

VALUE FOCUS

Convenience Stores



SEGMENT FOCUS
Motor Fuels

2016

Overview

| | |
|------------------------|---|
| Equity Market Overview | 1 |
| Valuations | 2 |

| | |
|----------------------------------|----------|
| Publicly Traded Companies | 4 |
|----------------------------------|----------|

C-Store Trends

| | |
|---------------------------|---|
| Margins | 6 |
| Government and Regulatory | 7 |

| | |
|--------------------------------|----------|
| Recent M&A Activity | 9 |
|--------------------------------|----------|

Segment Focus:

| | |
|--------------------|-----------|
| Motor Fuels | 11 |
|--------------------|-----------|

| | |
|-------------------------------------------|-----------|
| Fuel Pricing and Supply Charts | 13 |
|-------------------------------------------|-----------|

| | |
|-----------------------------|-----------|
| About Mercer Capital | 18 |
|-----------------------------|-----------|

Q1: Motor Fuels

Q2: Grocery Stores

Q3: Alternative Fuels
& Transportation

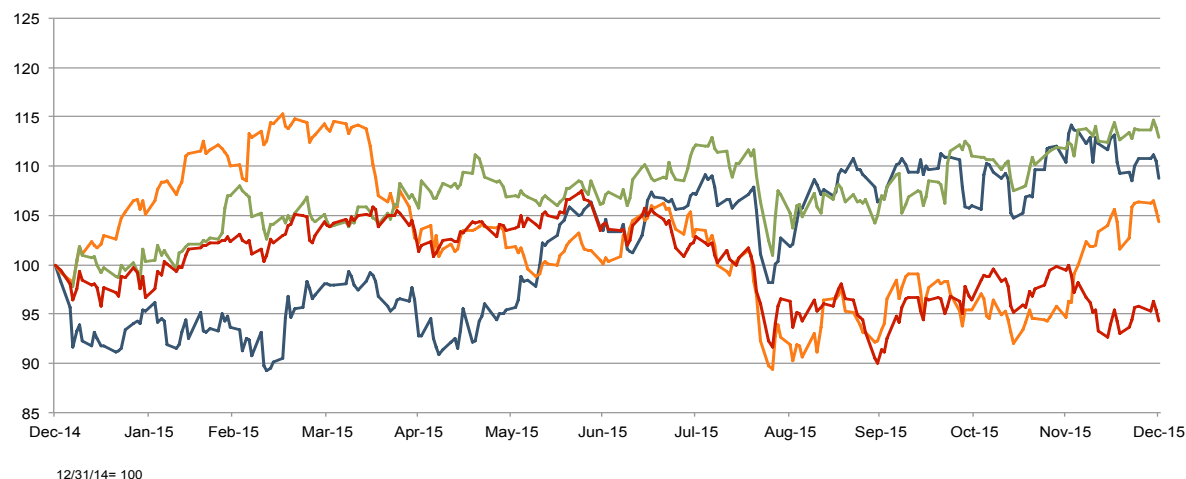
Q4: Foodservices

Overview

Equity Market Overview

During the three months ending December 2015, equity market pricing for the convenience store index rose 1.9%, underperforming the Russell 2000 which increased 3.2% during the quarter. Performance among individual index participants was mixed. **TA** continued to endure a steep price decline (-9.0%). **ANCUF** posted a much smaller decrease of 2.6%. **CST**, which has faced steep stock declines in recent quarters, posted a 16.5% increase during the fourth quarter. The increase was likely driven by the November acquisition of Flash Foods and the moves of certain activist investors of CST which may ultimately lead to a sale of CST's assets. **CASY**'s stock posted a 17.3% increase from the prior quarter, as its stock price reached record levels during the fourth quarter. The **CASY**'s increase was driven primarily by positive financial performance. The grocery store index posted an 11.8% increase during the quarter, largely led by **Kroger (KR)** which posted a 16.3% increase, spurred by financial performance that was better than expected. **KR** has the largest market capitalization in our grocery index. The fast food index posted a quarterly increase of 5.5%, although performance among the individual companies was mixed.

C-Store, Grocery Store, & QSR Stock Indices



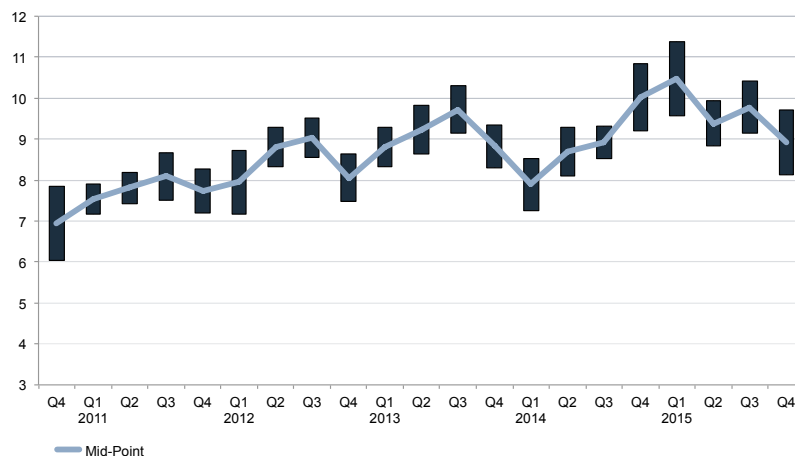
Data Source: S&P Global Market Intelligence / Bloomberg

Overview

Valuations Up, Ranges Widen for C-Stores

EBITDA multiples were down for convenience stores, grocery stores, and fast food operators. 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 2015.¹ C-store multiples remained slightly above their five-year average (8.7x). The favorable trend in multiples is expected to continue to fuel M&A activity in the near term. Despite the rich multiples, some business owners were hesitant to sell in 2015 given fuel margins and the attractiveness of their prevailing cash flows. Softening margins in early 2016 will likely lead some market participants to assess a potential sale.

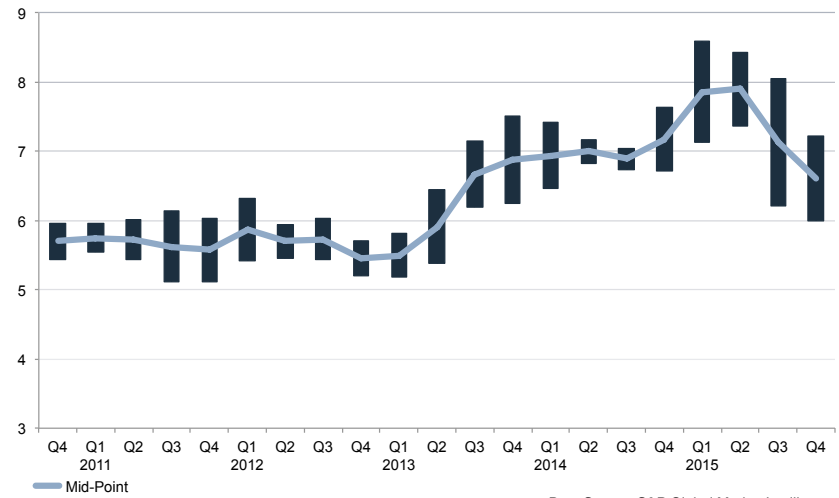
C-Store EBITDA Valuations // Quarterly Range of Mean Highs & Lows



Data Source: S&P Global Market Intelligence

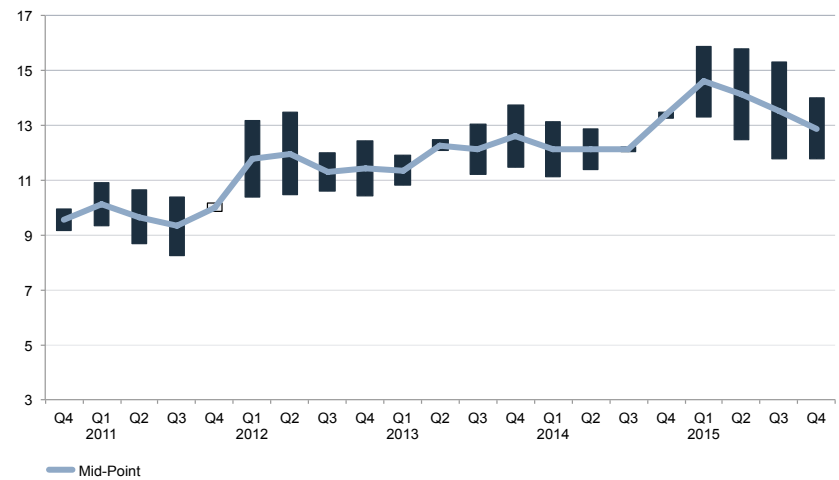
¹ As measured by the average of : (1) the median of the highest EBITDA measure of all the companies in the Mercer Capital index over the entire quarter and (2) the median of the lowest EBITDA measures of all the companies in the Mercer Capital index over the entire quarter. Current and historical multiple data was obtained from S&P Global Market Intelligence. 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 12/31/15 | 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 | \$44.02 | \$47.28 | \$36.22 | \$24,976 | \$27,277 | \$33,808 | \$34,734 | \$36,267 | \$2,004 | \$1,909 | \$2,282 | 5.93% | 5.49% | 6.29% |
| Casey's General Stores Inc | CASY | \$120.45 | \$129.53 | \$80.60 | \$4,698 | \$5,544 | \$7,299 | \$7,754 | \$7,425 | \$549 | \$470 | \$558 | 7.52% | 6.06% | 7.52% |
| TravelCenters of America LLC | TA | \$9.40 | \$18.10 | \$9.02 | \$361 | \$1,017 | \$6,226 | \$6,137 | \$6,935 | \$202 | \$154 | \$165 | 3.25% | 2.51% | 2.38% |
| CST Brands Inc | CST | \$39.14 | \$44.96 | \$32.23 | \$2,959 | \$4,377 | \$12,188 | \$9,832 | \$11,437 | \$565 | \$411 | \$375 | 4.64% | 4.18% | 3.28% |
| Murphy USA Inc | MUSA | \$60.74 | \$73.97 | \$47.73 | \$2,531 | \$3,021 | \$13,471 | \$13,235 | \$15,332 | \$431 | \$368 | \$379 | 3.20% | 2.78% | 2.47% |
| Average C-Stores | | | | | \$7,105 | \$8,247 | \$14,598 | \$14,338 | \$15,479 | \$750 | \$662 | \$752 | 4.91% | 4.20% | 4.39% |
| Median C-Stores | | | | | \$2,959 | \$4,377 | \$12,188 | \$9,832 | \$11,437 | \$549 | \$411 | \$379 | 4.64% | 4.18% | 3.28% |
| Grocery Stores | | | | | | | | | | | | | | | |
| Fresh Market Inc/The | TFM | \$23.42 | \$42.09 | \$18.70 | \$1,099 | \$1,131 | \$1,818 | \$1,755 | \$1,860 | \$169 | \$188 | \$193 | 9.32% | 10.73% | 10.39% |
| Village Super Market Inc | VLGEA | \$26.35 | \$33.65 | \$23.34 | \$373 | \$419 | \$1,594 | na | na | \$67 | na | na | 4.22% | na | na |
| SpartanNash Co | SPTN | \$21.64 | \$33.52 | \$20.99 | \$814 | \$1,361 | \$7,847 | \$7,688 | \$7,687 | \$197 | \$227 | \$231 | 2.51% | 2.95% | 3.01% |
| Weis Markets Inc | WMK | \$44.30 | \$50.84 | \$38.56 | \$1,192 | \$1,192 | \$2,828 | na | na | \$156 | na | na | 5.50% | na | na |
| Ingles Markets Inc | IMKTA | \$43.89 | \$57.43 | \$35.72 | \$889 | \$1,785 | \$3,779 | \$3,810 | \$3,835 | \$242 | \$241 | \$251 | 6.41% | 6.33% | 6.54% |
| Whole Foods Market Inc | WFM | \$33.36 | \$56.76 | \$28.61 | \$11,639 | \$11,704 | \$15,388 | \$15,420 | \$16,053 | \$1,300 | \$1,405 | \$1,324 | 8.45% | 9.11% | 8.25% |
| SUPERVALU Inc | SVU | \$6.78 | \$12.00 | \$6.15 | \$1,661 | \$4,375 | \$17,947 | \$17,826 | \$17,711 | \$769 | \$774 | \$781 | 4.28% | 4.34% | 4.41% |
| Kroger Co/The | KR | \$41.83 | \$42.75 | \$27.24 | \$40,408 | \$51,667 | \$108,872 | \$108,541 | \$109,906 | \$5,608 | \$5,096 | \$5,688 | 5.15% | 4.69% | 5.18% |
| Average Grocery Stores | | | | | \$7,259 | \$9,204 | \$20,009 | \$25,840 | \$26,175 | \$1,064 | \$1,322 | \$1,411 | 5.73% | 6.36% | 6.30% |
| Median Grocery Stores | | | | | \$1,145 | \$1,573 | \$5,813 | \$11,554 | \$11,870 | \$220 | \$508 | \$516 | 5.32% | 5.51% | 5.86% |

Source: Bloomberg

Publicly Traded Companies (continued)

| Ticker | Stock Price at 12/31/15 | 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 | \$118.14 | \$120.23 | \$85.81 | \$108,476 | \$126,467 | \$25,644 | \$25,331 | \$24,316 | \$8,590 | \$8,772 | \$9,229 | 33.50% | 34.63% | 37.95% |
| Wendy's Co/The | WEN | \$10.77 | \$11.57 | \$8.38 | \$2,944 | \$5,347 | \$1,922 | \$1,874 | \$1,304 | \$385 | \$396 | \$381 | 20.00% | 21.14% | 29.21% |
| Yum! Brands Inc | YUM | \$72.57 | \$94.22 | \$65.48 | \$31,276 | \$34,493 | \$13,151 | \$13,197 | \$13,771 | \$2,180 | \$2,737 | \$2,990 | 16.58% | 20.74% | 21.71% |
| Dunkin' Brands Group Inc | DNKN | \$42.59 | \$56.13 | \$39.04 | \$4,053 | \$6,549 | \$800 | \$810 | \$851 | \$411 | \$416 | \$442 | 51.38% | 51.36% | 51.88% |
| Krispy Kreme Doughnuts Inc | KKD | \$15.07 | \$22.32 | \$13.01 | \$950 | \$962 | \$514 | \$494 | \$520 | \$66 | \$67 | \$75 | 12.93% | 13.52% | 14.34% |
| Panera Bread Co | PNRA | \$194.78 | \$208.00 | \$153.00 | \$4,948 | \$5,359 | \$2,662 | \$2,686 | \$2,794 | \$382 | \$388 | \$402 | 14.36% | 14.45% | 14.39% |
| Chipotle Mexican Grill Inc | CMG | \$479.85 | \$758.61 | \$477.97 | \$14,968 | \$14,968 | \$4,574 | \$4,518 | \$4,719 | \$974 | \$894 | \$826 | 21.29% | 19.79% | 17.50% |
| Jack in the Box Inc | JACK | \$76.71 | \$98.90 | \$63.69 | \$2,745 | \$3,460 | \$1,540 | \$1,543 | \$1,631 | \$287 | \$291 | \$325 | 18.61% | 18.89% | 19.93% |
| Restaurant Brands International Inc | QSR | \$37.36 | \$45.29 | \$34.07 | \$7,562 | \$19,881 | \$3,409 | \$4,032 | \$4,197 | na | \$1,628 | \$1,745 | nm | 40.38% | 41.57% |
| Sonic Corp | SONC | \$32.31 | \$36.37 | \$22.63 | \$1,592 | \$2,099 | \$612 | \$605 | \$624 | \$165 | \$164 | \$175 | 26.99% | 27.05% | 28.13% |
| Average Fast Foods | | | | | \$17,951 | \$21,958 | \$5,483 | \$5,509 | \$5,473 | \$1,493 | \$1,575 | \$1,659 | 23.96% | 26.19% | 27.66% |
| Median Fast Foods | | | | | \$4,501 | \$5,954 | \$2,292 | \$2,280 | \$2,212 | \$385 | \$406 | \$422 | 20.00% | 20.94% | 24.92% |

Source: Bloomberg

C-Store Trends

Margins

According to **OPIS**, nationwide retail gasoline margins ended the fourth quarter of 2015 at 17.0 cents per gallon, down from 18.8 cents per gallon twelve weeks earlier and below the historical five-year average of 18.9 cents.² Between the end of the fourth quarter and the time of this publication, retail fuel margins fell further to 12.8 cents per gallon. Fuel retailers are facing a difficult environment in which retail price increases cannot keep pace with wholesale price increases. Fuel prices have been steadily increasing since mid-February, but remain at their lowest levels since 2009. The shift to summer blend fuel, refinery maintenance, and relatively strong demand are expected to contribute to rising fuel prices in the near-term, which will likely further depress fuel margins. Diesel margins ended the fourth quarter at 55.9 cents per gallon, up from a 23.1 cent margin level twelve weeks earlier.

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

² National Association of Convenience Stores 2016 Retail Fuels Report.

C-Store Trends

Government and Regulatory

Common Sense Nutrition Disclosure Act. In February, the U.S. House of Representatives passed the "**Common Sense Nutrition Disclosure Act for 2015.**" The **NACS** supported this bill which is expected to clarify menu-labeling requirements established by the FDA in response to ACA requirements. If the bill becomes law, smaller c-store chains of less than 20 stores would not be required to display nutritional information on menu boards.

The FDA announced in late March that it would delay the enforcement of the ACA menu labeling rules. The rules were originally set to be implemented in late 2015, but that date has moved twice in response to retailer concerns.

Transportation Funding. In December, the president signed a five-year \$305 billion highway transportation funding bill into law, representing the first long-term package passed in over ten years. Spending is set to be funded by gas tax revenue and offsets from other areas of the federal budget. Although most industry insiders are grateful that a long-term solution is in place, some critics argue that it relies on further burdening the United States national debt and others are disappointed that the fuel tax was not increased by the new legislation. In February, President Obama proposed a \$10 per barrel oil tax. Industry insiders and economists have decried this proposal as potentially devastating to the economy. Regardless, this tax is unlikely to occur with a Republican-controlled congress.

C-Store Trends

Government and Regulatory (continued)

Wages. Movements to raise the minimum wage are underway in many states and on a federal level. A strike by fast food workers of many of the largest chains occurred in November with workers protesting for a \$15 minimum wage. Detractors of the movement argue that a higher mandated minimum wage would lead to fewer jobs from either the elimination of certain positions or the implementation of an automated substitute. A \$15 minimum wage would more than double the current minimum wage of \$7.25 per hour. Certain states and municipalities have increased the minimum wages under their purview. Business owners who operate in many locations argue that these local differences are complicating their ability to strategize on a national level.

In an unrelated move, the DOL proposed new threshold rules for overtime pay. The rule would likely increase the amount of overtime pay required by businesses. In mid-March both branches of Congress introduced a bill to delay the implantation of these new rules by requiring the DOL to conduct in-depth analyses of the impact of the new regulations.

Renewable Fuel Standards. In late November the EPA announced volume regulations that would increase the amount of corn ethanol required under the RFS. Restaurant groups decried the move fearing that such regulations will likely lead to higher food costs across the board. In February, senators argued over the RFS program with Republicans devoted to eliminating the plan and Democrats fighting to preserve it.

Recent M&A Activity

In addition to the major transactions listed below, there were several transactions involving 50 or fewer units during the fourth quarter. The past two years have been busy in terms of M&A activity. Until recently, fuel marketers have been enjoying the benefits of low fuel pricing and the corresponding margin that accompanies soft oil prices. Owners have likely been torn between the draw of high multiples and the status quo of favorable profits. Both may be compressing soon, and it remains to be seen what this will mean for industry M&A activity. It seems likely that consolidation will continue, but transactions will take place at lower multiples.

- » **CST Brands** closed its acquisition of **Flash Foods** in early February. Flash Foods operated 164 c-stores in Georgia and Florida as well as 21 quick service restaurants, 15 real estate sites, a merchandise distribution company, and a fuel supply company.
- » Following open letters from two separate activist investors in December, several companies expressed interest in purchasing CST's assets. In response, **CST Brands** announced a potential real estate venture in early January structured to enhance shareholder value and in early March announced a plan to explore other strategic alternatives to enhance shareholder value.
- » In November, **7-Eleven** purchased 101 gasoline locations in Florida from **Biscayne Petroleum LLC** and **Everglades Petroleum, LLC** and announced plans in early March to acquire 148 convenience stores and fueling stations from **Imperial Oil** of Canada.
- » **TCA** began the process to acquire **Quaker Steak & Lube** casual dining restaurants, consisting of over 50 locations, in November. Prior to the agreement, Quaker Steak & Lube began the process of reorganization under Chapter 11 of the U.S. Bankruptcy Code. The deal is expected to close in early April.
- » **Sunoco** and **ETP** announced a dropdown transaction in November which culminated in March. In early 2015 rumors began to surface that ETP was looking to divest Sunoco, the retail arm of Energy Transfer Equity. Those rumors were quashed in a letter from Sunoco CEO to Sunoco employees.
- » **Kroger** completed its acquisition of **Roundy's** in December. Prior to the transaction, Kroger had no stores in Wisconsin. Now, Kroger has approximately one-third of the Wisconsin market share. Kroger gained 151 stores in the transaction.

Recent M&A Activity (continued)

- » In early February, **Alimentation Couche-Tard** acquired Ireland's leading c-store and fuel retailer, **Topaz**. **Topaz** boasts 464 stations in Ireland, including its recently acquired **network of Esso stations**. **Couche-Tard** has recently announced plans to purchase 279 **Esso-branded Imperial Oil** sites in Canada.
- » **Circle K** purchased 62 stores from **Greatstone Equities, Inc.** in a nine-state deal.
- » In mid-March **Parkland Fuel Corp.** announced plans to acquire **Imperial Oil's On the Run/Merche Express** 80-store c-store franchise in Canada.
- » **Love's Family of Companies** expanded its CNG stations through the acquisition of 37 **Trillium** stations in late March. Love's now operates a total of 65 CNG facilities.

SEGMENT FOCUS

Motor Fuels

Gasoline sales represent more than 3% of the country's overall GDP, and 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**, nearly 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. According to **EIA**, it takes a 25% to 50% decrease in the price of gasoline to raise automobile travel by 1%. Lower gas prices seem to positively impact inside sales at c-stores as consumers feel justified in "treating themselves" to a higher margin product.

The beginning of 2016 brought \$2.00 per gallon gasoline, and fuel prices were at their lowest levels in 15 years. Generally speaking, retail gasoline prices have been trending upward since the end of 2015. March saw an increase in pump prices that averaged a penny per day, and prices are likely to continue rising in the near-term due to the impending switch to summer's required fuel blend and the general increase in driving which occurs in the coming months. Fuel prices tend to peak in May. Despite the upward price movement, consumer fuel prices remain at their lowest level since 2009, and the average price per gallon is still 39 cents lower than the same time last year.

Crude oil prices have the biggest effect on retail prices, representing approximately 40% to 50% of the cost of a gallon of gasoline. Falling crude prices led to some of the lowest retail prices in recent history, but crude prices may have bottomed out. Several large domestic oil producers fell into financial distress during 2015 and more are expected to face difficulties in 2016. There are reports that Saudi Arabia and Russia are freezing their production levels, and the U.S. has seen refinery production cuts nationwide. Although the U.S. is at its highest level of supply in approximately 80 years, producers are facing infrastructure constraints related to product storage. Such supply constraints could potentially increase the cost per gallon of gasoline due to the higher marginal cost of secondary storage solutions (i.e. inventories on tankers).

Despite crude prices dropping steadily throughout 2015, the U.S. and OPEC actually pumped more barrels of crude in late 2015 than was pumped in late 2014. According to the **EIA**, this resiliency – at least domestically – is due in part to investments committed to projects several years ago when oil prices were higher. U.S. capital budgets will possibly take a sizable hit post-2017. OPEC's production increase is most likely related to its members desire to maintain market share.

Motor Fuels

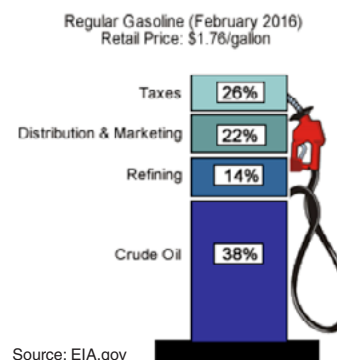
(continued)

According to the **2016 NACS Retail Fuels Report**, world demand for oil is more than four times the total of demand seen in the U.S., and global demand for gasoline is more than ten times the U.S. total. The overall global market for oil has increased which will influence pump prices. According to some experts, 2016 is expected to boast the highest gasoline consumption in history. Despite the panic in the markets earlier in the year, China's gasoline demand is growing at a strong pace.

U.S. gasoline demand increased 2.6% in 2015. According to the **Short Term Energy Outlook (STEO)** issued in March by the U.S. Department of Energy's **Energy Information Administration (EIA)**, the monthly average North Sea Brent crude oil price for February was \$32 per barrel, \$1 per barrel higher than the January average. The global benchmark Brent crude is expected to average \$34 per barrel in 2016 and \$40 per barrel in 2017, although the EIA acknowledges a large degree of uncertainty and potential volatility in fuel prices for the next two years. Consumption of diesel fuel and heating oil fell by 1.5% in 2015 and is expected to fall another 1.1% in 2016.

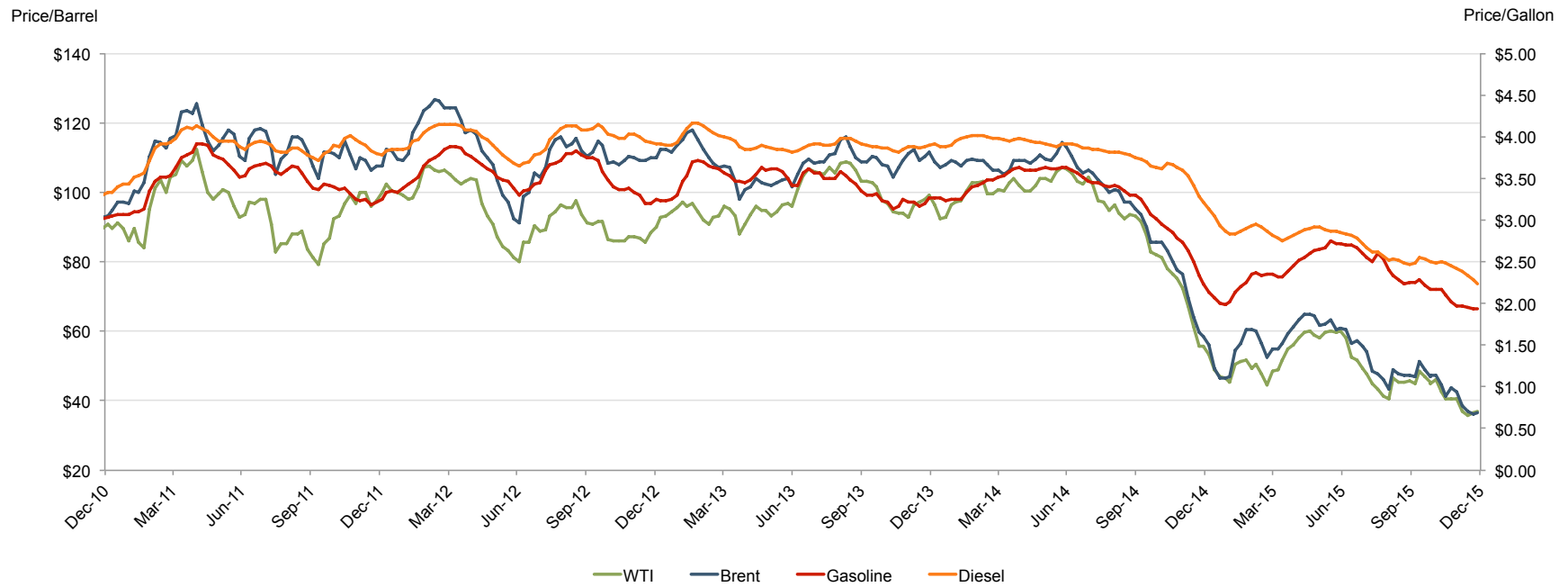
The U.S regular gasoline price averaged \$2.43 per gallon in 2015 and is expected to average \$1.89 per gallon in 2016 according to EIA and \$2.28 per gallon according to GasBuddy. Both estimates were made earlier in the year prior to sustained price increases, and a number of factors could cause the average to be markedly different than those estimates: hurricanes, the quantity of oil that Iran will bring to the market, the magnitude of the impact of the lifting of the ban on U.S. exports, fuel taxes, and the health of the global economy.

As shown below, crude oil prices contribute 38% to the overall price of gasoline at the pump. This is down from 57% at the end of 2014. As anticipated, a rise in gas taxes at both the state and federal levels was a factor during 2015.



Fuel Pricing and Supply Charts

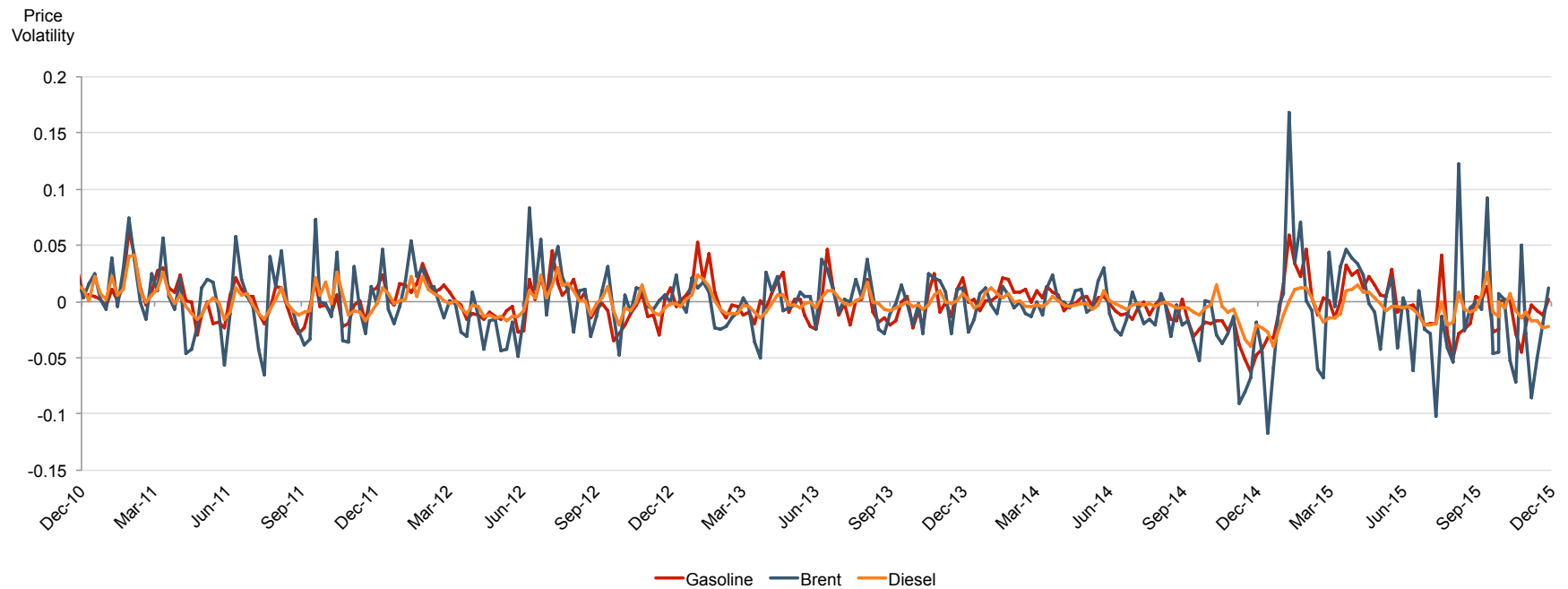
Fuel Prices & Supply



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

Fuel Pricing and Supply Charts

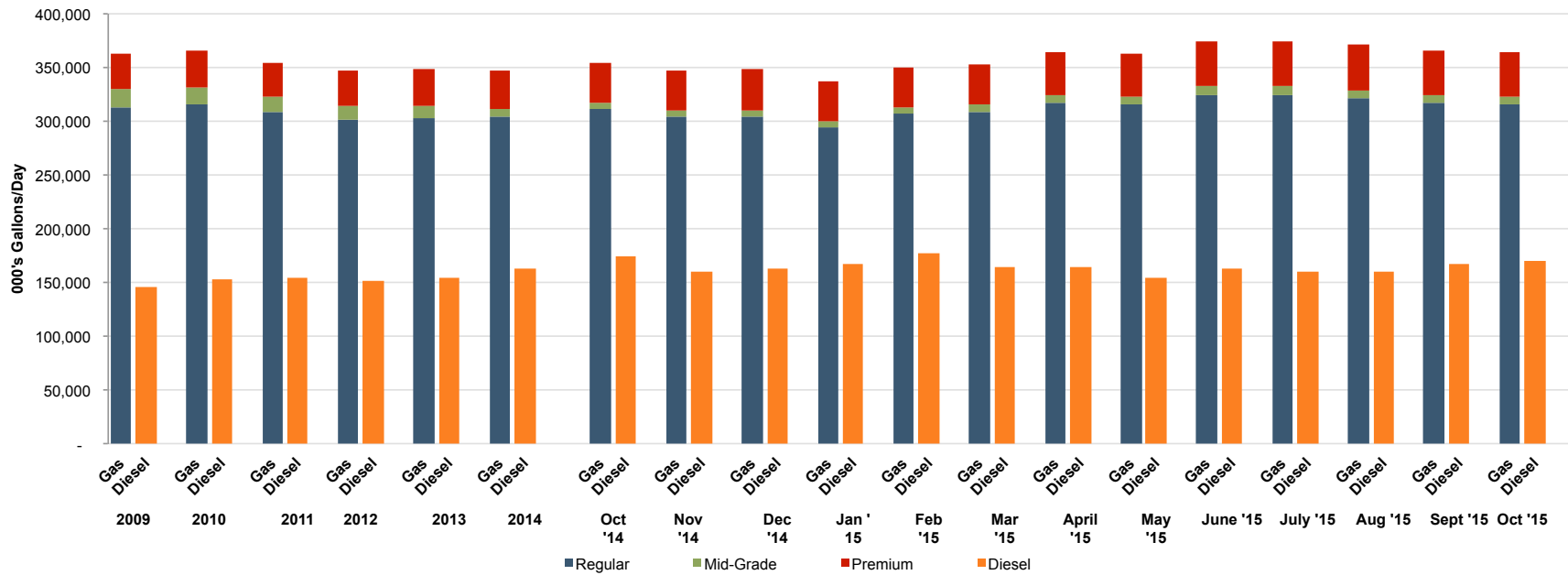
Motor Fuel and Brent Crude Price Fluctuation



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

Fuel Pricing and Supply Charts

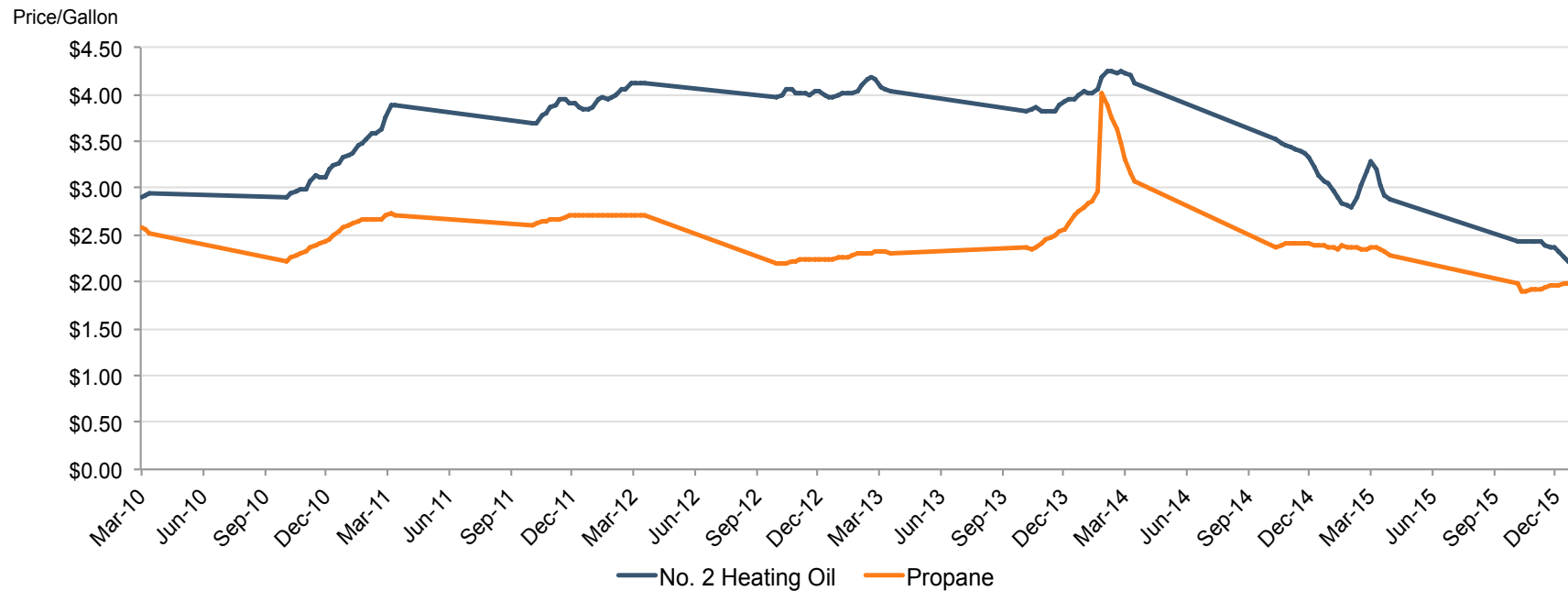
Prime Supplier Sales Volumes



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

Fuel Pricing and Supply Charts

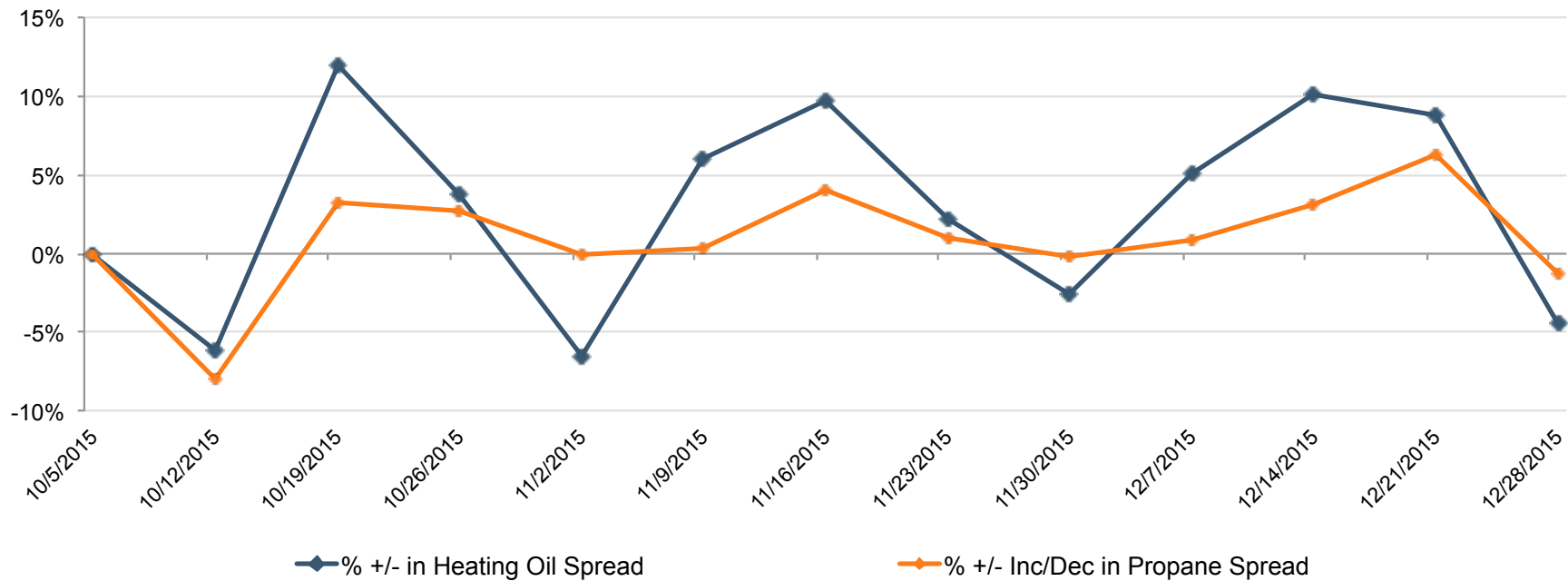
Non-Motor Fuel Prices



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

Memphis
5100 Poplar Avenue, Suite 2600
Memphis, Tennessee 38137
901.685.2120

Dallas
12201 Merit Drive, Suite 480
Dallas, Texas 75251
214.468.8400

Nashville
102 Woodmont Blvd., Suite 231
Nashville, Tennessee 37205
615.345.0350

www.mercercapital.com