NRC
REALTY & CAPITAL ADVISORS

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WELCOME

This issue begins with the third part of our series, "Understanding the Value of Your Business". In this article, Evan Gladstone and Ian Walker tackle the question, "When Should I Sell My Company?"

Also contained in this issue is a reprint of Denny Ruben's article, "Insider's View: M&A Market Just Beginning to Pick Up," which was published online on CSP Daily News on July 21st. Several sales conducted by NRC in the second quarter of this year are mentioned in this article, including the sale of 116 operating and former convenience stores with gas for CST Brands, Inc., the public company spun off from Valero in 2011, and 20 convenience stores with gas and 50 convenience stores without gas for 7-Eleven, Inc. Both CST and 7-Eleven are in the closing process.

NRC has also served as exclusive financial advisor to Canastota, New York-based Nice N Easy Grocery Shoppes, Inc. in connection with the sale of all of its assets to CST Brands. The assets being sold include 33 company-operated stores, which are either owned or leased by the company as well as the company's rights as franchisor under franchise agreements for 44 other locations, all of which are located in central New York State. The sale is expected to close in the fourth quarter of this year.

RaceWay recently retained NRC to sell 17 operating and former convenience stores with gas. Bids are due October 21st. The sites are located in Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina and Tennessee. Sites are being sold without brand or fuel supply.

NRC has also been active outside of the convenience store space in the past quarter selling a 90-room hotel property in Natchez, Mississippi, and a non-performing note on an operating convenience store with gas in Hoffman Estates, Illinois.

WHEN SHOULD I SELL MY COMPANY? THE LAWS OF ENTROPY SAY NOW!

by Evan Gladstone, Executive Managing Director & Ian Walker, Senior Vice President

There is no easy answer as to when to sell. No matter what price your company might bring in today's frothy M&A environment, most owners of profitable companies that NRC has surveyed are happy with their businesses. However, owners approaching retirement age, and owners looking for a liquidity event for family reasons or to launch a new venture have an opportunity to realize more for their companies in today's environment than they ever thought possible.

WHEN SHOULD I SELL MY COMPANY? THE LAWS OF ENTROPY SAY NOW! *continued from page 1*

Large convenience store operators continue to increase their store counts at a rapid rate while MLPs (Master Limited Partnerships) are buying up supply agreements from jobbers and convenience store operators. The convergence of these two different types of buyers has set off a buying frenzy in the convenience store and gas industry. Multiples of store-level EBITDA are at an all-time high, as described in Dennis Ruben's State of the Industry article and in Jeff Kramer's interview with Evan Gladstone. While pundits have predicted soaring interest rates since 2009, ten-year treasuries (which many loan rates are tied to) still are near historic lows. That said, there is no doubt that interest rates will begin rising, most likely sometime next year, which will slow the M&A market. However, besides large buyers, lenders to the industry have been more active in the current market than at any time since the 1990's, both in providing mortgage financing and sale-leasebacks. Mortgage rates have been below 6% for borrowers with good credit lines and half a dozen REITs are providing significantly higher proceeds in sale-leaseback money. The ready availability of financing has made it easier for distributors and smaller operators to compete with 7-Eleven and Circle K when buying, and this certainly has had an additional positive effect on sale multiples.

The Laws of Entropy suggest that without growth, most smaller companies (under 50 stores) will gradually be worth less as stores age, government regulations increase and aging company owners slow down. Adding stores might begin the reversal of that trend, but that means competing with larger companies experienced in the acquisition game with ready lines of cheap capital – no easy task. The smaller the company is, the harder it will be to double or triple store counts, and without growth, smaller companies will likely be worth less in the future than they are today.

M&A MARKET JUST BEGINNING TO PICK UP

TWO BLOCKBUSTER ACQUISITIONS LEAD CAPITAL MARKETS REVIEW OF Q2 2014

by Dennis L. Ruben, Executive Managing Director

As appeared in CSP Daily News | July 21, 2014

INTRODUCTION

The second quarter of the year is historically the slowest period in terms of merger-and-acquisition activity in the convenience-store industry. However, such was not the case in the second quarter of 2014. In fact, two blockbuster transactions were announced during the second quarter—Energy Transfer Partners' acquisition of Susser Holdings Corp. and the acquisition of the retail convenience-store assets of Hess Corp. by Marathon Petroleum Corp.'s Speedway subsidiary.

Although a sale transaction involving the Hess retail network had been in the rumor mill for some time, most industry observers expected Hess Corp. to complete a spinoff of the retail assets to its shareholders. Not only was the Hess transaction unexpected, the sale price and rumored EBITDA multiple paid raised eyebrows throughout the industry.

It is difficult to determine the exact multiple that Marathon paid for the Hess assets, but industry analysts have speculated that the multiple was anywhere from 10x to 14x. Regardless of the

M&A AND CAPITAL MARKETS REVIEW: Q2 2014 *continued from page 2*

actual multiple that was paid, all sophisticated industry analysts concluded that the price and the multiple were "off the charts." Marathon has indicated that it believes that the price was justified by the synergies that the company will be able to realize by the combined entity. Only time will tell if those predictions come true.

At the other end of the spectrum, the ETP acquisition of Susser Holdings caught everyone by surprise. Susser Holdings and its CEO Sam L. Susser are generally regarded as the "gold standard" in the industry. Although it did not appear that Susser was looking to be acquired, the offer from ETP, and the multiple that it represented (thought to be about 10x) was certainly difficult for Susser Holdings to turn down.

The price to be paid by ETP is a 40% premium to the stock price on the day the transaction was announced. In addition, as both companies stated in their press releases and other interviews, this combination of the ETP/Sunoco and Susser networks will significantly expand the footprint of ETP into the highly attractive Texas marketplace and create synergies between the two companies.

Beyond the two blockbuster acquisitions, both 7-Eleven Inc. and CST Brands Inc. announced divestitures of non-strategic assets during the quarter. NRC Realty & Capital Advisors, Chicago, is handling both of these transactions. 7-Eleven is selling 75 gas stations and convenience stores in 16 states, and CST Brands is selling 100 gas stations and convenience stores in nine states. In both instances, the companies stated that they were selling these assets because they did not fit into their corporate strategies.

As companies continue to acquire large companies or portfolios of stores, the divestiture of noncore assets would seem to be an attractive strategy when a buyer must take all of a seller's assets in an acquisition. It's likely that this trend will continue in the future as the pace of large acquisitions continues to accelerate.

ENERGY TRANSFER PARTNERS LP/SUSSER HOLDINGS

To the surprise of everyone in the convenience store industry, Energy Transfer Partners LP. Parent company of Sunoco, announced the purchase of Susser Holdings Corp. and its 630-store chain based in Corpus Christi, Texas, for a total consideration of $1.8 billion. Following the initial purchase of Susser Holdings, a series of drop-down transactions will occur whereby existing ETP and Susser Holdings retail business units will be sold to Susser Petroleum Partners LP. The company stated that this process will yield a centralized retail business combining both ETP's Sunoco fuel brand and Susser's Stripes convenience stores.

Shortly after the announcement of the Susser acquisition, ETP followed up with the disclosure that it had acquired 40 Tigermarket convenience stores from Tiger Management. The stores were acquired through Sunoco subsidiary Southside Oil Co., which ETP acquired through its acquisition of Mid-Atlantic Convenience Stores in October of 2013. Most Tigermarket stores are located in and around Nashville, Tenn.

M&A AND CAPITAL MARKETS REVIEW: Q2 2014 *continued from page 3*

SPEEDWAY LLC/HESS CORP.

Although it had been generally believed that Hess Corp. intended to spin off its retail assets to its shareholders based upon its public filings in January, Hess surprised the industry by announcing in May that it had entered into an agreement to sell the entire retail network to Marathon Petroleum Corp.'s Speedway LLC subsidiary for $2.87 billion. The transaction is anticipated to close at the end of the third quarter of this year. After the closing, Speedway will have 2,733 company-owned stores. This will make Speedway the largest company-owned and -operated convenience-store chain in the country based on revenue and the second-largest based on store count.

CST BRANDS INC.

CST Brands Inc. announced that it was selling 100 gas stations and convenience stores in nine states, as well as 16 former gas stations and one parcel of land. Most of the stores are located in Texas, Colorado, Arizona and California. Approximately half of the Texas sites are in the Dallas-Fort Worth area. In announcing the sale, the company indicated that it wanted to streamline its operations to focus on its core business strategy of building larger-format stores that can offer a wider array of enhanced product offerings. CST Brands engaged NRC Realty & Capital Advisors LLC to coordinate the sale of these locations.

7-ELEVEN INC.

7-Eleven Inc. announced that it was selling 75 gas stations and convenience stores in 16 states that did not fit the company's current business model. Most of the stores are located in Florida, Virginia, Massachusetts and Illinois. Of the 75 locations, 22 are convenience stores with gasoline, while 53 do not sell fuel. 7-Eleven once again retained NRC Realty & Capital Advisors LLC to handle the sale.

NOTABLE M&A TRANSACTIONS

- Atlas Oil Co. sold all of its BP-branded assets in Chicago and Northwest Indiana to Lehigh Gas Partners LP. Lehigh agreed to purchase 55 wholesale supply contracts, 11 fee and leasehold sites, two commission marketing contracts and certain other assets for a total consideration of $38.5 million. Lehigh also acquired certain short-term financing assets associated with the wholesale supply and commission marketing contracts for $11.9 million, bringing the total consideration for the transaction to $50.4 million.

- The Mirabito Family of Cos., based in Binghampton, N.Y., agreed to purchase the entire chain of 17 convenience stores owned by Manley's Mighty Marts LLC, which is also based in Binghampton, N.Y.

- Petroleum Marketing Group Inc. (PMG) closed on the acquisition of 27 convenience stores owned by Cumberland Farms Inc. The retail sites are located in New Jersey, Delaware and Pennsylvania, and most of the locations sell fuel. PMG has 85 company-owned and -operated stores, as well as 500 stores operated by dealers and commissioned marketers in Virginia, Maryland, Washington, D.C., and New Jersey.

- Lehigh Gas Partners LP acquired Roanoke, Va.-based Petroleum Marketers Inc. for a total consideration of $61 million. The acquisition consists of 85 convenience stores and nine co-branded convenience stores/quick-service restaurants located primarily along the Interstate 81 corridor in Virginia, with a concentration in the Roanoke area. The convenience stores operate under the company's proprietary brand, Stop In Food Stores.

- Par Petroleum Corp., the parent company of Hawaii Independent Energy LLC, agreed to acquire Koko'oha Investments Inc., the parent company of Mid Pac Petroleum LLC, for approximately $107 million. The acquisition involved 80 gasoline stations and convenience stores under the 76 fuel brand.

GROWTH INITIATIVES

Cumberland Farms is continuing to grow its presence in Florida after reducing its store count in New Jersey, Delaware and Pennsylvania following the sale of 27 stores in those states. The company plans to expand its presence in the Fort Lauderdale-to-Melbourne, Fla. corridor. Six stores are under construction and in the pipeline at the present time.

Tesoro Corp. announced that it expects to close on the acquisition of 15 retail convenience stores and gas stations in the Salt Lake City area. The stations will carry the Exxon fuel brand.

Supermarket chain Hy-Vee Inc., based in West Des Moines, Iowa, announced that it plans to open 16 convenience stores by the end of the company's fiscal year. The company already operates 120 Hy-Vee Gas convenience stores with fuel in the parking lots of its grocery stores.

Casey's General Stores Inc. reported that during its current fiscal year, it has built 44 new convenience stores, acquired 28 stores and completed 20 replacements, as well as 25 major remodels. The company currently has 27 new stores and 23 replacement stores under construction, as well as 38 new sites, 28 replacement sites and five acquisition stores under contract to purchase.

CONCLUSION

Based on the large transactions announced during the second quarter, and the United Oil deal that was closed just after the end of the quarter, the year seems to be getting off to a good start in terms of merger-and-acquisition activity.

We are aware of a number of transactions—of all sizes—that are in the pipeline at the moment and should close this year. In addition, we are aware of some other divestitures of nonstrategic assets by major industry players that will be commenced shortly.

The access to capital by the larger players, the low-interest-rate environment and the tax-advantaged MLP structure all explain the incredible pace of acquisitions we are witnessing at present. There are no signs on the horizon that this trend is slowing any time soon; in fact, it may be picking up pace as companies attempt to complete transactions before the end of the year.

Furthermore, with the high multiples being paid for quality assets and companies, owners and operators who have previously not seriously considered selling their companies are now exploring their options.

The remainder of the year should prove interesting when we look back and see where things started in January and where they wind up in December. Stay tuned!

THOMAS WILKY JOINS NRC AS MANAGING DIRECTOR

Thomas Wilky has nearly 30 years of marketing, operations and leadership experience through several corporate career engagements and over 15 years of marketing and business consulting services to a client base in a broad range of industries, including multi-branch retail, convenience store, hospitality, consumer products, energy, and telecommunications. Most recently, Mr. Wilky formed Southwest Pacific Partners, an investment limited liability company and marketing consulting firm to make strategic investments and facilitate financial transactions in the retail convenience store, energy and the outdoor apparel industries. Mr. Wilky's business consulting practice has spanned over 25 years and he has provided marketing consulting and financial services to a broad client base that included Gentry Capital Advisors, Koch Industries/Ventures and Giant Industries, Inc. in the energy and retail convenience store space. Mr. Wilky began his career in the hospitality industry where as Director of Marketing for Motel 6, LLP he instrumental in repositioning this national lodging company as the Director of Marketing and was responsible directing and implementing the Tom Bodett national advertising campaign.

Mr. Wilky received his Bachelor of Science in Business Administration from the University of Arizona in Tucson, Arizona.

INDUSTRY EXPERT INTERVIEW: JEFF KRAMER

Interviewed by Evan Gladstone

We are pleased to announce that Jeff Kramer has joined NRC as a Managing Director with a focus on new business development. Jeff has thirty years of experience in petroleum and convenience store retailing, plus extensive experience in refining, wholesaling and distribution. His most recent experience has been as Managing Member and CEO of Prima Marketing LLC, owner/operator of 89 7-Eleven convenience stores in the Eastern United States. Most of these locations were sold to 7-Eleven in 2012, with the assistance of NRC. He is a long-standing member of NACS and SIGMA, having served on its Board of Directors. The following is a conversation Jeff had with Evan Gladstone last month.

Evan Gladstone: There has been an enormous amount of buzz in the industry about high company sale multiples in recent M&A transactions, and whether there is a bubble. In light of the Marathon acquisition of Hess, the ETP acquisition of Susser and the CST Brands purchase of the general partner interest in Lehigh, what factors do you see driving this, and are these valuations sustainable?

Jeff Kramer: Purchase price multiples had been recovering after the 2008 recession as interest rates dropped and consumer and business confidence slowly improved. The convenience store industry profits held up quite well through the recession and afterward. Company purchase price multiples in the 5-8 times EBITDA range have a good payout at a 3¼% prime rate of interest, especially if synergies are available as well. The more recent surge in multiples to double digit numbers may be a "bubble" effect largely created by the master limited partnership (MLP) tax and corporate structure created in Washington, D.C. and Wall Street. And public companies like Susser and Lehigh have incentives to grow, so if acquisitions are accretive to earnings and ultimately dividends, prices go up.

I also believe that many distributors do not fully realize the increase in values realizable for their dealer business, with or without real estate, and even their wholesale business in the MLP environment. It looks like it will take either a rise in interest rates, serious economic problems, and/or a change in the MLP tax structure to burst the bubble. Tax reform in the U.S. is coming that might include MLP structures as the impact on Treasury revenues becomes more noticeable, but it likely won't be until after elections when that door could open. Even then, existing MLP's could be grandfathered.

Evan Gladstone: How do you see this affecting C&G over the next few years and long term?

Jeff Kramer: The consolidation trend for C & G will continue for the short and long term. The regulatory background, particularly for environmental compliance and other legal issues, promotes consolidation and size because of favorable economies of scale. Also, reduced competition over time could benefit retail fuel margins, which have historically not provided a proper return on investment. The withdrawal of the major oil companies from retail is also a plus, since they, at

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times, had tended to subsidize retail. As an example of consolidation benefits, note how U.S. refining margins have improved with industry consolidation, even though demand is soft.

Evan Gladstone: In the strong M&A market, what options do you see available for company owners considering a sale or for that matter considering an acquisition?

Jeff Kramer: I would very strongly recommend obtaining market savvy industry financial advisors you can trust, whether buying or selling. The marketplace is extremely complex, and it is critical to know the key players for your business to maximize your values. Your best buyer may be your neighbor next door, who may also be your most hated competitor. A good financial advisor will know if that is even a possibility and a potential fit for your goals. They should be able to act discreetly. A final recommendation is to be sure to obtain good legal advice.

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Evan Gladstone: One question we get at NRC from potential sellers is "what do I do with the proceeds once I sell"?

Jeff Kramer: Reinvestment is a serious problem today with current low interest rates. Many prospective sellers are just as happy with their income and reinvestment in the business. For those who need to sell or feel that today's selling environment won't last, returns can be improved. For example, some owned stores might be leased to the buyer or perhaps sold to a third party to be leased to the buyer. Or, if the buyer is traded in the public stock markets, part or all of the purchase price could be for stock. This has tax advantages as well as growth or income benefits. Capital gains can also be deferred through a 1031 exchange where proceeds are "traded" into income-producing triple net leases with Walgreens or CVS as a long-term tenant. All in all, if the price is right and the timing is right, it might be better to live with the "what to do with the money" dilemma.

Evan Gladstone: For sellers not yet ready to fully retire, how do you continue to be active in the industry after a sale?

Jeff Kramer: As a knowledgeable seller, you might be able to remain active with the new company, perhaps in an operating role or as a consultant. It's often negotiable. Industry consulting is always a possibility too. By definition, most industry operators are familiar with real estate since it is a key aspect of the business. Many distributors have parlayed that real estate knowledge post-sale. Jeff can be contacted at (303) 619-0611 or at jeff.kramer@nrc.com.

Should you have any questions about anything contained in this newsletter or any other matter, please feel free to contact Evan Gladstone at (312) 278-6801 or evan.gladstone@nrc.com, Dennis Ruben at (480) 374-1421 or dennis.ruben@nrc.com, or Ian Walker at (312) 278-6830 or ian.walker@nrc.com.

Evan Gladstone

Dennis Ruben

NRC REALTY & CAPITAL ADVISORS

www.nrc.com

Corporate Office
350 W Ontario Street, Fourth Floor
Chicago, IL 60654

312.278.6800 phone
312.278.6900 fax

Scottsdale Office
8601 N Scottsdale Road, Suite 310
Scottsdale, AZ 85253

480.374.1420 phone
480.374.1430 fax

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Additional contributions to this newsletter provided by David Bleeden, Dave Shand and Tracey Suppo.