NRC
REALTY &
CAPITAL
ADVISORS

# NEWSLETTER SPRING 2015

## WELCOME

The year 2014 was a banner year in the convenience store and petroleum industry, in terms of both real estate sales and merger and acquisition activity. NRC Realty & Capital Advisors, LLC (NRC) was engaged by several of 2014's biggest industry players, including CST Brands, 7-Eleven, Nice N Easy Grocery Shoppes and others.

NRC closed on the sale of 325 properties for more than $298,000,000. While the vast majority of these sites were operating convenience stores, NRC also sold a variety of commercial real estate and land. Properties were sold in 28 states.

NRC was retained by CST Brands, Inc. (NYSE:CST) to coordinate the sale of 116 operating and former convenience stores with gas, plus one land parcel. The sites were located in nine states, and were sold without branding, and with or without fuel supply.

NRC served as exclusive financial advisor to Nice N Easy Grocery Shoppes, Inc. in the sale of the company's assets to CST Brands. The assets included 33 company-operated stores and the company's rights as franchisor to 44 other locations, all of which were located in central New York.

NRC continued its work for 7-Eleven, Inc. with two sale initiatives, and conducted its fourth sale for Getty Realty Corp. (NYSE:GTY), selling former gasoline stations and convenience stores that had gone out of industry. NRC was also retained by RaceTrac Petroleum, Inc. to coordinate the sale of 18 convenience stores with gas located in eight states throughout the southeast.

NRC served as exclusive financial advisor to Junonia Capital LLC in connection with the purchase of the assets of TimeSaver Food Stores Co., consisting of 13 convenience stores, 11 of which are co-branded with Subway, plus three freestanding Subway locations. All assets were located in Florida.

NRC was retained in two bankruptcy sales last year–one with 18 New Jersey gas stations and a second with a 135-acre development site in Colorado Springs, Colorado. NRC also sold a 95-room hotel and a 21-acre former casino site in Natchez, Mississippi.

NRC represented The Standard, StanCorp Mortgage Investors, LLC (NYSE:SFG) in the sale of a non-performing note on a convenience store in Hoffman Estates, Illinois.

Based upon new transactions that are already in the works and discussions we have been having with industry participants, 2015 looks to be another exciting year on both the real estate divestiture and M&A fronts. For information about NRC and its capabilities to assist you in either arena, please contact Ian Walker at (312) 278-6830 or at ian.walker@nrc.com.

## WHAT DO I DO WITH THE MONEY? THE 1031 EXCHANGE

by Evan Gladstone, Executive Managing Director

Closely held convenience store company owners see the high multiples being paid for companies by master limited partnerships (MLPs) and large convenience store operators today, but can't get totally comfortable selling because they don't think they have good ways to redeploy their capital after a sale. NRC has been hearing this refrain regularly in the last year or two and it seems to be the single biggest reason owners continue to operate their businesses well into their seventies, eighties and beyond.

## WHAT DO I DO WITH THE MONEY? THE 1031 EXCHANGE *continued from page 1*

After all, $20 million in gross proceeds from selling one's business might be reduced by 30% to 40% after paying off existing bank loans and the capital gains tax. Investing the remaining proceeds in CDs could generate $500,000 in annual pre-tax income versus receiving double that amount by continuing to own and operate the company. While the stock market offers better returns than CDs, the ups and downs of the market may seem risky, especially at today's lofty stock prices, and the stock market doesn't provide a guaranteed return.

What many company owners haven't thought about when considering a sale of their company is a Section 1031 tax deferred exchange into investment grade, net-leased real estate. Owners are overlooking their deep real estate knowledge gained over decades of buying great corners and operating their retail stores. An owner can evaluate and manage property with tenants like Walgreens and CVS almost as easily as owning a bond. Taking the equity from the sale of a company and rolling it into triple-net leased real estate allows the deferral of the 20% capital gains tax, which will hit long-time owners particularly hard when they have depreciated the tax basis of their stores.

Even more compelling today is that banks are providing low interest, long-term financing for good credit tenants such as Walgreens, thereby creating the opportunity to leverage the net proceeds from a company sale to new properties with two or three times higher value – a $20 million company becomes $50 million in triple-net leased real estate with secure income from long-term leases with credit tenants.

Further, since the 1031 exchange described above is a "trade up" (meaning the value of the new property is much higher than what the owner sold his company for), much or possibly all of the rental income from the new properties may be sheltered from income taxes going forward, plus the rental income will provide the funds required to pay down the principal on the mortgages used to acquire the new properties.

An owner in this scenario relieves himself of the daily task of managing a 20 or 30 store business, and replaces it with monthly rent checks and a simple trip to the accountant at the end of the year. Net leased real estate properties make estate planning for spouses, children and grandchildren much easier than burdening them with the operating business, and the tax sheltered rent streams from the new properties can run for 30 years or longer including renewal options.

Here are some basic guidelines for a tax-deferred exchange. Once an owner closes on the sale of his company, he has 45 days to designate which properties to exchange into (i.e., purchase). Typical triple-net leased drug stores sell for about $3 to $5 million, while office or industrial buildings which are 100% leased to Fortune 500 companies might sell for $10 or $20 million. Depending on anticipated cash proceeds from a sale of a business, an owner can determine how many properties he or she might want to buy, and then can designate those properties by entering into letters of intent or contingent purchase contracts for them within the 45-day period after closing. The owner then has six months to close on the new properties. Proceeds from the sale of the owner's company must be held in escrow during this time by a qualified intermediary (usually a national title company or bank) who escrows the money until the new properties are closed and accrues interest on the funds for the owner during the six-month period.

It is important to know that in deferring the gain upon sale and capital gains taxes from the company being sold, the depreciated basis in the owner's old company is carried forward into the new properties, which is why a "trade up" works the best since it creates a new depreciation schedule (over and above the old basis), sheltering rental income for years into the future.

As a more conservative alternative, it would be possible to trade a $20 million company for $20 million in triple-net leased real estate and still defer the capital gains tax due, and then the owner could refinance the newly purchased properties after he completed the 1031 exchange. The "refinance cash" is not taxable (although it would further reduce the owner's basis in the new properties).

It typically takes six months to a year to sell a company, and during that time an owner interested in doing a tax-deferred exchange should spend some time looking at available triple-net properties so that once his company is under contract, he is ready to make decisions on what kind of properties he feels comfortable buying, what kind of cap rates are available and where (locally or nationally). NRC can assist on both ends of an exchange, ensuring the highest price is achieved for the company sale and the owner's goals are met with the new properties to be acquired in the exchange process. Obviously, owners should consult with their accounting, tax, legal and financial advisors before embarking on this strategy.

Visit our website for additional information and examples of properties which might be right for a 1031 exchange at nrc.com/1031.

# INSIDER'S VIEW: Q1 2015 M&A REVIEW

## BIG NAMES MAKING BIG DEALS AS MOMENTUM PICKS UP STEAM

by Dennis L. Ruben, Executive Managing Director

*As appeared in CSP Daily News | April 13, 2014*

SCOTTSDALE, Ariz. – The first quarter of 2015 picked up where things left off in 2014 in terms of merger and acquisition activity in the convenience-store industry. Following on the heels of some very large transactions that either closed or were announced during the fourth quarter of 2014, the momentum seems to be continuing, and, if anything, picking up steam.

The acquisition of The Pantry Inc. by Alimentation Couche-Tard/Circle K closed during the first quarter, and a number of significant transactions were announced during the quarter, as well. Furthermore, the appetite for acquisitions from the master limited partnerships (MLPs) and the major industry players seems to be growing by the quarter.

Many of the major industry participants are looking at a number of deals, and others, such as Wawa, are expanding through explosive organic growth. If the first-quarter activity is any indication of what is to follow in next nine months, 2015 should prove to be a very active year.

### ALIMENTATION COUCHE-TARD/CIRCLE K

The first quarter of 2015 was certainly a busy one for Alimentation Couche-Tard/Circle K.

On March 16, Couche-Tard completed its merger with The Pantry Inc. The all-cash transaction, in the amount of $860 million, represented a per-share price of $36.75, with a total enterprise value of approximately $1.7 billion including debt. The transaction purchase price represented a 27% premium to The Pantry's closing share price on Dec. 16, 2014. Post-merger, the combined U.S. and Canadian store count is more than 7,800.

Couche-Tard also announced that it acquired 21 Tiger Tote Food Stores, as well as 151 dealer fuel supply agreements in Texas, Mississippi and Louisiana from Cinco J Inc., dba Johnson Oil Co. of Gonzales, Texas. It is anticipated that all of the acquired stores will be converted to the Circle K brand.

### CST BRANDS INC./CROSSAMERICA PARTNERS LP

CrossAmerica Partners LP closed on the purchase of all of the outstanding shares of Hudson, Wis.-based Erickson Oil Products Inc. and certain related assets for $85 million, subject to certain post-closing adjustments. Erickson operates 64 convenience stores in Minnesota, Michigan, Wisconsin and South Dakota, with a concentration in the Twin Cities. CrossAmerica intends to operate the Freedom Valu convenience stores, but expects to transfer the operation of certain sites over time to CST Brands Inc., the parent company of CrossAmerica's general partner.

In late March, Joe Topper, chief executive officer and president of CrossAmerica Partners, announced his plans to retire as CEO effective Sept. 30, 2015, and resigned as president effective immediately. The new president, Jeremy Bergeron, who currently serves as senior vice president of integration and development for CST Brands, comes with nearly 20 years of experience with Valero and CST Brands. Topper will continue to serve on the boards of both CST Brands and CrossAmerica after he formally steps down as CEO.

In speaking with an industry analyst recently, senior management of CST Brands and CrossAmerica stated that they are currently looking at 20 deals in their acquisition pipeline and are targeting $150 million to $200 million in acquisitions a year, subject to market conditions. CST is also focused on organic growth, and plans to build 35 to 40 new locations in the United States this year, as well as 10 to 12 new locations in Canada.

### SPEEDWAY LLC

Speedway LLC is making steady progress on rebranding the 1,245 gas stations and convenience stores that were included in the October 2014 acquisition of Hess' retail portfolio. Speedway has already rebranded 134 sites since the date of the acquisition. The Hess sites are spread across 16 states on

## INSIDER'S VIEW: Q1 2015 M&A REVIEW *continued from page 3*

the East Coast and in the Southeast. Under the terms of the deal, Speedway has three years to rebrand the sites and is investing $410 million between 2014 and 2017 in the process.

### OTHER NOTABLE M&A TRANSACTIONS

- Global Partners LP completed the acquisition of independent petroleum marketer Warren Equities Inc. from The Warren Alpert Foundation. The acquisition includes 147 company-operated Xtra Mart convenience stores and related fuel operations, 53 commission agent locations and fuel-supply agreements for approximately 320 dealers. The properties are located in 10 states in the Northeast and mid-Atlantic. The purchase price, subject to post-closing adjustments, was approximately $387 million, including working capital. The partnership expects the acquisition to be accretive in the first full year of operations and to generate EBITDA of $50 million to $60 million in the second full year of operations.

- GPM Investments LLC entered into an agreement with Sun Capital Partners Inc. to purchase the Midwestern division of VPS Convenience Store Group LLC, which consists of 163 company-operated stores in Indiana, Ohio, Michigan and Illinois operating under the Village Pantry and Next Door Store brands. This transaction adds to GPM's acquisition of the Southeast operations of VPS in August 2013, which included 263 convenience stores under a variety of names. Those stores are now a division of the company called GPM Southeast and are located in North Carolina, South Carolina, Tennessee and Virginia. In addition, GPM took ownership of 42 convenience stores in Illinois, Iowa and Kentucky from Road Ranger LLC.

- Empire Petroleum Partners LLC and Atlas Oil Co. combined their retail dealer businesses to create a national fuel distributor in a 29-state network servicing 1,350 accounts and distributing nearly 1 billion gallons of fuel annually. As part of the merger, Sam Simon, chairman and CEO of Atlas Oil, will retain a significant ownership stake in Empire Petroleum and will join its board of directors in an influential role.

- Mid-Atlantic Petroleum Properties LLC (MAPP) sold certain assets to Petroleum Marketing Group Inc. and its affiliates. The deal included all of MAPP's 37 gasoline stations and convenience stores located in Washington, D.C., and Maryland.

- Western Refining Inc. announced that it is acquiring 31 convenience stores in southern Arizona from Reay's Ranch Investors LLC. The stores will be rebranded under Western Refining's Giant brand.

- TravelCenters of America LLC, operator of TA and Petro Shopping Centers travel centers and Minit Mart convenience stores, announced that it has acquired a total of 26 gasoline stations and convenience stores (20 in Minnesota and six in Kentucky) in two unrelated transactions. Six stores in western Kentucky were sold to TravelCenters by Golightly & Long LLC, dba Cheers Food & Fuel, and 20 stores in Minnesota were sold by Best Oil Co. of Cloquet, Minn.

### GROWTH INITIATIVES

- Wawa Inc. continued its aggressive growth in Florida. The Pennsylvania-based company already has 60 locations in the state, primarily in central Florida, and announced plans for expanding into Broward and Palm Beach Counties in South Florida during the next five years. By the end of 2019, Wawa wants to have about 20 stores open in each of Palm Beach and Broward Counties. The company also plans to expand into Miami-Dade by 2017 or 2018. Wawa expects to open its 100th Florida store in 2016, four years after building its first store in Orlando. Wawa also announced a massive remodeling program intended to remodel its older legacy stores in order to reflect the company's latest design, technology and foodservice offering. Wawa will remodel 40 existing stores in 2015, the most in one year in the chain's more than 50-year history.

- Sheetz Inc., which operates in six states in the East, opened its 500th store on Feb. 24 in Thomasville, N.C. The company is planning more than 30 new store openings in 2015.

### DIVESTITURE OF NON-STRATEGIC ASSETS

- Fresh & Easy announced that it was closing and selling approximately 50 stores in California, Arizona and Nevada in the coming months as the grocery chain prepares to pursue a new fresh-food convenience-store concept. Two of the stores are in Las Vegas, five are in Arizona, 13 are in northern California, and 30 are in southern California. The company was bought out of bankruptcy in 2013 by Los Angeles-based The Yucaipa Cos.

- Mutual Oil Co. Inc. sold its branded, contract dealer business, consisting of more than 150 dealer supply contracts, structured agreements and its transportation fleet of 22 transports to an undisclosed purchaser.

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## CONCLUSION

It seems likely that the pace of merger and acquisition activity in the convenience-store industry will increase, resulting in a further concentration of stores in the hands of a few major industry players.

Many current c-store owners of midsize chains who have been attempting to grow through strategic acquisitions have been consistently frustrated by the high multiples that many of the MLPs and other large companies have been willing to pay. This factor, coupled with the current favorable interest rate environment, has caused many operators who have never considered selling their company, to do just that.

From a personal perspective, we have been surprised at the number of operators who are exploring their strategic alternatives at the present time. Whether these operators decide to move forward with a sale of their companies remains to be seen, but it certainly seems prudent for owners to evaluate their options based on the current climate for mergers and acquisitions.

# INDUSTRY EXPERT INTERVIEW: THOMAS WILKY

Interviewed by Evan Gladstone

Thomas Wilky has worked in the hospitality, retail and convenience store industries over the past two decades. Evan Gladstone sat down with Tom recently and got his perspective on the current market.

***Evan Gladstone:*** With over 20 years of marketing and branding experience in the convenience store industry, what led you to join NRC and get involved on the transactional/financial side of the business?

***Thomas Wilky:*** I first met Denny Ruben when I asked NRC to provide my firm with some financial guidance, assistance on deal structure and a valuation for a large acquisition in the c-store industry I was working on back in 2009. The size of the transaction was about $60 million, which was a huge deal for us. Unfortunately, due to the state of the capital markets at that time, we were unable to complete the transaction. I learned a great deal in working through that process, and felt that my experience could be very beneficial to existing clients and prospects as they are considering either an exit or an expansion of their operating footprint in the industry. I formed a great working relationship with Denny and NRC, and developed a great appreciation for their internal process of preparing a company and its management team for a potential transaction. I was also confident that my marketing insight and expertise of market segmentation, consumer branding, and consolidation could provide some additional perspective to NRC and our client base.

***EG:*** What have been the big changes in the marketplace that you have witnessed since your acquisition attempt back in 2010?

***TW:*** Clearly, portfolio valuations have ramped up substantially since we put our offer together. I think when we were trying to get our deal done, valuations were hovering around 5x store-level EBITDA based on geography and profile of the portfolio. Obviously, today we are seeing much higher valuations, and in some cases almost twice as high as that valuation. We have also seen the complexity of the business change, requiring additional resources that need to be allocated to both the regulatory and the operating sides of the business. Product categories are also expanding in the stores that require additional management expertise. We are also witnessing an expansion of major convenience store operators into secondary and tertiary markets, which, up to a couple of years ago, were hiding under the radar. This rapid expansion has been driven by larger operators,

## INDUSTRY EXPERT INTERVIEW: THOMAS WILKY *continued from page 5*

executing larger store formats into the high growth markets of the South and the Rocky Mountain West regions of the U.S. In addition to larger store formats, we are also seeing innovative store concepts and the rapid expansion of sophisticated food service offerings. This industry is in transition.

*EG:* Your first marketing client in the industry was back in 1994. From a customer and communications perspective, what has changed?

*TW:* So much has changed, but much has remained the same. I think the big initiatives we were working on back then centered around a gasoline brand segmentation strategy (post acquisition), and how to incorporate those assets into a new company. Sound familiar?

The sophistication and the complexity of today's consumer has evolved a great deal, but the research and the insight we have today is light years ahead of where we were back then. Also, social media back then consisted of flyers in the break room! We do a much better job of engaging the customer today. I will tell you that as much as things are changing, the fundamentals of customer satisfaction have not. Great locations, delivering exceptional customer service on customer expectations by great employees rule the day.

*EG:* We are excited about you joining NRC. Tell us a bit about your professional background and how that led you to NRC?

*TW:* I started my career in the hospitality business on the operations side of a multi-unit hotel company. At 24 years old, I had operational responsibility for 60 properties throughout the western U.S. I moved into retail consumer marketing and was a member of the original marketing team responsible for implementing and managing the Tom Bodett marketing campaign for Motel 6. I leveraged that hugely successful campaign into a marketing consulting practice for over 25 years. One of my clients was Giant Industries, an integrated oil company with c-store retail operations in Arizona, Colorado and New Mexico, which led me into the convenience store industry. I also spent a great deal of time in the fiber optic telecommunications business and have always been interested in the deployment of proven technology to improve business and marketing initiatives. I went "all in" to the convenience store industry with an attempted acquisition back in 2009-10. It was that particular business opportunity that led me to Denny Ruben and my affiliation with NRC. It's been a great ride so far and I am very excited about what's ahead for the convenience store industry and NRC.

*EG:* Your background really lends itself more to of an entrepreneurial career track, with a broad range of experience both inside and outside the gasoline and convenience store industry. How does that skill set align with the services that are provided by NRC and how beneficial have those experiences been to your clients?

*TW:* As I mentioned earlier, the complexity of the industry has changed enormously. That change also includes the way transactions are structured and how they are financed. It is essential that anyone today considering a transaction has a sophisticated financial partner who can help them work through all of the nuances of a transaction in order to maximize the value of their business. I approach each client engagement not only as a business opportunity, but also as an accumulation of a lifetime of work for our many clients.

> *In addition to the financial engineering that the firm brings, I can also provide a different perspective or insight based on my experiences that I believe provides additional value to our clients.*

*EG:* Any insight on marketing timing and valuations?

*TW:* We are still in a market in which capital is searching for deal flow and the market consolidation remains active. Company valuations will remain high until there is an uptick in interest rates. If I am selling, I am in the market today.

**QUESTIONS?**
**COMMENTS?**
**SUGGESTIONS?**
*e-mail* **EVAN GLADSTONE**
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# CONFERENCE CORNER

The NRC Leadership Team attends and exhibits at a multitude of convenience store and petroleum conferences throughout the year. You can keep track of our conference schedule here in the Conference Corner.

This past quarter, NRC attended **SIGMA'S EXECUTIVE LEADERSHIP CONFERENCE** in Snowmass, Colorado, the **WPMA CONVENTION** in Las Vegas, Nevada, the **SOUTHEAST PETRO-FOOD MARKETING EXPO** in Myrtle Beach, South Carolina, the **NECSA ANNUAL TRADE SHOW** in Worcester, Massachusetts and **M-PACT** in Indianapolis, Indiana.

Members of the NRC Team will be attending the following upcoming events through Q2:

- **NACS STATE OF THE INDUSTRY SUMMIT**
  April 14–16 | Chicago, IL
- **FUELS INSTITUTE SPRING MEETING**
  April 29–May 1 | New Orleans, LA
- **SIGMA SPRING CONVENTION**
  May 5–8 | Amelia Island, FL
- **SOUTHWEST FUEL & CONVENIENCE EXPO**
  May 6–8 | Fort Worth, TX

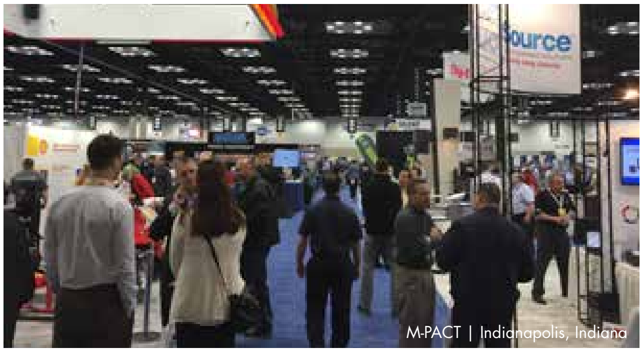
*We are always available to meet with you on-site at any of these venues. To set up a meeting, contact Ian Walker at 312.278.6830 or ian.walker@nrc.com.*

SIGMA Executive Leadership Conference | Snowmass, Colorado


M-PACT | Indianapolis, Indiana

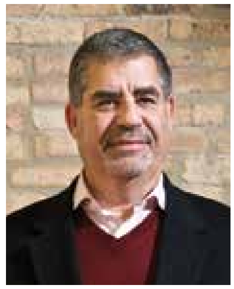

NECSA | Worcester, Massachusetts

NECSA | Worcester, Massachusetts

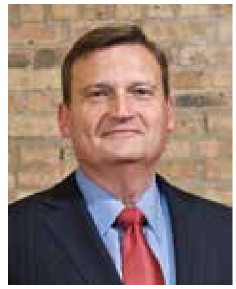


M-PACT | Indianapolis, Indiana

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



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If you'd like a copy of this newsletter sent to a friend or colleague, please call us at 800.747.3342.

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