

VALUE FOCUS

CONVENIENCE STORES



2014

Q1: Motor Fuels

Q3: **Alternative Fuels &
Consumer Transportation**

Q2: Grocery Stores

Q4: Food Services

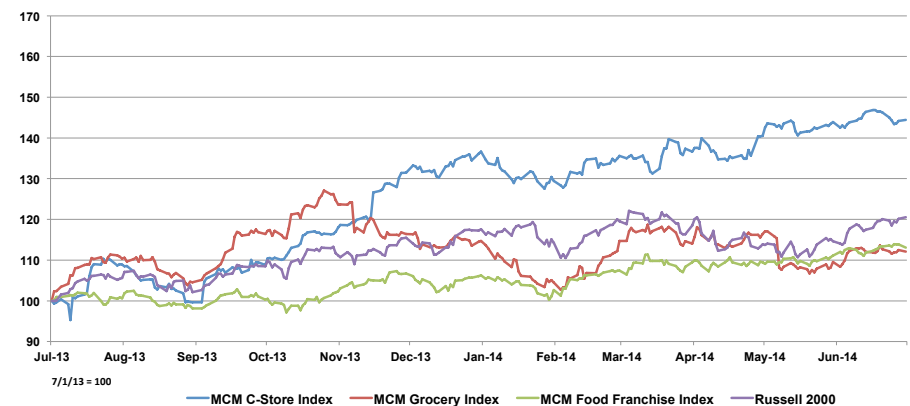
Value Focus

Convenience Store Industry

Third Quarter 2014

Equity Market Overview. Over the three months ending June 2014, median stock market pricing for the convenience store and fast food indexes was up 5.7% and 3.3%, respectively, outperforming the Russell 2000 index's increase of 1.7%. A portion of the increase in the c-store index is attributable to the increase of the market price of Susser after Energy Transfer Partners (ETP) announced its intentions to purchase the c-store operator for \$1.8 billion (reflecting a 41% premium over SUSS's closing stock price on April 25, largely driven by \$70 million in operational efficiencies). The Mercer Capital retail grocery index was down 1.8% in the first quarter.

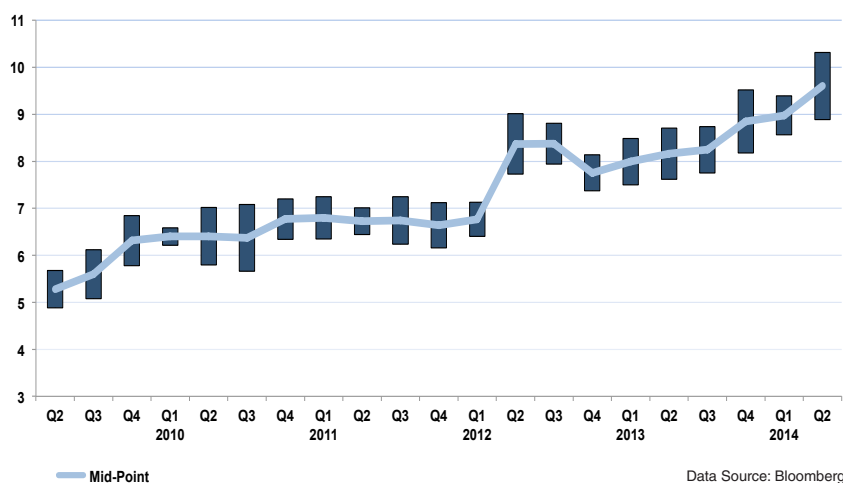
C-Store, Grocery Store, & QSR Stock Indices



Data Source: Capital IQ / Bloomberg

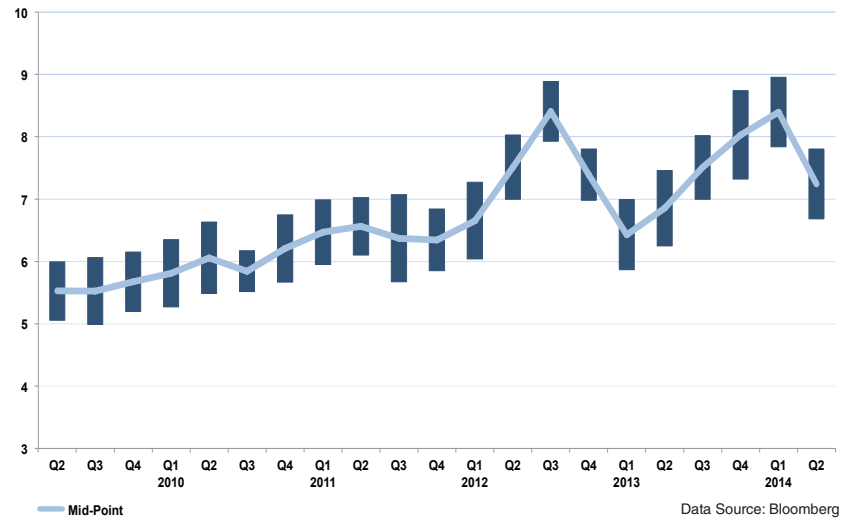
Valuations Drift Higher, Ranges Tighten. EBITDA multiples were up for convenience stores but down for grocery stores and fast food operators. Multiples for public c-store operators increased from 9.0x EBITDA at the end of the first quarter of 2014 to 9.6x at the end of the second quarter of 2014.¹ EBITDA multiples were at their highest levels for the five-year period ended Q2-2014. Valuations for grocery store and fast food publics retreated a half to a full turn on EBITDA, as shown in the following charts. During 2013, comparable EBITDA multiples for the c-store index ranged from 8.0x to 8.8x EBITDA. At year-end 2012, the median c-store multiple was 7.8.

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

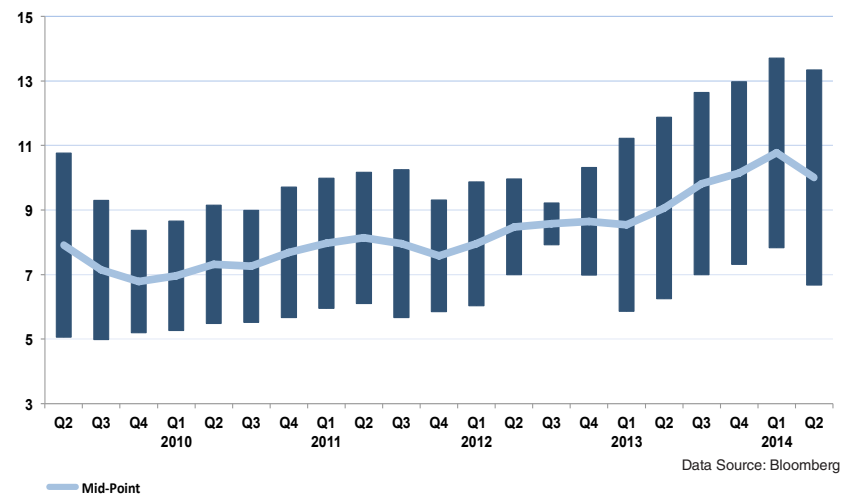


¹ As measured by the average of: (1) end-of-quarter high EBITDA measures of all the companies in the Mercer Capital index and (2) the end-of-quarter low EBITDA measures of all the companies in the Mercer Capital index. Travel Centers of America is currently excluded due to underperformance. Harris Teeter was eliminated from the Mercer Capital grocery index during the second quarter due to its recent acquisition.

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 6/30/14 | High Price for LTM | Low Price for LTM | Equity Market Cap | Enterprise Value | Revenue | | | EBITDA | | | EBITDA Margins | | | |
|-------------------------------|-------------------|--------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|-------------------|----------------|------------------|------------------|--------------|-------------|-------------|
| | | | | | | LTM | 2014 Est. | 2015 Est. | LTM | 2014 Est. | 2015 Est. | LTM | 2014 Est. | 2015 Est. | |
| Convenience Stores | | | | | | | | | | | | | | | |
| Alimentation Couche Tard Inc | ANCUF | \$27.36 | \$84.73 | \$26.62 | \$15,474.7 | \$18,081.1 | \$37,956.6 | \$37,769.5 | \$39,166.3 | \$1,539.1 | \$1,613.4 | \$1,716.0 | 2.4% | 4.3% | 4.4% |
| Susser Holdings Corp | SUSS | \$80.72 | \$80.83 | \$44.32 | \$1,749.9 | \$2,284.3 | \$6,670.1 | \$7,182.0 | \$7,879.3 | \$152.1 | \$189.0 | \$223.8 | 0.0% | 2.6% | 2.8% |
| Casey's General Stores Inc | CASY | \$70.29 | \$77.58 | \$60.47 | \$2,706.7 | \$3,560.9 | \$7,840.3 | \$7,828.7 | \$8,635.8 | \$377.0 | \$376.9 | \$404.7 | 0.0% | 4.8% | 4.7% |
| Pantry Inc/The | PTRY | \$16.20 | \$17.62 | \$10.99 | \$380.7 | \$1,319.8 | \$7,612.3 | \$7,595.0 | \$7,655.3 | na | \$214.0 | \$224.8 | 8.4% | 2.8% | 2.9% |
| TravelCenters of America LLC | TA | \$8.88 | \$12.25 | \$7.01 | \$334.1 | \$818.0 | \$7,944.7 | \$8,211.0 | \$8,320.0 | \$80.1 | \$132.0 | \$153.0 | 3.4% | 1.6% | 1.8% |
| CST Brands Inc | CST | \$34.50 | \$36.92 | \$28.91 | \$2,603.1 | \$3,632.1 | \$12,640.0 | \$12,764.3 | \$13,320.4 | \$329.0 | \$357.1 | \$397.5 | 3.9% | 2.8% | 3.0% |
| Murphy USA Inc | MUSA | \$48.89 | \$52.73 | \$36.12 | \$2,285.3 | \$2,846.9 | \$18,083.3 | \$18,383.5 | \$19,675.3 | \$339.6 | \$334.5 | \$321.0 | 5.4% | 1.8% | 1.6% |
| Average C-Stores | | | | | \$3,647.8 | \$4,649.0 | \$14,106.8 | \$14,247.7 | \$14,950.3 | \$469.5 | \$459.6 | \$491.5 | 3.4% | 3.0% | 3.0% |
| Median C-Stores | | | | | \$2,285.3 | \$2,846.9 | \$7,944.7 | \$8,211.0 | \$8,635.8 | \$334.3 | \$334.5 | \$321.0 | 3.4% | 2.8% | 2.9% |
| Grocery Stores | | | | | | | | | | | | | | | |
| Fresh Market Inc/The | TFM | \$33.47 | \$57.17 | \$28.6 | \$1,615.8 | \$1,650.0 | \$1,576.0 | \$1,514.2 | \$1,741.9 | \$133.1 | \$168.5 | \$188.9 | 4.5% | 11.1% | 10.8% |
| Village Super Market Inc | VLGEA | \$23.63 | \$39.71 | \$21.9 | \$332.1 | \$375.1 | \$1,498.1 | na | na | \$51.0 | na | na | 0.0% | na | nm |
| SpartanNash Co | SPTN | \$21.01 | \$25.74 | \$18.4 | \$457.0 | \$606.9 | \$2,608.2 | \$7,890.4 | \$7,955.8 | \$101.7 | \$230.2 | \$244.2 | 5.2% | 2.9% | 3.1% |
| Weis Markets Inc | WMK | \$45.73 | \$54.13 | \$42.5 | \$1,230.1 | \$1,230.1 | \$2,726.8 | na | na | \$147.7 | na | na | 4.5% | na | nm |
| Ingles Markets Inc | IMKTA | \$26.35 | \$29.33 | \$21.9 | \$599.7 | \$1,509.0 | \$3,820.0 | \$3,829.0 | \$3,867.0 | \$214.3 | \$213.0 | \$221.0 | 0.0% | 5.6% | 5.7% |
| Roundy's Inc | RNDY | \$5.51 | \$10.96 | \$4.7 | \$272.9 | \$982.7 | \$3,960.2 | \$3,915.4 | \$4,026.6 | \$132.0 | \$123.8 | \$137.1 | 0.0% | 3.2% | 3.4% |
| Whole Foods Market Inc | WFM | \$38.63 | \$65.59 | \$37.0 | \$14,347.2 | \$14,409.2 | \$13,595.0 | \$14,187.5 | \$15,793.6 | \$1,264.0 | \$1,304.5 | \$1,422.0 | 36.6% | 9.2% | 9.0% |
| SUPERVALU Inc | SVU | \$8.22 | \$8.76 | \$5.4 | \$2,112.5 | \$4,874.5 | \$17,147.0 | \$17,050.4 | \$17,552.5 | \$764.0 | \$780.0 | \$767.2 | 16.8% | 4.6% | 4.4% |
| Safeway Inc | SWY | \$34.34 | \$40.25 | \$23.2 | \$7,911.9 | \$11,726.2 | \$36,496.2 | \$36,228.5 | \$36,366.8 | \$1,450.6 | \$1,440.9 | \$1,451.6 | 60.9% | 4.0% | 4.0% |
| Kroger Co/The | KR | \$49.43 | \$50.20 | \$34.6 | \$23,973.6 | \$35,289.6 | \$101,410.0 | \$98,364.9 | \$107,907.0 | \$4,542.0 | \$4,409.7 | \$4,992.5 | 22.3% | 4.5% | 4.6% |
| Average Grocery Stores | | | | | \$5,285.3 | \$7,265.3 | \$18,483.8 | \$22,872.5 | \$24,401.4 | \$880.0 | \$1,083.8 | \$1,178.1 | 15.1% | 5.6% | 5.6% |
| Median Grocery Stores | | | | | \$1,422.9 | \$1,579.5 | \$3,890.1 | \$11,038.9 | \$11,874.7 | \$181.0 | \$505.1 | \$505.7 | 4.9% | 4.5% | 4.5% |

Data Source: Bloomberg

Publicly Traded Companies (continued)

| Ticker | Price for 6/30/14 | High Price for LTM | Low Price for LTM | Equity Market Cap | Enterprise Value | Revenue | | | EBITDA | | | EBITDA Margins | | | |
|-------------------------------|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------|--------------|--------------|
| | | | | | | LTM | 2014 Est. | 2015 Est. | LTM | 2014 Est. | 2015 Est. | LTM | 2015 Est. | | |
| Fast Foods | | | | | | | | | | | | | | | |
| McDonald's Corp | MCD | \$100.74 | \$103.78 | \$92.2 | \$98,916.6 | \$114,347.2 | \$28,298.6 | \$28,385.7 | \$28,983.5 | \$10,368.8 | \$10,251.4 | \$10,722.4 | 24.7% | 36.1% | 37.0% |
| Wendy's Co/The | WEN | \$8.53 | \$10.27 | \$5.8 | \$3,130.2 | \$4,584.2 | \$2,279.8 | \$2,065.2 | \$1,963.4 | \$383.2 | \$401.8 | \$410.7 | 0.0% | 19.5% | 20.9% |
| Burger King Worldwide Inc | BKW | \$27.22 | \$27.97 | \$18.9 | \$9,579.7 | \$12,614.1 | \$1,042.4 | \$1,059.4 | \$1,127.0 | \$634.8 | \$707.0 | \$778.2 | 27.8% | 66.7% | 69.1% |
| Yum! Brands Inc | YUM | \$81.20 | \$82.13 | \$64.1 | \$35,728.0 | \$38,893.0 | \$13,573.0 | \$14,079.9 | \$15,528.7 | \$3,030.0 | \$3,104.9 | \$3,454.1 | 20.6% | 22.1% | 22.2% |
| Dunkin' Brands Group Inc | DNKN | \$45.81 | \$53.05 | \$40.5 | \$4,837.6 | \$6,653.8 | \$732.4 | \$754.8 | \$809.0 | \$369.1 | \$383.2 | \$420.3 | 0.0% | 50.8% | 52.0% |
| Krispy Kreme Doughnuts Inc | KKD | \$15.98 | \$26.63 | \$15.7 | \$1,031.8 | \$1,033.7 | \$461.3 | \$466.3 | \$487.8 | \$60.4 | \$60.5 | \$66.3 | 0.0% | 13.0% | 13.6% |
| Panera Bread Co | PNRA | \$149.83 | \$193.18 | \$147.3 | \$4,106.8 | \$4,106.8 | \$2,428.6 | \$2,531.2 | \$2,782.0 | \$412.1 | \$407.4 | \$442.8 | 0.0% | 16.1% | 15.9% |
| Chipotle Mexican Grill Inc | CMG | \$592.51 | \$622.90 | \$362.3 | \$18,379.1 | \$18,379.1 | \$3,625.3 | \$4,065.2 | \$4,765.5 | \$684.0 | \$812.1 | \$1,002.2 | 0.0% | 20.0% | 21.0% |
| Jack in the Box Inc | JACK | \$59.84 | \$62.90 | \$38.5 | \$2,395.7 | \$2,905.4 | \$1,479.3 | \$1,479.1 | \$1,508.3 | \$261.3 | \$268.1 | \$287.4 | 0.0% | 18.1% | 19.1% |
| Sonic Corp | SONC | \$22.08 | \$23.74 | \$14.6 | \$1,197.0 | \$1,664.4 | \$547.4 | \$549.1 | \$575.9 | \$135.2 | \$140.7 | \$155.4 | 0.0% | 25.6% | 27.0% |
| Average Grocery Stores | | | | | \$17,930.2 | \$20,518.2 | \$5,446.8 | \$5,543.6 | \$5,853.1 | \$1,633.9 | \$1,653.7 | \$1,774.0 | 7.3% | 28.8% | 29.8% |
| Median Grocery Stores | | | | | \$4,472.2 | \$5,619.0 | \$1,879.5 | \$1,772.1 | \$1,735.9 | \$397.6 | \$404.6 | \$431.5 | 0.0% | 21.0% | 21.6% |

Data Source: Bloomberg

Margins. Nationwide retail gasoline margins ended the quarter at 19.5 cents per gallon, up from 15.4 cents per gallon in the last week of the first quarter, and above the historical five-year average. Between the end of the second quarter and the time of this publication, retail fuel margins have continued to rise, and margins at the end of July were 54% higher than the prior year. Despite the recent uptick in margins, there is some uncertainty regarding the remainder of summertime gas prices according to OPIS. Demand is expected to continue to rise, but pump prices are remaining low in response – at least for now. Retail diesel prices are also quite low, and diesel margins have continued to rally, ending the quarter at 26.6 cents per gallon.

Generally, over 70% of a c-store's sales are motor fuels; however, fuel contributes only one-third of total convenience store gross margin dollars. Fuel margins have been consistent on an annual basis, averaging 17.1 cents per gallon for 2009 through 2013. There is a 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 17.1 cents, this translates to a typical two to three cents per gallon of bottom line profit.

Exports. According to U.S. Energy Information Administration, the United States exported 246,000 barrels per day of crude oil in March 2014, which represents the highest level of exports in 15 years. The increase is primarily related to the increase in domestic crude production, primarily in the Gulf Coast region. Nearly all of the exports were destined for Canada.

Labor Relations. The National Labor Relations Board ruled in early July that franchisor entities could be held responsible for the labor violations of their franchises. This ruling could hold corporate franchisors responsible for poor labor conditions or unfair labor practices. It could also impact minimum-wage legislation since franchisees have historically been responsible for setting wages. Several entities, including the NACS, are calling for a reversal of the decision, and McDonalds (a defendant in the subject litigation) is expected to challenge the ruling. The ruling could be a game-changer in the world of convenience store and fast food franchisors.

America's Small Business Tax Relief Act. In early June, the U.S. House of Representatives passed H.R. 4457, America's Small Business Tax Relief Act. This act would extend the right of small business to expense, rather than capitalize equipment and property. President Obama has threatened to veto the bill due to the effect it would have on tax revenues. So far, the bill has been ignored in the Senate.

Highway Trust Fund. The Highway Trust Fund (“HTF”) was created by the federal government in 1956 to pay for highway construction and maintenance. It is funded by an 18.3 cent per gallon federal tax on gasoline and a 24.4 cent per gallon tax on diesel. These levels have not changed since 1993. Since then, the cost of road construction and maintenance has gone up, and these taxes have lost more than 40% of their purchasing power, according to the Institute on Taxation and Economic Policy. Over that same time, vehicles have become more fuel efficient, reducing the total number of gallons purchased and taxes collected per vehicle.

In early August, Congress temporarily funded the nation's highway and mass transit programs for another ten months in the form of an extension to the Highway Trust Fund. Funding is provided by a combination of pension smoothing, higher customs fees, and a \$1.0 billion transfer from the LUST Trust to the highway trust fund. Absent this legislation, the fund would have run out of cash by Labor Day.

Recent M&A Activity

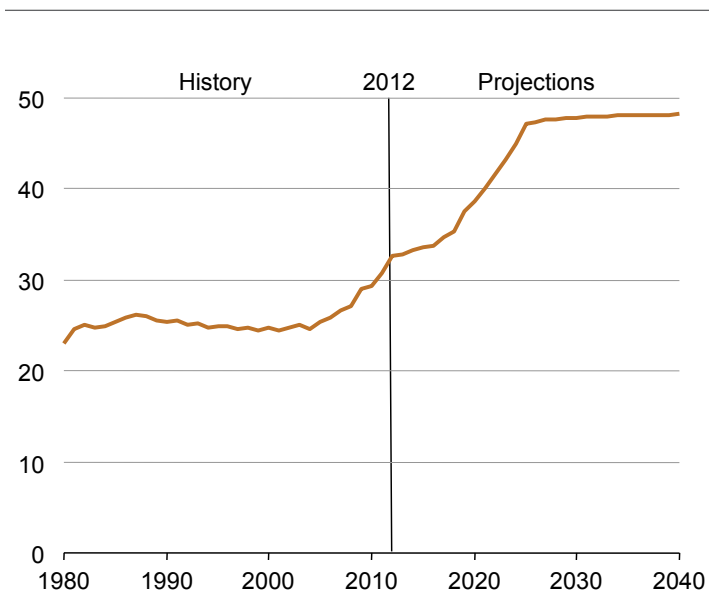
- » **Hess Retail Corp.** gained approval for a spinoff in early 2014, which is expected to be completed by the middle of the year. In late May 2014, Hess announced its intention to sell the recently spun-off retail operations to **Marathon Petroleum** for \$2.6 billion, ending months of speculation regarding the future of the Hess c-stores. The Hess c-store chain consists of over 1,300 locations and will make Marathon one of the largest owners and operators of c-stores in the U.S. with locations in 23 states. Many industry insiders were shocked by the multiple implied by this transaction (anywhere from 10x to 14x EBITDA, depending on how the figures are calculated).
- » **ETP** announced in April its plans to acquire **Susser Holdings Corp.** in a unit and cash transaction valued at a total consideration of approximately \$1.8 billion. The combined ETP/Susser entity is expected to be merged into a standalone business under the Susser Petroleum Partners LP business unit. Although the exact implied EBITDA multiple is unknown, it is rumored to be around 10x after considering an expected \$70 million in merger efficiencies. The cash offer price represents a 41% premium over Susser's closing stock price on April 25th.
- » **CST** and **7-Eleven, Inc.** both announced plans to sell off gas stations and convenience stores that did not fit the companies' current business models. Industry analysts expect the trend of divestitures to continue if the pace of acquisitions remains steady.
- » **Atlas Oil Co.** sold off its BP-branded assets in Chicago and Northwest Indiana to **Lehigh Gas Partners, LP** for a total price of \$38.5 million. **Lehigh Gas Partners, LP** also acquired **Petroleum Marketers, Inc.** for a total price of \$61 million.
- » **Par Petroleum Corp.** agreed to acquire **Koko'oha Investments** for \$107 million. This transaction involved 80 gas stations and convenience stores under the 76 fuel brand.
- » In early July, **Fortress Investment Group**, a New York-based investment management firm, acquired **United Oil Company**. While financial information has not been disclosed, the purchase price has been rumored to be at least \$500 million.
- » **Dollar Tree, Inc.** announced in late July its intention to acquire **Family Dollar Stores, Inc.** in a deal valued at approximately \$8.5 billion. The new combined company will continue to operate both brands and boast over 13,000 stores. These deep discounters have been a significant competitor to convenience store operators in recent years as the dollar stores have undertaken growth strategies to take market share away from traditional operators such as grocery stores, big box retailers, pharmacies, and convenience stores. In early August, there was some speculation that Dollar General might also bid for Family Dollar Stores, Inc. in order to protect its status as the top discounter.
- » **Master Limited Partnerships, or MLPs, have become popular in recent years due to their tax-free structure.** During the second quarter of 2014, the IRS began an internal review of MLPs and temporarily suspended its guidance to companies interested in forming an MLP. The IRS initiated its review based on the increased pace of MLP IPOs and the fact that many of the corporate activities of the companies applying for MLP status are increasingly less or only marginally related to energy production. It is not known at this time whether any significant changes are on the horizon for MLPs.
- » Industry insiders continue to emphasize **the trend of improving multiples and increased activity.** This is expected to continue for the second half of 2014. Factors contributing to higher multiples include the increase of willing lenders to finance transactions at relatively low rates, the increase of tax-advantaged MLPs and spinoffs, and higher demand for properties in urban centers and smaller format stores. Experts indicate that while multiples a few years ago were in the 5x to 6x EBITDA range, recent deals have been in the 7x to 8x range, and recently some deals have occurred in the low double digits. As typical of transactions, valuations are driven by target size and post-merger efficiencies and synergies.

Segment Focus

Alternative Fuels & Consumer Transportation

The National Association of Convenience Stores (NACS) released its annual report entitled "The Future of Fuels" in early 2014. This report 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 2014 (AEO2014). The AEO2014 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 report 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 2040.²

Average Fuel Economy of New LDV's 1980-2040 (MPG)

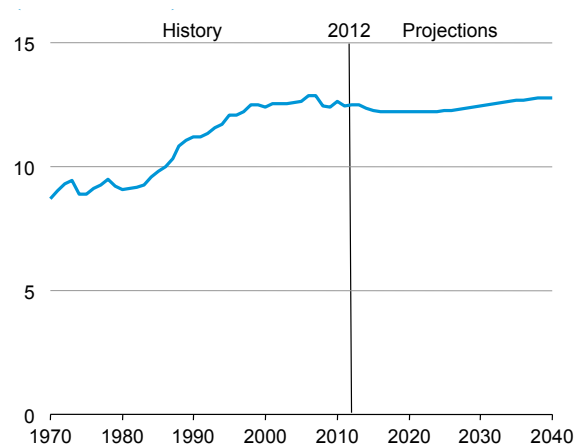


Source: U.S. EIA's Annual Energy Outlook

² U.S. Energy Information Administration Annual Energy Outlook 2014 p. MT-14.

The U.S. transportation sector represents 28% of the energy consumed in the United States. Although the EIA forecasts a 96.2% increase in GDP through 2040, the agency forecasts a 4.31% drop in overall transportation energy consumption over the same time period. This is primarily due to the 42% forecasted drop in energy consumption per mile for LDV's, and is also impacted by the reduction in vehicle miles traveled by several key age groups.³

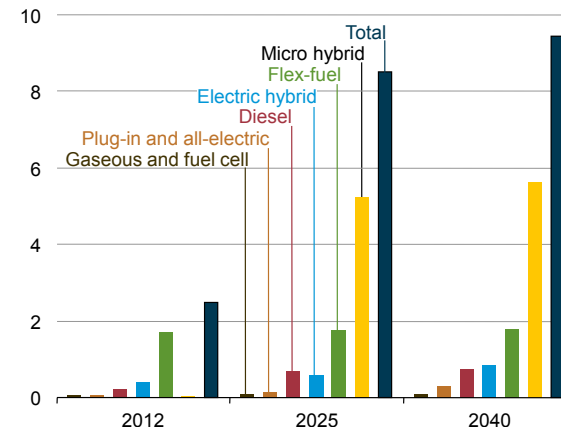
Vehicle Miles Traveled per Licensed Driver (1970-2040)



Source: U.S. EIA's Annual Energy Outlook

Sales of LDV's Using Non-Gasoline Technologies by Type

(million vehicles sold)



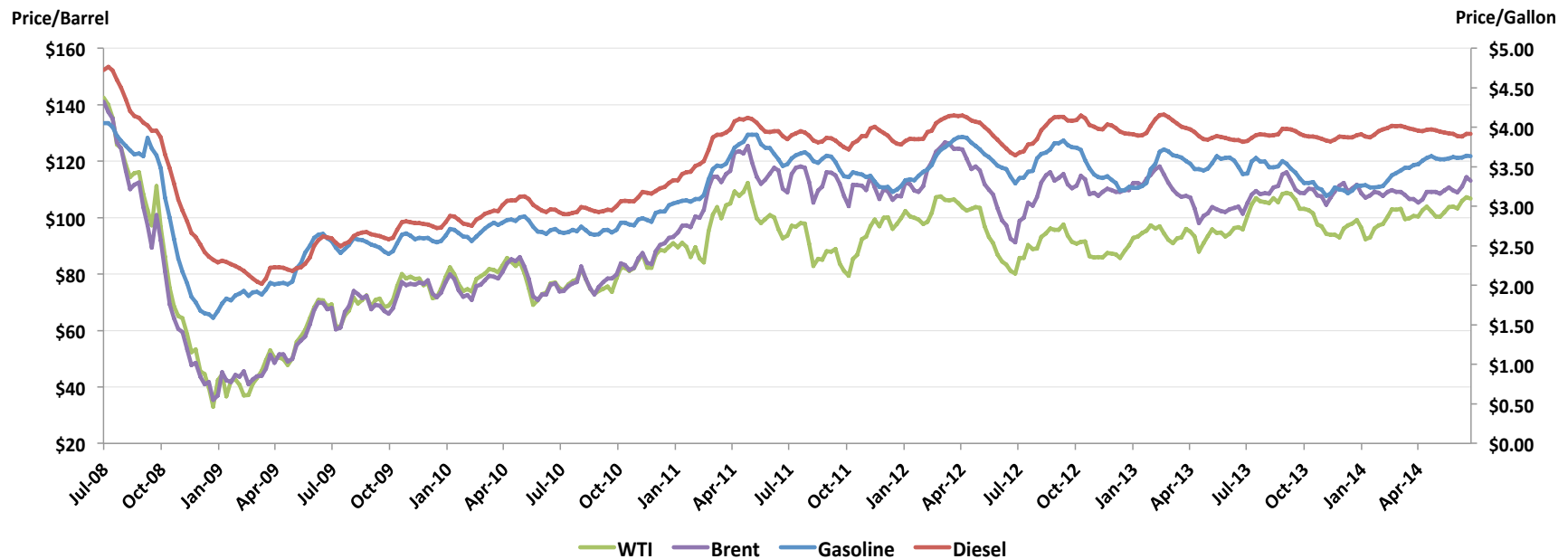
Source: U.S. EIA's Annual Energy Outlook

Gasoline is expected to remain the primary energy source for LDV's (79.9% of LDV's on the road), but its market share as measured by the percentage of energy consumed by LDV's is expected to fall by 6.1% through 2040 and 12.8% as measured by LDV miles traveled. Diesel fuel gallons consumed are expected to increase 26% over this same time period.

³ IBID.

Fuel Pricing and Supply Charts

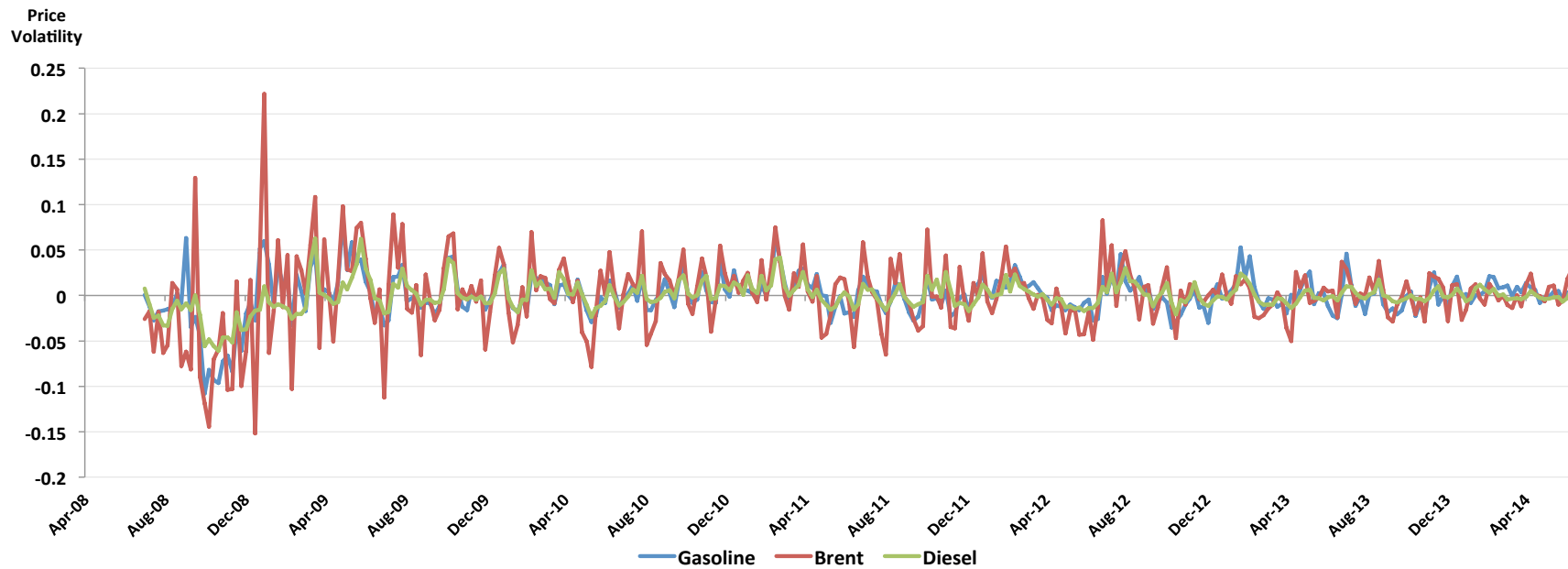
Fuel Prices & Supply



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

Fuel Pricing and Supply Charts

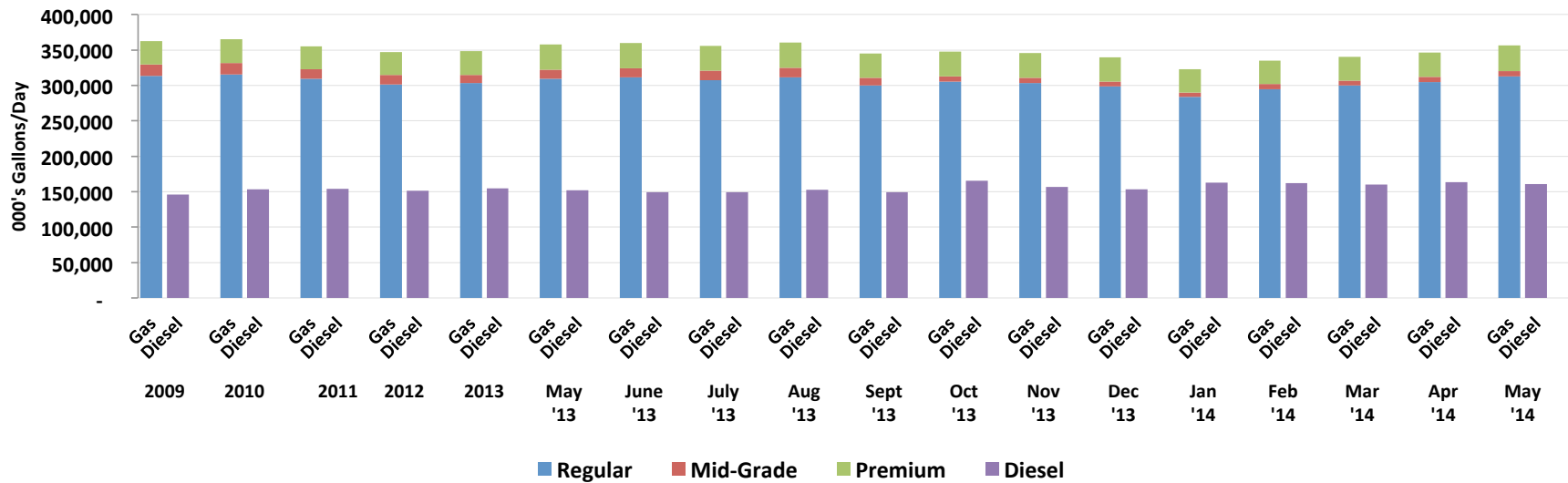
Motor Fuel and Brent Crude Price Fluctuation



Data Source: Calculated by Mercer Capital based on 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
- Food Services

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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