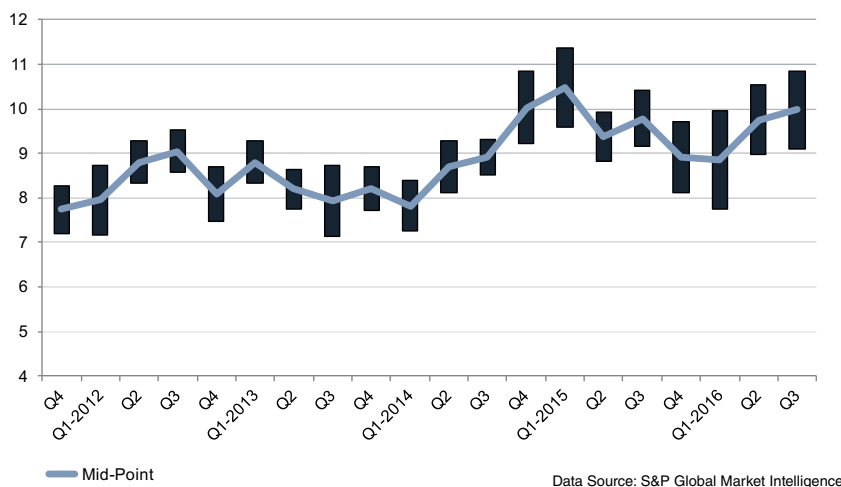
Data Source: S&P Global Market Intelligence / Bloomberg

# Overview

## Valuations Up, Ranges Widen for C-Stores

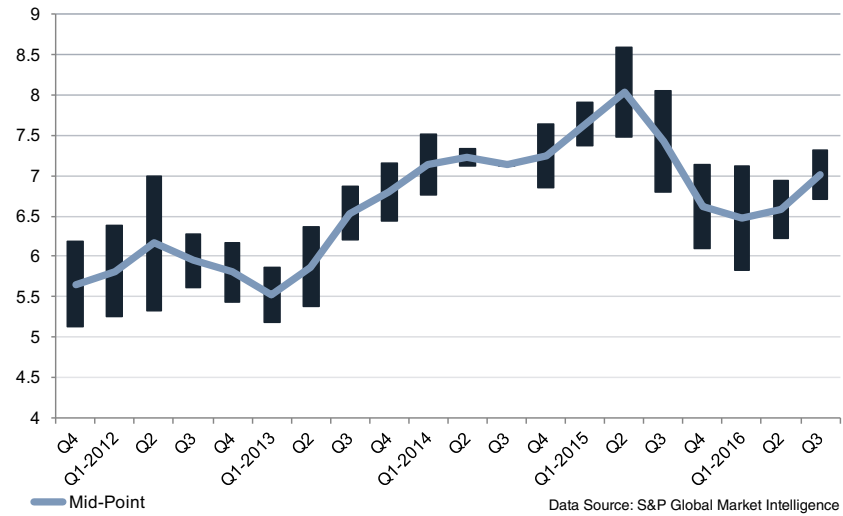
EBITDA multiples were up for c-stores and grocery stores, but down slightly for fast food stores during the third quarter. Multiples for grocery stores rose by the largest percentage (6.6%), while multiples for c-stores increased approximately 2.3%. Multiples for public c-store operators rose from 9.7x EBITDA at the end of the second quarter of 2016 to 10.0x at the end of the third quarter.<sup>1</sup> C-store multiples remained well above their five-year average (8.9x).

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

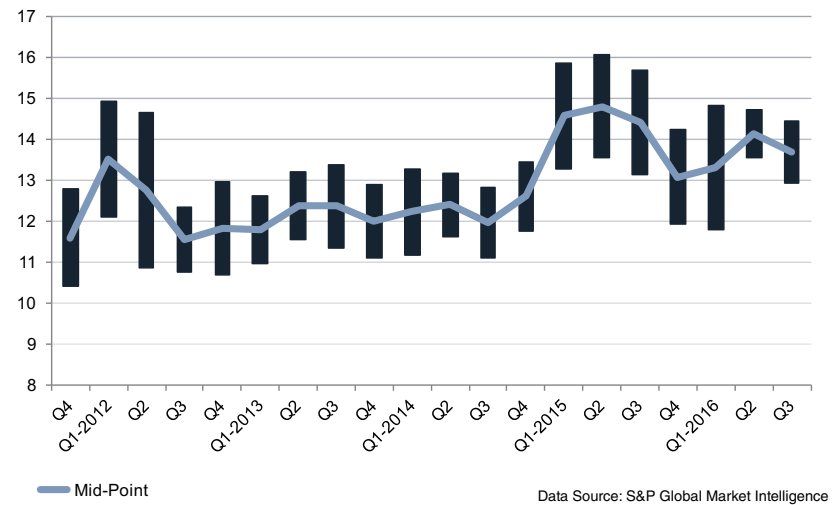


<sup>1</sup> As measured by the average of : (1) the median of the highest EBITDA measure of all the companies in the Mercer Capital index over the entire quarter and (2) the median of the lowest EBITDA measures of all the companies in the Mercer Capital index over the entire quarter. Current and historical 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



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



## Publicly Traded Companies

Ticker	Price for 9/30/16	Price for the LTM		Equity Market Cap	Enterprise Value	Revenues			EBITDA			EBITDA Margins			
		High	Low			LTM	2016 Est.	2017 Est.	TEV / LTM EBITDA	Estimated Growth From:		LTM	2016 Est.	2017 Est.	
									LTM to Current Year	Current Year to Next Year					
<b>Convenience Stores</b>															
Alimentation Couche Tard Inc	ANCUF	\$48.78	\$52.91	\$38.55	\$27,692	\$30,551	\$33,586	\$34,680	\$39,126	12.96	-3.2%	13.9%	7.0%	6.6%	6.6%
Casey's General Stores Inc	CASY	\$120.15	\$135.97	\$98.43	\$4,707	\$5,595	\$7,044	\$7,129	\$7,657	9.82	-0.9%	3.0%	8.1%	7.9%	7.6%
TravelCenters of America LLC	TA	\$7.16	\$12.67	\$6.41	\$278	\$1,024	\$5,470	\$5,656	\$6,501	9.64	13.9%	28.1%	1.9%	2.1%	2.4%
CST Brands Inc	CST	\$48.09	\$48.31	\$29.64	\$3,639	\$5,422	\$10,980	\$9,472	\$10,819	10.57	-24.8%	11.1%	4.7%	4.1%	4.0%
Murphy USA Inc	MUSA	\$71.36	\$80.44	\$51.68	\$2,795	\$3,473	\$11,807	\$11,817	\$13,548	8.80	11.9%	0.9%	3.3%	3.7%	3.3%
<b>Average C-Stores</b>					<b>\$7,822</b>	<b>\$9,213</b>	<b>\$13,777</b>	<b>\$13,751</b>	<b>\$15,530</b>	<b>10.36</b>	<b>-0.6%</b>	<b>11.4%</b>	<b>5.0%</b>	<b>4.9%</b>	<b>4.8%</b>
<b>Median C-Stores</b>					<b>\$3,639</b>	<b>\$5,422</b>	<b>\$10,980</b>	<b>\$9,472</b>	<b>\$10,819</b>	<b>9.82</b>	<b>-0.9%</b>	<b>11.1%</b>	<b>4.7%</b>	<b>4.1%</b>	<b>4.0%</b>
<b>Grocery Stores</b>															
Village Super Market Inc	VLGEA	\$32.01	\$33.00	\$22.85	\$454	\$498	\$1,603	na	na	7.59	na	na	4.1%	na	na
SpartanNash Co	SPTN	\$28.92	\$33.72	\$17.39	\$1,085	\$1,577	\$7,650	\$7,703	\$7,788	7.99	16.9%	4.3%	2.6%	3.0%	3.1%
Weis Markets Inc	WMK	\$53.00	\$55.49	\$36.69	\$1,426	\$1,426	\$2,915	na	na	8.20	na	na	6.0%	na	na
Ingles Markets Inc	IMKTA	\$39.54	\$56.92	\$31.49	\$801	\$1,699	\$3,785	\$3,790	\$3,866	7.11	0.4%	2.9%	6.3%	6.3%	6.4%
Whole Foods Market Inc	WFM	\$28.35	\$35.26	\$27.54	\$9,891	\$10,943	\$15,666	\$15,737	\$16,453	8.59	5.1%	1.4%	8.1%	8.5%	8.2%
SUPERVALU Inc	SVU	\$4.99	\$7.84	\$3.94	\$1,322	\$3,807	\$17,318	\$17,588	\$17,308	5.38	9.7%	-7.1%	4.1%	4.4%	4.2%
Kroger Co/The	KR	\$29.68	\$42.34	\$29.49	\$28,641	\$41,061	\$112,409	\$109,914	\$115,218	7.11	-1.6%	4.1%	5.1%	5.2%	5.1%
<b>Average Grocery Stores</b>					<b>\$6,231</b>	<b>\$8,716</b>	<b>\$23,049</b>	<b>\$30,947</b>	<b>\$32,127</b>	<b>7.42</b>	<b>6.1%</b>	<b>1.1%</b>	<b>5.2%</b>	<b>5.5%</b>	<b>5.4%</b>
<b>Median Grocery Stores</b>					<b>\$1,322</b>	<b>\$1,699</b>	<b>\$7,650</b>	<b>\$15,737</b>	<b>\$16,453</b>	<b>7.59</b>	<b>5.1%</b>	<b>2.9%</b>	<b>5.1%</b>	<b>5.2%</b>	<b>5.1%</b>

Source: Bloomberg

## Publicly Traded Companies (continued)

Ticker	Price for 9/30/16	Price for the LTM		Equity Market Cap	Enterprise Value	Revenues			EBITDA			EBITDA Margins			
		High	Low			LTM	2016 Est.	2017 Est.	TEV / LTM EBITDA	Estimated Growth From:		LTM	2016 Est.	2017 Est.	
									LTM to Current Year	Current Year to Next Year					
<b>Fast Foods (QSR)</b>															
McDonald's Corp	MCD	\$115.36	\$129.99	\$94.22	\$98,437	\$124,447	\$25,125	\$24,439	\$22,892	13.69	2.7%	4.0%	36.2%	38.2%	42.4%
Wendy's Co/The	WEN	\$10.80	\$11.25	\$8.23	\$2,844	\$5,353	\$1,690	\$1,417	\$1,171	12.13	-10.6%	-1.3%	26.1%	27.8%	33.2%
Yum! Brands Inc	YUM	\$90.81	\$91.99	\$63.88	\$36,233	\$41,596	\$13,005	\$13,251	\$13,043	14.68	7.2%	3.1%	21.8%	22.9%	24.0%
Dunkin' Brands Group Inc	DNKN	\$52.08	\$52.22	\$35.73	\$4,777	\$7,221	\$820	\$840	\$865	19.05	20.0%	5.1%	46.3%	54.1%	55.2%
Panera Bread Co	PNRA	\$194.72	\$224.15	\$165.17	\$4,627	\$5,025	\$2,740	\$2,799	\$3,019	13.12	6.3%	10.2%	14.0%	14.5%	14.9%
Chipotle Mexican Grill Inc	CMG	\$423.50	\$757.00	\$384.77	\$12,345	\$12,345	\$4,047	\$4,038	\$4,730	26.22	-33.4%	96.3%	11.6%	7.8%	13.0%
Jack in the Box Inc	JACK	\$95.94	\$102.68	\$61.34	\$3,134	\$4,030	\$1,555	\$1,599	\$1,571	13.25	5.9%	13.2%	19.6%	20.1%	23.2%
Restaurant Brands International Inc	QSR	\$44.58	\$49.12	\$28.96	\$10,420	\$22,449	\$4,035	\$4,146	\$4,401	14.23	19.0%	8.1%	39.1%	45.3%	46.1%
Sonic Corp	SONC	\$26.18	\$36.08	\$22.52	\$1,253	\$1,855	\$619	\$616	\$562	10.76	0.5%	2.0%	27.8%	28.1%	31.4%
<b>Average Fast Foods</b>					<b>\$19,341</b>	<b>\$24,925</b>	<b>\$5,960</b>	<b>\$5,905</b>	<b>\$5,806</b>	<b>15.23</b>	<b>1.9%</b>	<b>15.6%</b>	<b>26.9%</b>	<b>28.8%</b>	<b>31.5%</b>
<b>Median Fast Foods</b>					<b>\$4,777</b>	<b>\$7,221</b>	<b>\$2,740</b>	<b>\$2,799</b>	<b>\$3,019</b>	<b>13.69</b>	<b>5.9%</b>	<b>5.1%</b>	<b>26.1%</b>	<b>27.8%</b>	<b>31.4%</b>

Source: Bloomberg

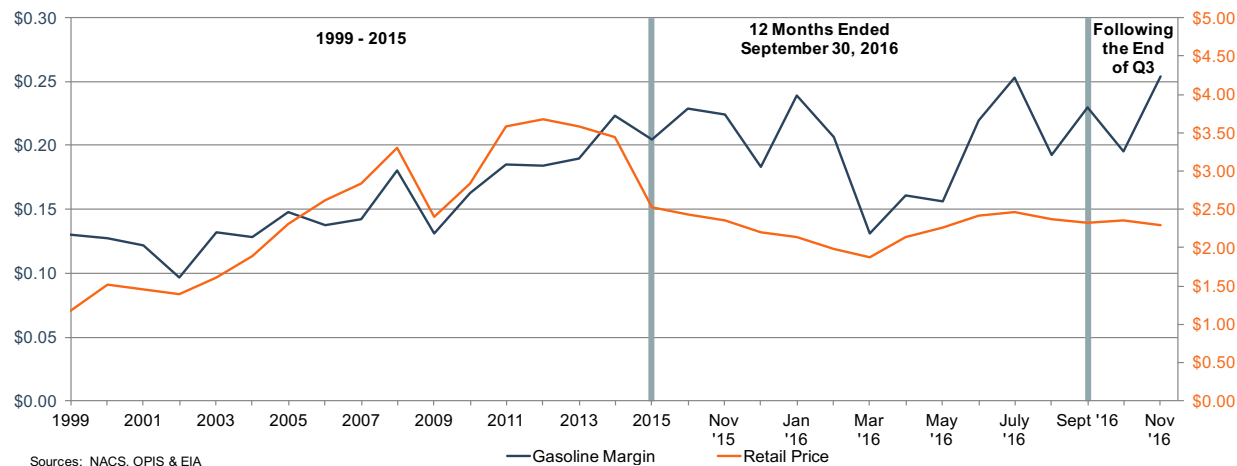
# C-Store Trends

## Margins

According to OPIS, nationwide retail gasoline margins ended the third quarter of 2016 at 21.9 cents per gallon, down from 27.4 cents per gallon twelve weeks earlier, but above the historical five-year average of 19.7 cents.<sup>2</sup> Between the end of the third quarter and the time of this publication, retail fuel margins fluctuated, but are now 17.1 cents per gallon. Year-to-date margins of approximately 20 cents per gallon are roughly equal to year-to-date margins from the same time last year. OPEC announced plans to reduce production, but the impact of this is expected to be minimal – at least in the near term – due to the abundant existing fuel supply.

Diesel margins ended the third quarter at 28.8 cents per gallon, nearly equal to margins posted 12 weeks earlier. Diesel margins are not as robust as 2015 levels due to comparatively weak demand. The chart below presents the relationship between retail gasoline prices and margin.

**Gasoline Price and Spread Per Gallon**



<sup>2</sup>National 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/ Regulatory & Industry Trends

#### The 2016 Election

Predictions are running the gamut on what a Trump presidency coupled with a Republican legislature means for the c-store industry. We are interested to see how this administration will affect ACA, federal tax policy, the stock market, interest rates, pipeline policy, alternative fuels, and environmental policy.

#### Convenience Alternatives

- » **Amazon Go.** While Amazon's foray into the grocery store industry was widely anticipated, the company now also has plans for a c-store concept branded Amazon Go. These stores would utilize state of the art technology to eliminate the checkout line. Amazon opened its first store to employees only, expected to serve as a beta test. Similar stores are expected to open to the general public in early 2017.
- » **Wal-Mart Pickup and Fuel.** This new concept store is expected to combine a traditional c-store with a pick up site for same-day online grocery store orders from local Wal-Mart stores.
- » **DGX.** Dollar General has announced plans for a new concept store called DGX. It appears to be a c-store type format.
- » **Others.** In addition to the above, home delivery services such as Amazon Dash and UberEssentials, online orders combined with local pick-up sites, other larger retailers moving into smaller store formats, and meal kit delivery services are seen as industry threats.

#### ACA

The FDA muddied the waters somewhat with a recent statement. Most businesses are expected to have until May 2017 to comply with the ACA's menu labeling rules. The FDA's statement said that while it will not begin enforcement actions until May 2017, companies are still required to comply on the original December 1, 2016 deadline. Although the federal government would not be penalizing for non-compliance until May, state and local entities could choose to penalize at any point after December 1st. In response to the public outcry, the FDA has agreed to align the compliance date with the enforcement date.

## C-Store Trends

### Government/ Regulatory & Industry Trends (continued)

#### **Wages**

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.

#### **Credit Cards**

- » Mastercard and Visa have extended the deadline for EMV compliance on automated fuel dispensers to October 2020. The original deadline was October 2017.
- » Following an investigation by the FTC, Visa vowed to change its processing methods which were alleged to steer consumers toward its own, more-expensive network.
- » Several pro-retail organizations have filed a brief with the U.S. Supreme Court arguing that state no-surcharge laws are unconstitutional. Retailers have been restricted in some states from advertising a lower processing price for debit or credit card transactions, and these groups allege that these restrictions encroach upon retailers' First Amendment rights.

## Recent M&A Activity

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

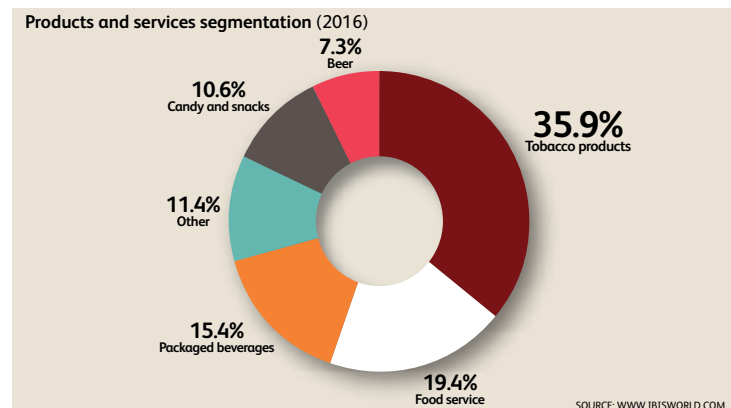
Acquirer	Target	# of Stores	Locations	Comments
Alimentation Couche-Tard	CST Brands, Inc.	2,000+ c-stores	North America	CST stockholders approved the merger in November. Earlier in the year, the companies entered into a definitive merger agreement with total enterprise value of approximately \$4.4 billion (a 42% premium to CST's pre-announcement stock price); expected to close early 2017; EBITDA multiple approximately 10x.
Tesoro Corp	Western Refining	Combined company will operate approximately 3,000 locations	North America	The deal is expected to close in the first half of 2017.
GPM Investments LLC	Admiral Petroleum	170 retail outlets	Michigan and Indiana	This deal puts the c-store chain in the top ten nationwide in terms of number of fuel outlets.
Island Energy Services LLC	Chevron USA Inc.'s Hawaii assets	58 retail sites	Hawaii	The deal also included other assets including a refinery, product distribution terminals, and pipeline distribution systems.
The Guess Corp.		1,000+ c-stores	North America	The Guess Corp. is planning to acquire and meaningfully redesign c-stores; also plans to construct 1,000 new gas stations over the next year. 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	Closed in October.
Seven-Eleven Japan		10,000+ c-stores	United States	Seven-Eleven Japan has plans to aggressively expand in the U.S. Seven-Eleven Japan also plans to expand by 1,000 stores in the Japanese market.
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 deal value was \$535 million plus Mapco's cash and working capital of \$16.3 million.

Source: Convenience Store Decisions

SEGMENT FOCUS

**Foodservices**

- » According to a presentation given at the 2016 NACS Show by Technomic, a research and consulting firm focused on food and related products and services, **food service margins** within the c-store industry are approximately 57%. That compares to an average margin of 27% on other in-store sales. Given the opportunity for overall margin enhancement, it is no surprise that 90% of c-stores have at least a basic food service presence and nearly 90% of operators consider food service development to be a strategic priority. **According to NACS**, food service boasted 11.4% year-over-year sales growth.
- » Although the c-store industry is considered mature, food service has the benefit of growth potential. As shown below, food service represents less than 20% of average c-store revenues.



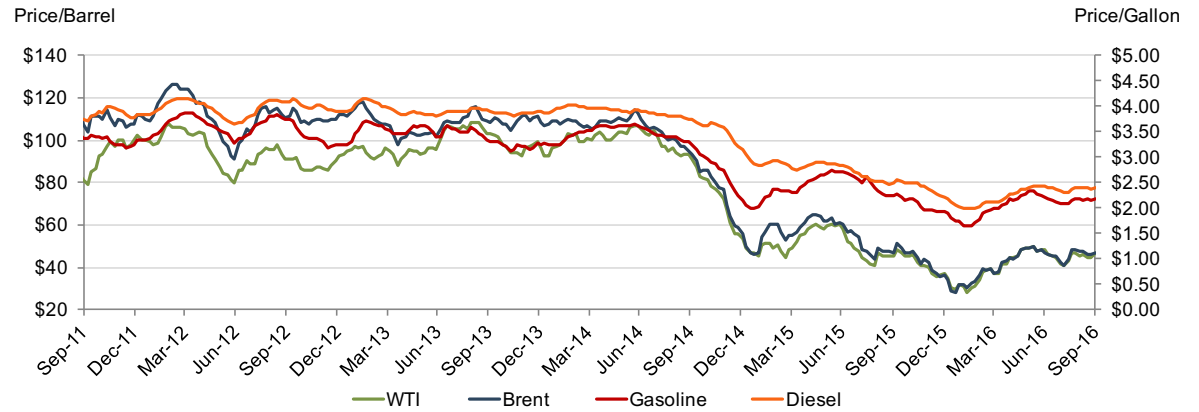
SEGMENT FOCUS

**Foodservices**  
(continued)

- » On a per capita basis, restaurant meals eaten on-site are at an all-time low. These meals are now **eaten at home 40% of the time**. While this is perhaps negative for the overall restaurant industry, it is likely positive for the industry as it relates to c-stores and grocery stores. Very few c-stores have a sit-down component to their food offerings. Through 2020, c-store food service revenue is **expected to grow faster** than overall food service revenue.
- » There seems to be a push toward delivery options – for both food and other convenience items. Online food services are expected to grow by 19.8% in 2017. This compares to an anticipated overall food service growth of 4.8%. Delivery is expected to be mostly driven by third-party services such as Doordash, Ubereats, and Eat24. These companies utilize apps to simplify the delivery process. Other entities plan to invest in new technologies to facilitate online ordering and in-house delivery. Overall, 64% of restaurant operators see great potential for delivery as a means to enhance growth.

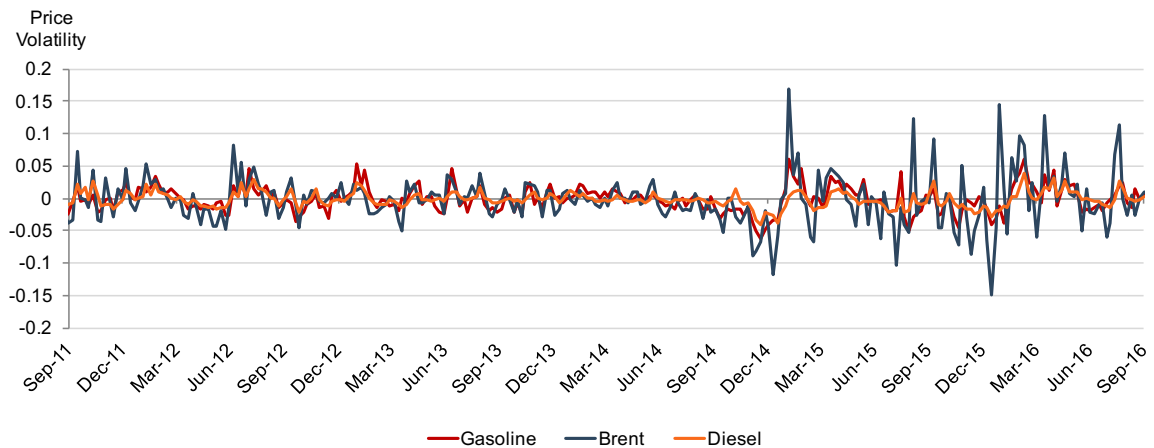
# Fuel Pricing & Supply Charts

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

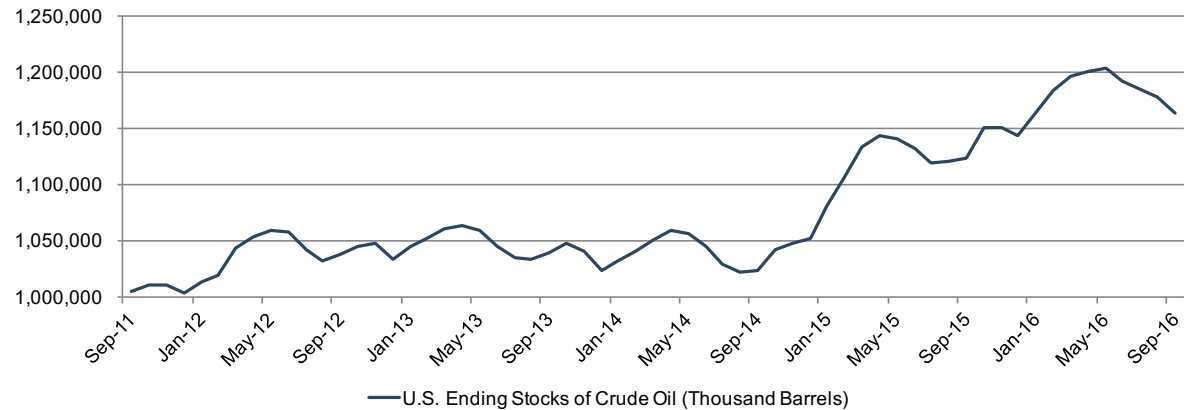


Data Source: Calculated by Mercer Capital from raw data obtained from the US Energy Information Administration (EIA.gov)

# Fuel Pricing & Supply Charts (continued)

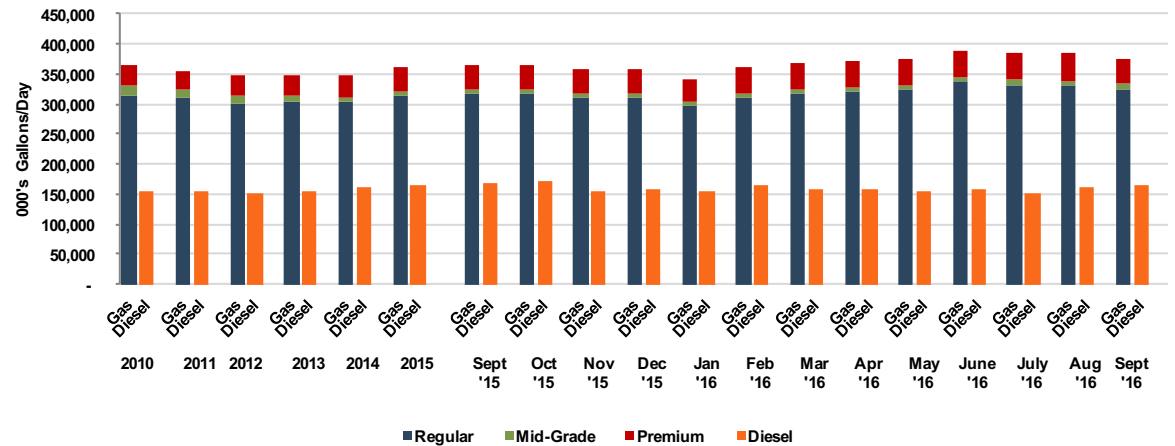
**U.S. Ending Stocks of Crude Oil**

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.

## Contact Us

### Eden G. Stanton, CFA

901.270.7250

stantone@mercercapital.com

### Timothy R. Lee, ASA

901.322.9740

leet@mercercapital.com

### MERCER CAPITAL

#### Memphis

5100 Poplar Avenue, Suite 2600

Memphis, Tennessee 38137

901.685.2120

[www.mercercapital.com](http://www.mercercapital.com)

#### Dallas

12201 Merit Drive, Suite 480

Dallas, Texas 75251

214.468.8400

#### Nashville

102 Woodmont Blvd., Suite 231

Nashville, Tennessee 37205

615.345.0350