

VALUE FOCUS

Convenience Stores

SEGMENT FOCUS

Motor Fuels

2017

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Q1: Motor Fuels

Q2: Grocery Stores

Q3: Alternative Fuels & Transportation

Q4: Foodservices

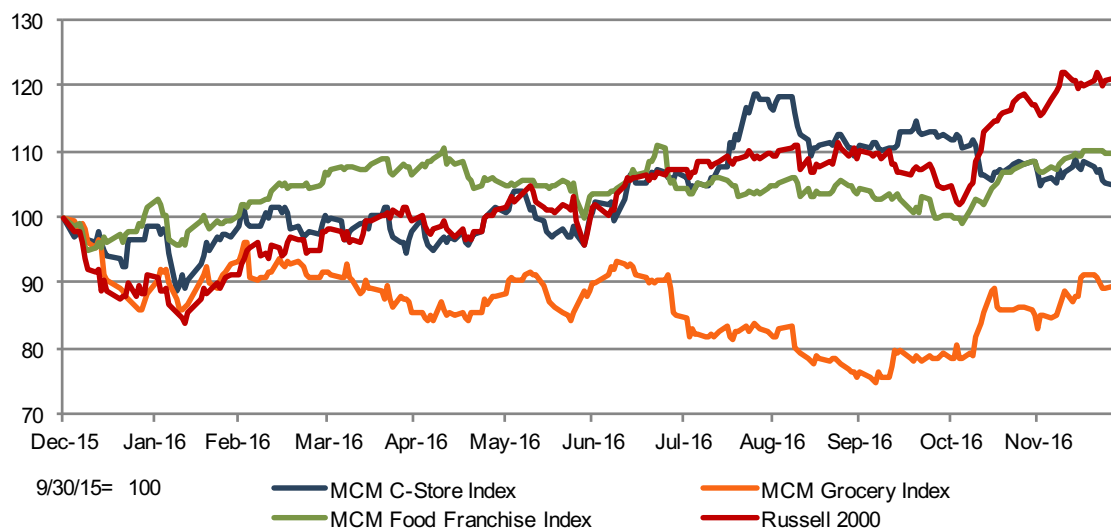
Overview

Equity Market Overview

During the three months ending December 2016, equity market pricing for the convenience store index decreased by 6.0%, underperforming the Russell 2000 which was up 8.4% for the quarter. The decrease was led by **ANCUF** (-7.0%) and **MUSA** (-13.9%). **TA** and **CASY** were both down by less than 1%, and **CST** remained relatively flat. ANCUF's market cap at \$26 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 in the recent past and expects to acquire CST in the near future. ANCUF's stock price pulled back some due to profits that were lower than expected.

The grocery store index posted a 15.0% increase for the fourth quarter but is down 12.1% year-over-year. Kroger, which has the largest market capitalization in our grocery index, posted a 16.7% quarterly increase but was down 17.5% for all of 2016. Although Kroger boasts 52 consecutive quarters of sales growth, the retailer operates within a competitive industry facing food deflation. Kroger's high leverage remains a concern for investors. Performance within the grocery index was generally positive with only two participants reporting quarterly stock value declines (**VLGEA** down 2.7%; **SVU** down 6.4%). The fast food index posted a quarterly increase of 4.0%, and the index is up 9% year-over-year.

C-Store, Grocery Store, & QSR Stock Indices



Data Source: S&P Global Market Intelligence / Bloomberg

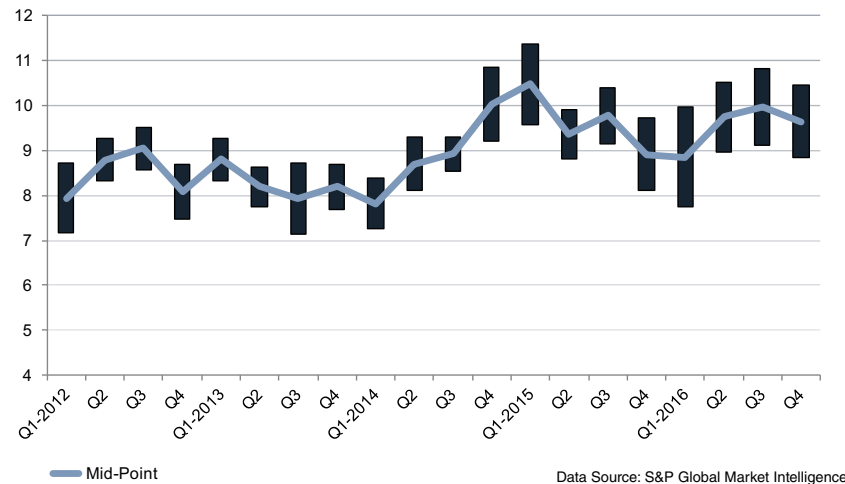
Overview

Valuations

Down, Ranges
Hold Steady for
C-Stores

EBITDA multiples were down for c-stores and fast food stores, and relatively flat for grocery operators. The multiples for c-stores and fast food stores were down by 3.3% and 3.9%, respectively. Multiples for public c-store operators fell from 10.0x EBITDA at the end of the third quarter of 2016 to 9.6x at the end of the fourth quarter.¹ C-store multiples remained above their five-year average (9.0x).

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

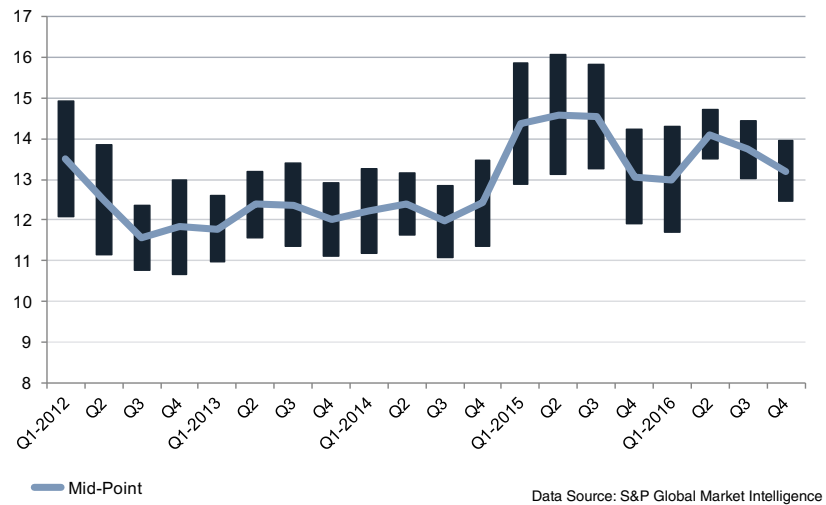


¹ As measured by the average of : (1) the median of the highest EBITDA measure of all the companies in the Mercer Capital index over the entire quarter and (2) the median of the lowest EBITDA measures of all the companies in the Mercer Capital index over the entire quarter. Current and historical multiple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

Company	Ticker	Price for the LTM			Equity Market Cap	Enterprise Value	Revenues			EBITDA			EBITDA Margins		
		Price for 12/30/16	High	Low			LTM	2017 Est.	2018 Est.	TEV / LTM EBITDA	Estimated Growth From:		LTM	2017 Est.	2018 Est.
											LTM to Current Year	Current Year to Next Year			
Convenience Stores															
Alimentation Couche Tard Inc	ANCUF	\$45.31	\$52.84	\$38.50	\$25,729.28	\$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%
Average C-Stores					\$7,430	\$9,213	\$13,777	\$13,751	\$15,530	10.36	-0.6%	11.4%	5.0%	4.9%	4.8%
Median C-Stores					\$3,639	\$5,422	\$10,980	\$9,472	\$10,819	9.82	-0.9%	11.1%	4.7%	4.1%	4.0%
Grocery Stores															
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%
Average Grocery Stores					\$6,231	\$8,716	\$23,049	\$30,947	\$32,127	7.42	6.1%	1.1%	5.2%	5.5%	5.4%
Median Grocery Stores					\$1,322	\$1,699	\$7,650	\$15,737	\$16,453	7.59	5.1%	2.9%	5.1%	5.2%	5.1%

Source: Bloomberg

Publicly Traded Companies (continued)

Ticker	Price for the LTM			Equity Market Cap	Enterprise Value	Revenues			EBITDA			EBITDA Margins			
	Price for 12/30/16	High	Low			LTM	2017 Est.	2018 Est.	TEV / LTM EBITDA	Estimated Growth From:		LTM	2017 Est.	2018 Est.	
										LTM to Current Year	Current Year to Next Year				
Fast Foods (QSR)															
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%
Average Fast Foods					\$19,341	\$24,925	\$5,960	\$5,905	\$5,806	15.23	1.9%	15.6%	26.9%	28.8%	31.5%
Median Fast Foods					\$4,777	\$7,221	\$2,740	\$2,799	\$3,019	13.69	5.9%	5.1%	26.1%	27.8%	31.4%

Source: Bloomberg

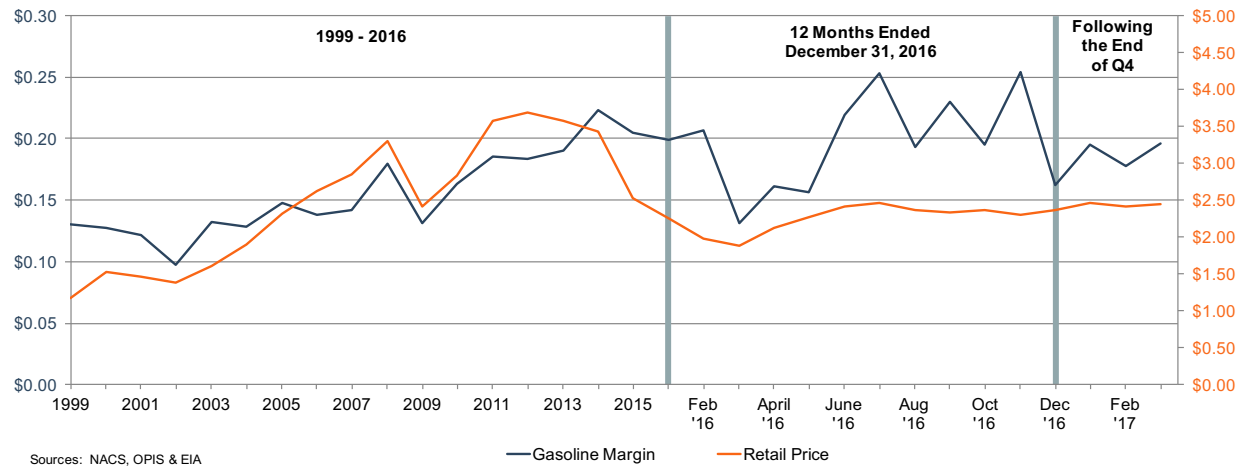
C-Store Trends

Margins

According to **OPIS**, nationwide retail gasoline margins ended the fourth quarter of 2016 at 13.1 cents per gallon, down from 20.5 cents per gallon twelve weeks earlier, and below the historical five-year average of 19.7 cents. A year earlier, margins for December 2015 averaged approximately 18 cents per gallon. Between the end of the fourth quarter and the time of this publication, retail fuel margins have fluctuated but are now 20.0 cents per gallon. Margins for the first three months of 2017, approximately 19 cents per gallon, are slightly lower than year-to-date margins from the same time last year. At the time of this publication, crude oil stocks reached an all-time record of 533.1 million barrels, while gasoline inventories have declined approximately 0.7%.

Diesel margins ended the fourth quarter at 17.3 cents per gallon, down from 19.7 cent margins posted 12 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 20 cents per gallon for 2012 through 2016.

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 20 cents, this translates to a typical three to seven cents per gallon of bottom line profit.

C-Store Trends

Government/ Regulatory & Industry Trends

Environmental Regulation

- » **Pipelines.** During Donald Trump's first weeks in office, the Keystone and Dakota Access Pipelines were granted approval to move forward with construction.
- » **Appointments.** Trump's appointees to head the Environmental Protection Agency and the Department of Energy and his appointee for secretary of state are generally viewed to be pro-business, pro-oil, and anti-regulation.
- » **RFS Point of Obligation.** There have been calls in recent years to shift the point of obligation to fuel retailers and distributors. The Trump administration is expected to uphold the point of obligation.
- » **EPA.** The Trump administration's proposed budget would cut the EPA's budget by 31%, and recent congressional efforts indicate a paradigm shift away from environmental regulation.

Tax Reform

Congress spent its first few weeks attempting to repeal and replace the Affordable Care Act (ACA). The proposed replacement to the ACA, the American Health Care Act, was ultimately pulled after it became clear that Republicans did not have the necessary votes. House Speaker, Paul Ryan, indicates that negotiations remain ongoing, and he is hopeful that a similar bill will ultimately be passed. It is unclear if tax reform will be achieved without the cost savings that would have been realized by repealing the ACA.

C-Store Trends

Government/ Regulatory & Industry Trends (continued)

Consumer/Retailer Sentiment

According to the [NACS](#), at the beginning of 2017, 79% of retailers and 60% of American fuel consumers felt optimistic about the country's economic near-term economic prospects. The stock market reached record highs toward the end of 2016 and into early 2017, employment numbers have been positive, and fuel prices are expected to remain low. Consumer optimism remained high in early 2017.

Swipe Fees

- » **SCOTUS Ruling.** Visa, Mastercard, and several other banks have historically instituted rules stating that an ATM operator was not allowed to offer a lower ATM fee for transactions processed by Visa and Mastercard's competitors. In late 2016, SCOTUS ruled in favor of consumers regarding these access fees.
- » **Legislative Efforts.** The new Republican-majority congress is attempting to pass legislation reforming regulation of the financial services industry. Currently, the details of swipe fee reform are unknown, but there will likely be large lobbying efforts from advocates of both banks and retailers.

Recent M&A Activity

The following table summarizes M&A activity since the publication of our previous 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 activity appeared to slow in 2016.

Acquirer	Target	# of Stores	Locations	Comments
Fred's Inc.	Walgreens Boots Alliance (WBA)	865 Rite Aid stores	North America	This \$950 million deal represents a divestiture of 865 stores. The sale is expected to assist WBA in gaining federal approval for its merger with Rite Aid.
Pilot/Flying J	Speedway LLC	41 locations	Southeastern United States	Through a joint venture with Speedway LLC, Pilot acquired 41 former Speedway/Wilco locations.
Sealed Bid Potential Buyer	Sunoco LP	100+ real estate assets	United States	Sunoco plans to sell more than 100 real estate locations (undeveloped greenfield sites and other non-operating real estate) in a sealed-bid sale.
Casey's General Stores is planning to acquire stores to expand its presence in Ohio.		84 sites currently under contract	Ohio	Casey's Indiana distribution center is ideally located to suit this market.
A&W Restaurants plans to develop more c-stores in 2017.		12 locations	United States	Over the past five years, A&W has opened 15 convenience stores.
GPM Investments LLC	Mountain Empire Oil Co./ Roadrunner Markets	92 convenience stores; 7 quick service restaurants	Southeastern United States	The deal is expected to close in the second quarter of 2017 and will serve to expand GPM's presence in the Southeast.
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.

Source: Convenience Store Decisions

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Motor Fuels

Fuels costs make up approximately 4% to 5% of overall consumer spending. It has been consistently proven that price is the most important factor for consumers in selecting a location to purchase fuel, even when prices sharply decline. According to NACS, over three-fourths of consumers say that gas prices impact their feelings about the overall economy. However, changes in gasoline prices have little impact on overall demand for gasoline, and the price of gasoline is not directly related to the health of the national economy. When fuel prices are low, consumer spending generally increases. However, low, sustained gasoline prices can signal a weakening economy. Lower gas prices seem to positively impact inside sales at c-stores as consumers feel justified in "treating themselves" to a higher margin product.

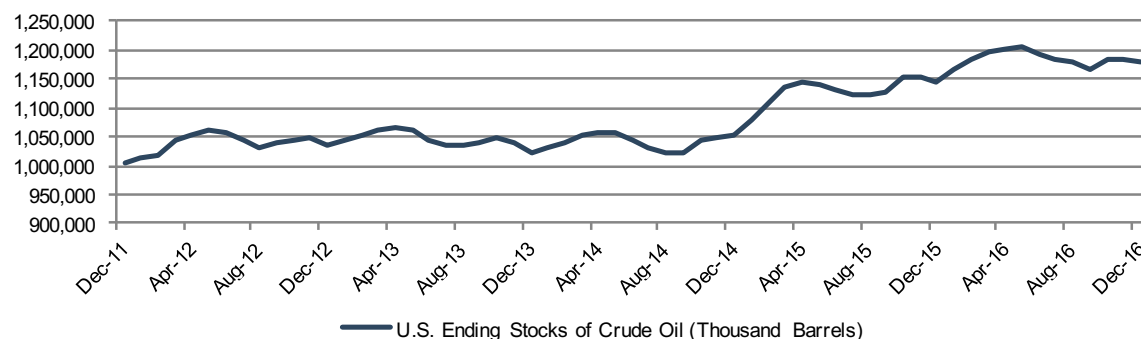
Pump prices have risen modestly since year end 2016, and prices are likely to continue rising in the near-term due to the impending switch to summer's required fuel blend and the seasonal increase in driving. Fuel prices tend to peak in May. Gas prices are expected to remain relatively low throughout 2017 (although higher than in 2016), which bodes well for overall consumer spending and for in-store, higher margin sales.

The national average price of gasoline has declined annually since 2012. Global crude oil production has outpaced global economic growth leading to a glut of crude inventories. In an effort to respond, OPEC announced in late 2016 that it would collectively cut production by over one billion barrels per day. Some smaller non-OPEC nations have followed suit. Gasoline prices have nudged higher in response, but the existing inventories are such that a meaningful price increase is not anticipated in the near-term. The chart on page 12 presents the expansion of crude oil inventories from 2012 through 2016.

SEGMENT FOCUS

Motor Fuels
(continued)

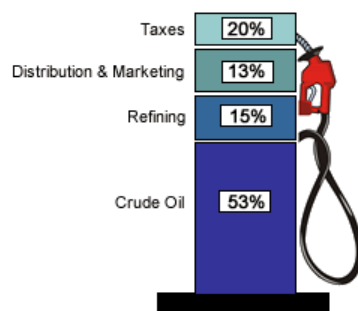
U.S. Ending Stocks of Crude Oil (Thousand Barrels)



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

Regular Gasoline (February 2017)

Retail Price: \$2.30/gallon



Source: EIA

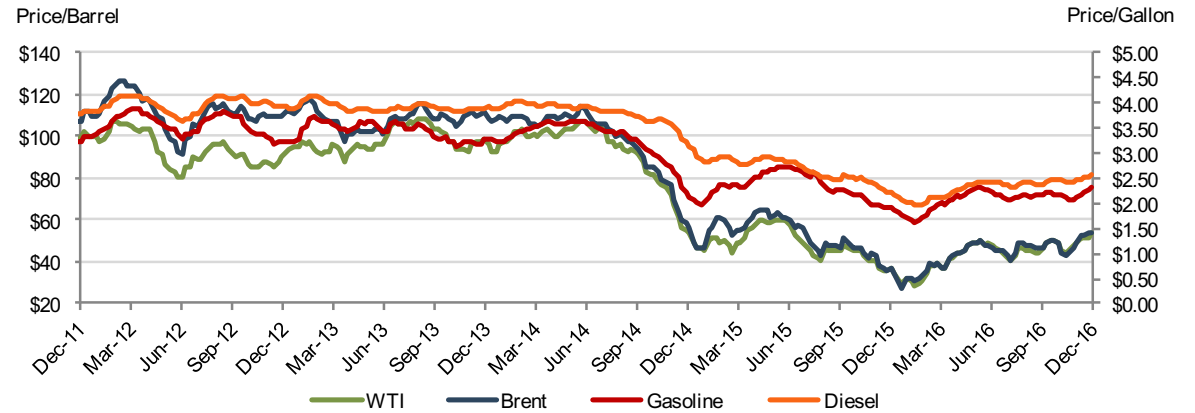
According to the **Short Term Energy Outlook** (STEO) issued in March 2017 by the U.S. Department of Energy's Energy Information Administration (EIA), the monthly average North Sea Brent crude oil price for February 2017 was \$55 per barrel, up from \$32 per barrel February 2016. The global benchmark Brent crude is expected to average \$55 per barrel in 2017 and \$57 per barrel in 2018, although the EIA acknowledges a large degree of uncertainty and potential volatility in fuel prices for the next two years. U.S. crude oil exports reached a record high in February.

The U.S regular gasoline price averaged \$2.25 per gallon in 2016. According to the EIA, retail gasoline prices are expected to average \$2.40 per gallon in 2017 and \$2.44 per gallon in 2018. **GasBuddy predicts** an average price of \$2.49 for 2017. A number of factors could cause the average to be markedly different than those estimates: hurricanes, the quantity of oil brought to the market, political issues, fuel taxes, geopolitical events, and the health of the global economy.

As shown to the left, crude oil prices are contributing 53% to the overall price of gasoline at the pump. This is up from 38% at the end of 2015. Generally speaking, less volatility and more balance is anticipated in the global motor fuels market for 2017.

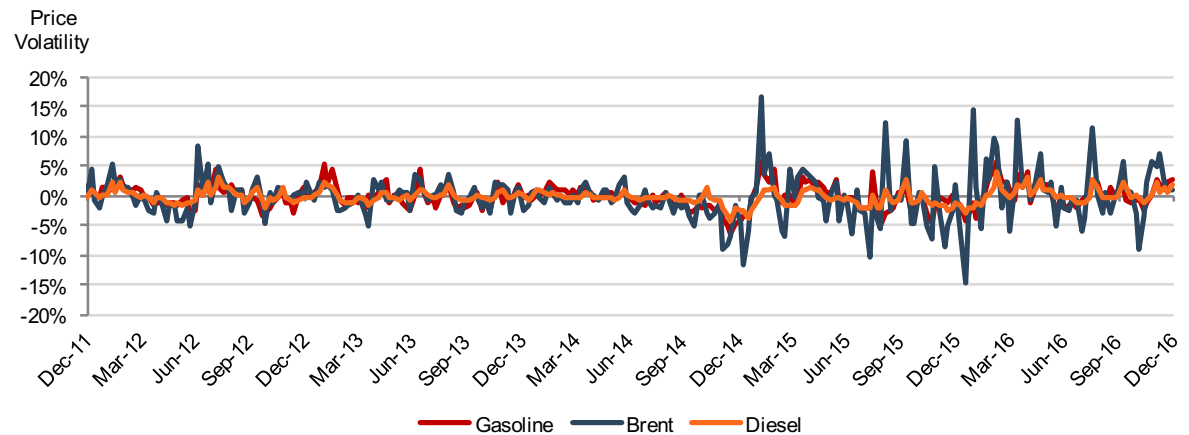
Fuel Pricing & Supply Charts

Wholesale and Retail Prices



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

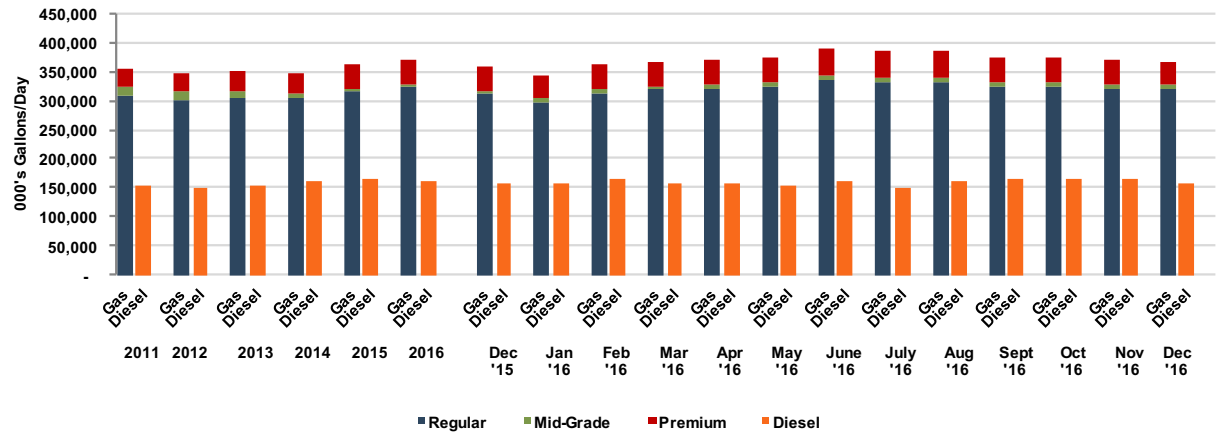
Motor Fuel and Brent Crude Price Fluctuation



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

Fuel Pricing & Supply Charts (continued)

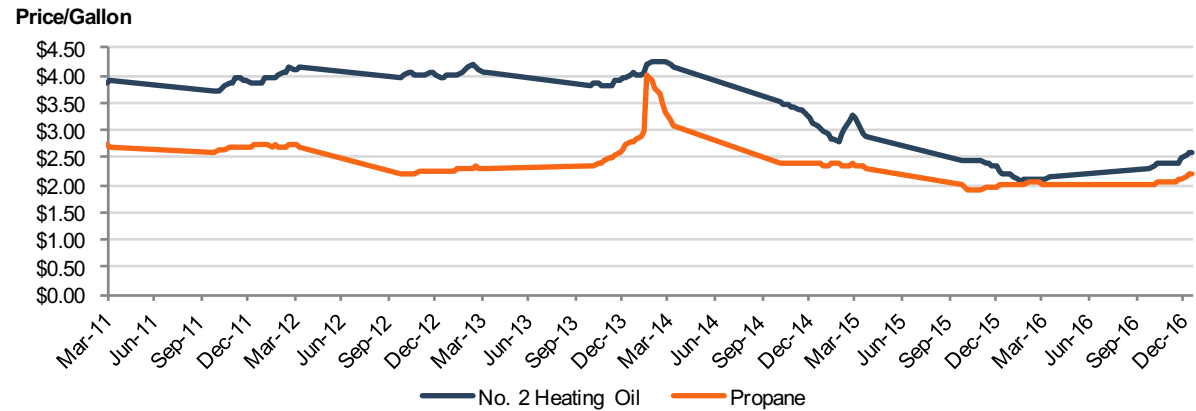
Prime Supplier Sales Volumes



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

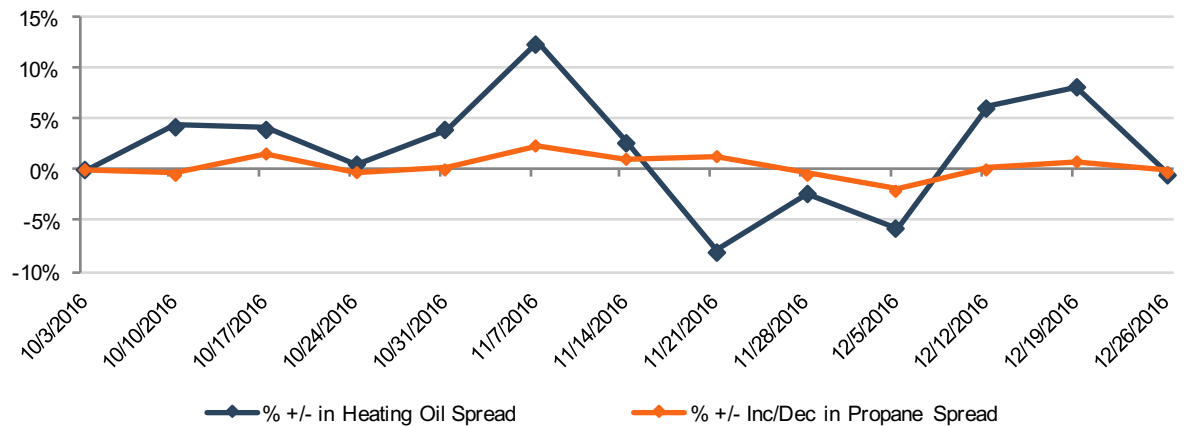
Fuel Pricing & Supply Charts (continued)

Non-Motor Fuel Prices



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

Percentage Change in Non-Motor Fuel Spread by Month



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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