

M-PACT 2018

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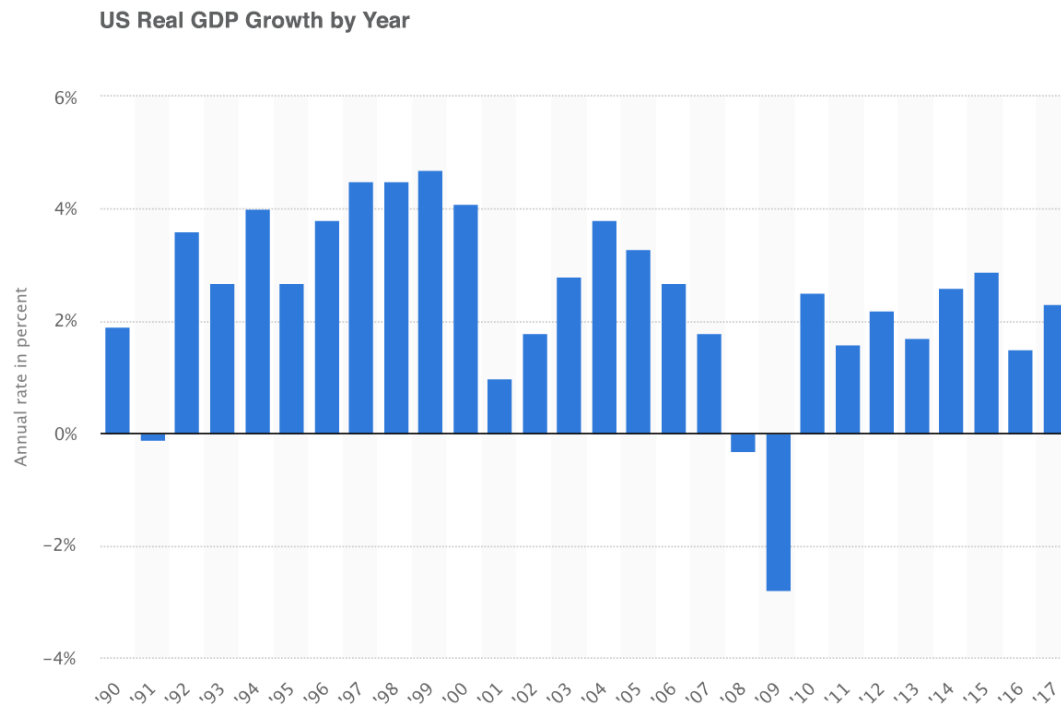
The Fast Changing World of Gasoline and C-Store M&A



Presented by
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Economic Overview

- Recovery in ninth year
- Real GDP increasing, led by tax breaks helping stock market and capital spending – trickle down?



Source: EAI Data

Economic Overview (cont.)

- Rare worldwide economic recovery – over 4%
- Lucky to live in today's high tech and medical technology world
- U.S. dollar is important

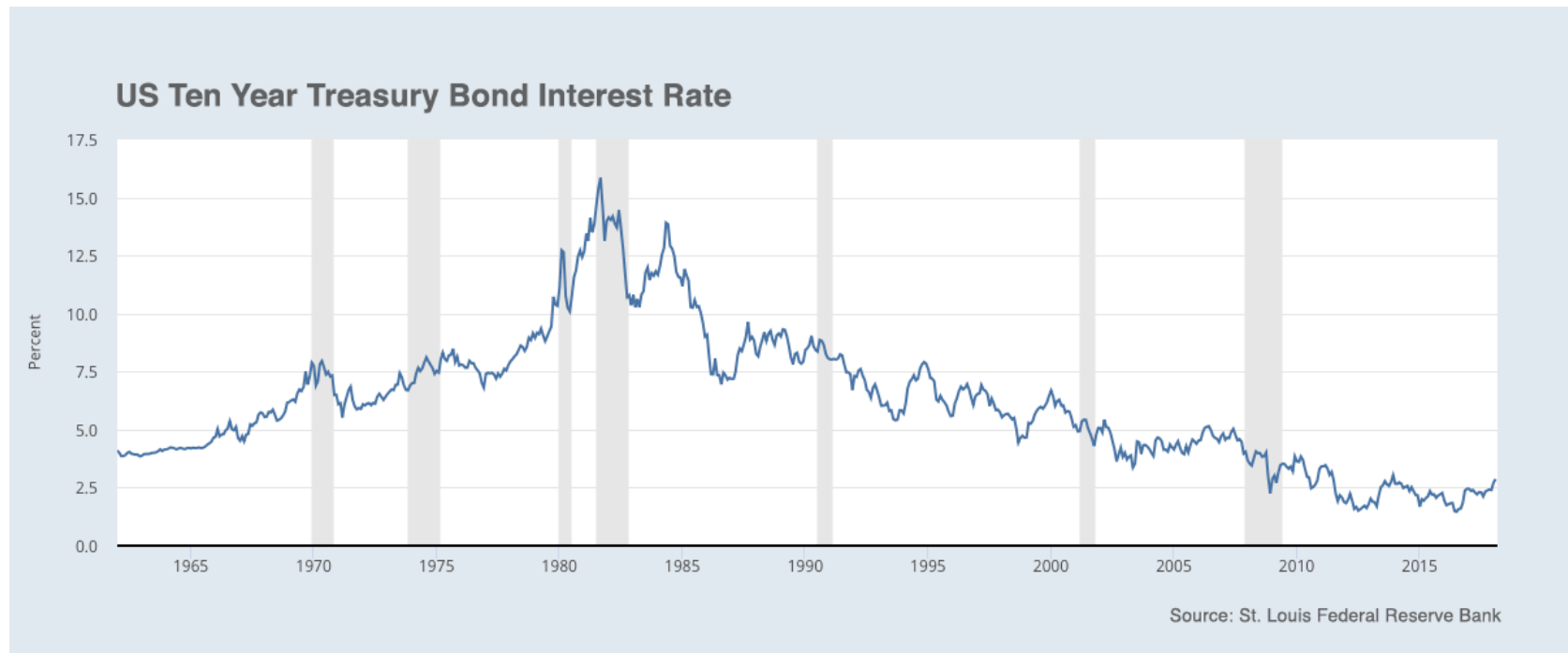
US Dollar Index (DXY)



Source: U.S. ICE Futures Index

Economic Overview (cont.)

- True importance of Tariff Wars – CONFIDENCE
- Trying to get inflation to 2%
- Be careful what you wish for



Economic Overview (cont.)

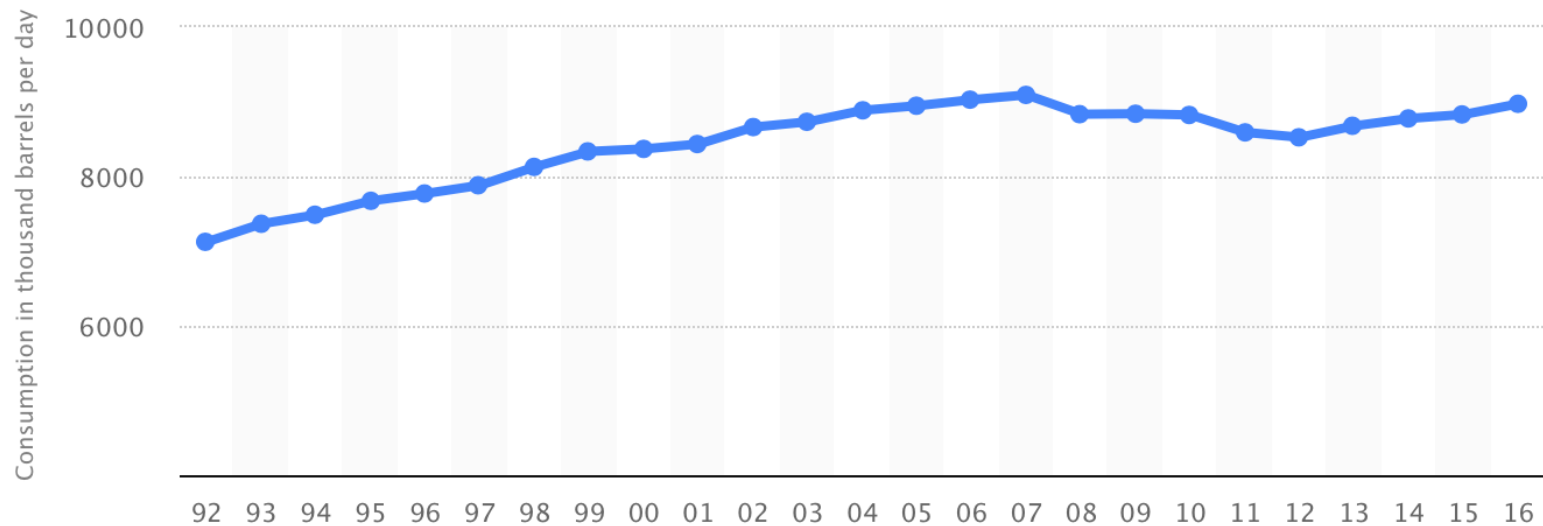
- Income disparity and sovereign debt important long-term issues
- Higher interest rates or some unforeseen event will kill the recovery at some point

SPDR S&P 500 ETF (SPY)



US Gasoline Demand - Firm For Now

US Motor Gasoline Consumption by Year



Source: EAI Data

US Gasoline Demand - Firm For Now (cont.)

- Crude Oil Prices – Broader Range Currently



C-Store Demand Solid (Especially Foodservice)

- Demand more stable than fuel – can be 75% of store gross profit
- Foodservice drives investment for Sheetz, Wawa, RaceTrac, Kwik Trip, Quik Trip, etc. Huge disparity between highest and lowest tiers

Gross Margin:		
Gasoline	300,000 gal/mo @ 15c/gal	\$ 45,000/month
C-Store	\$350,000/mo @ 40%	\$140,000/month
Total Gross Margin:		\$185,000/month
Store Expense:		\$ 70,000/month
Store Level Profit:		\$115,000/month

A \$7,000,000 investment is a 5-year payback before overhead

Key Industry Pressures

- Finding good employees or dealers
- Cost of labor



Key Industry Pressures (cont.)



- Millennials, customers and employees
- Technology
 - Electric car breakthrough
 - Hydrogen fuel cells
 - Automated cars
 - Guessing government subsidies
 - Amazon
 - Walmart
 - Dollar Stores
 - AI-Artificial Intelligence
 - Economies of scale
 - Spread fixed overhead
- Withstand competitive regional pressure

Key Industry Pressures (cont.)

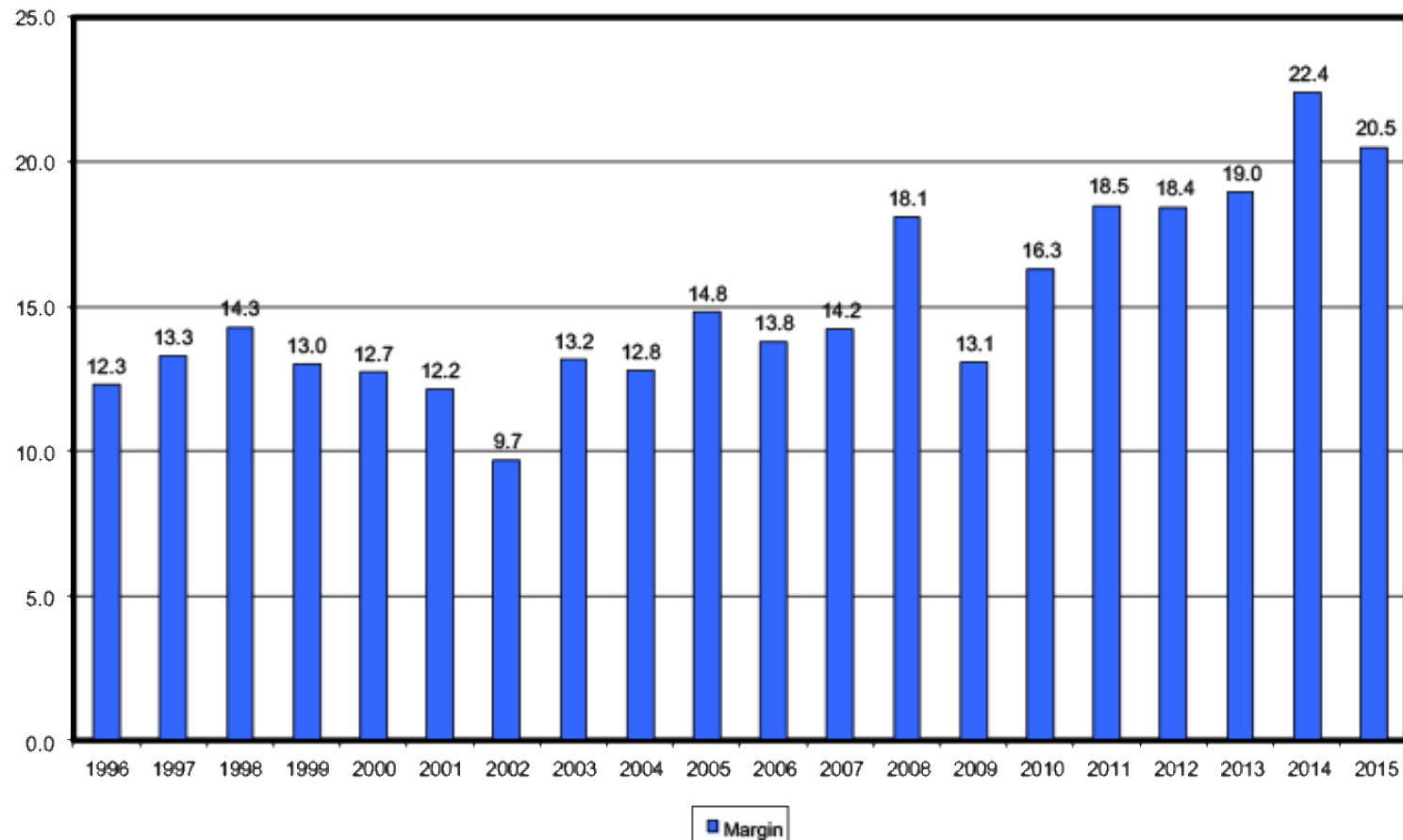
- Branding
 - RINs
- Business and regulatory complexities add overhead
- Management succession
- Buy or build?
 - Uneconomic purchase price multiples
 - Expensive real estate, if available
 - Howard Schultz Real Estate forecast
- Declining business?
 - Gasoline, sure, but slowly
 - Convenience lives, but in which format?

Focus on what you know and do well!!

- Focus on EBITDA
- Selling price = Store EBITDA X market multiple
- Every buyer applies his or her own overhead factor
- Factors affecting the key multiple
 - Property value
 - Lot size, parking
 - Store size
 - Zoning, permitting, etc.
 - Competition
 - Regional and local markets
 - Urban vs. rural
 - Branded vs. unbranded – RINs
 - Number of units
 - Interest rates

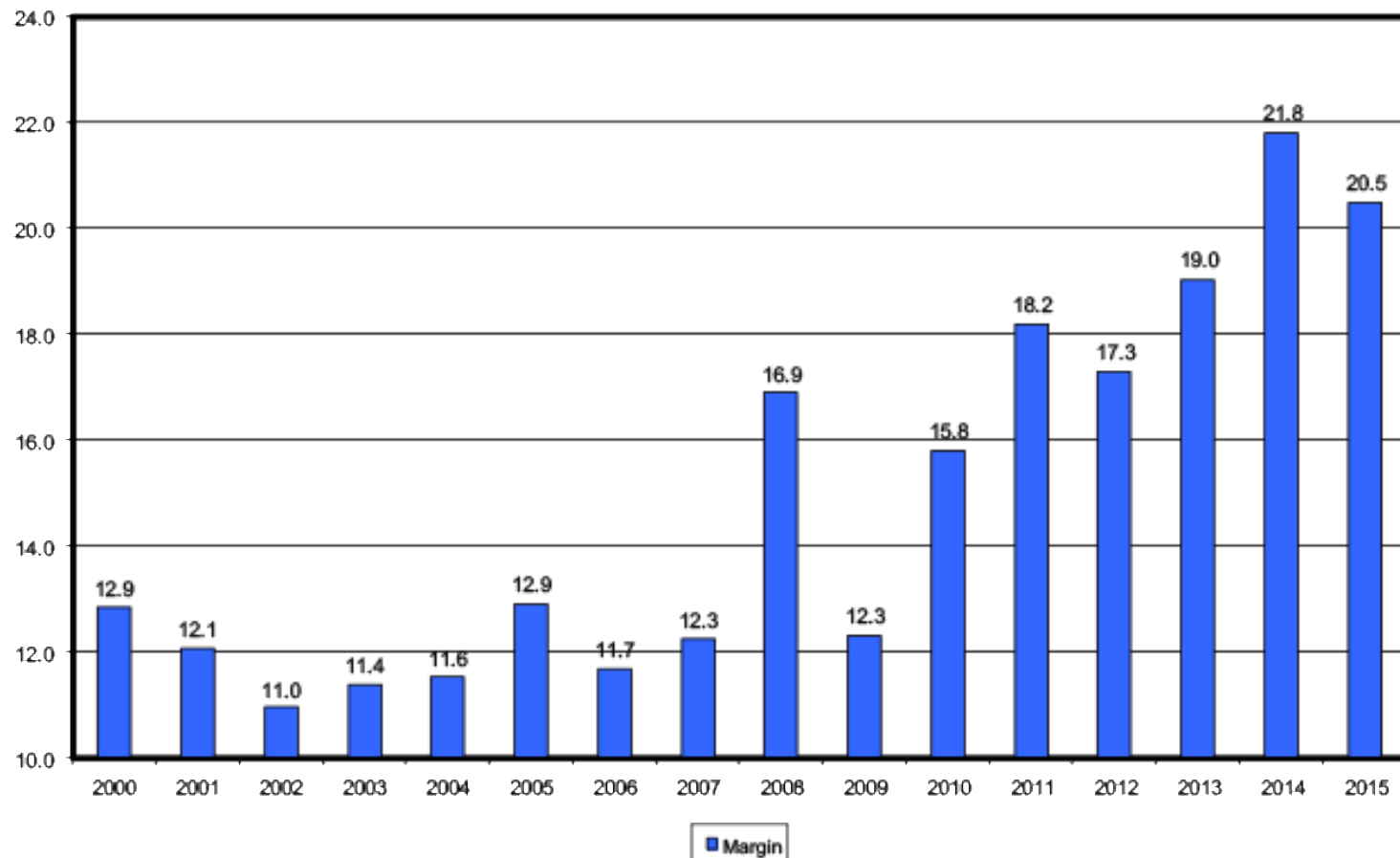
Economics of M&A (cont.)

Annual Rack-to-Retail Margin for U.S. (in cts per gal)



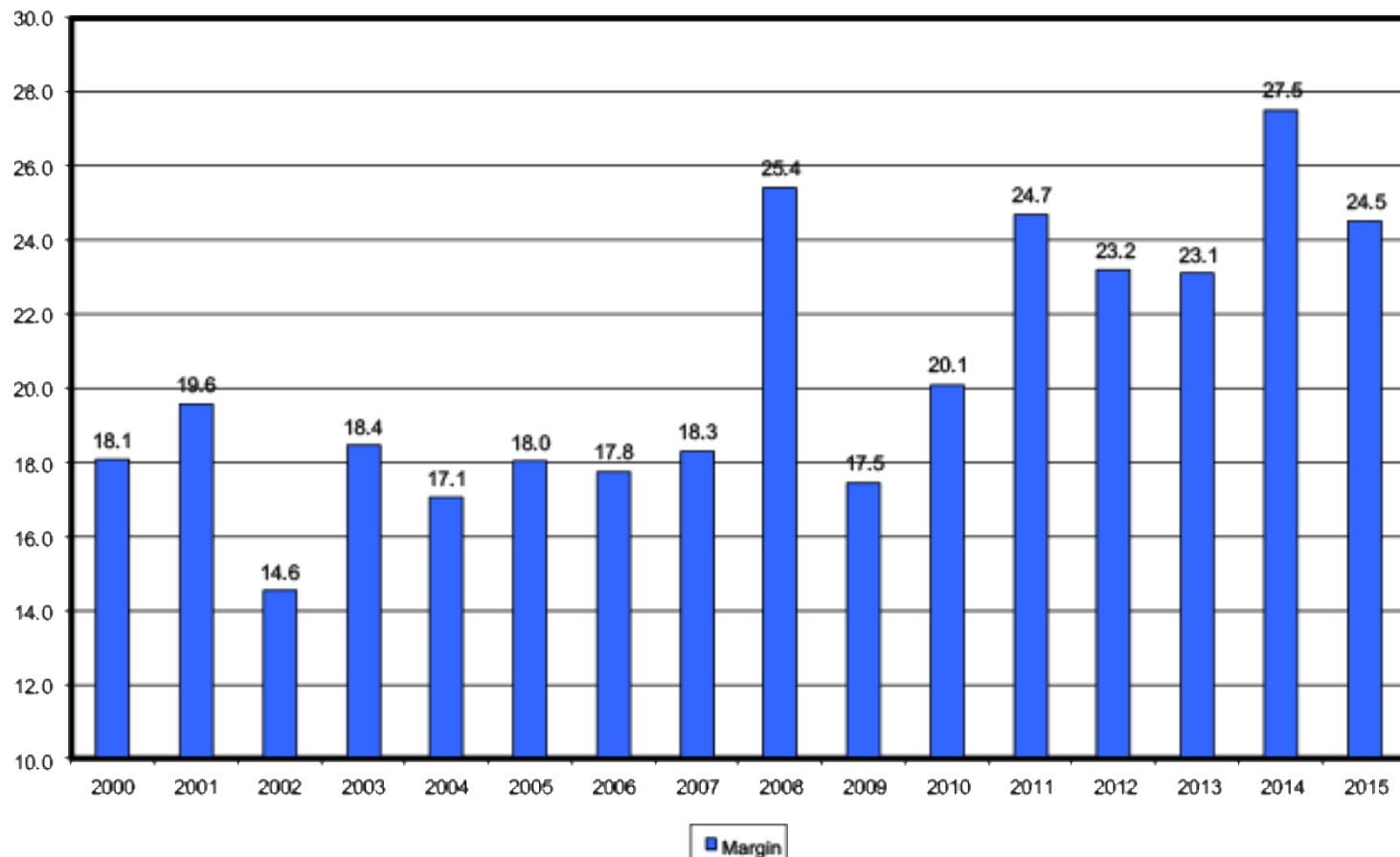
Economics of M&A (cont.)

Midwest Rack-to-Retail Margin



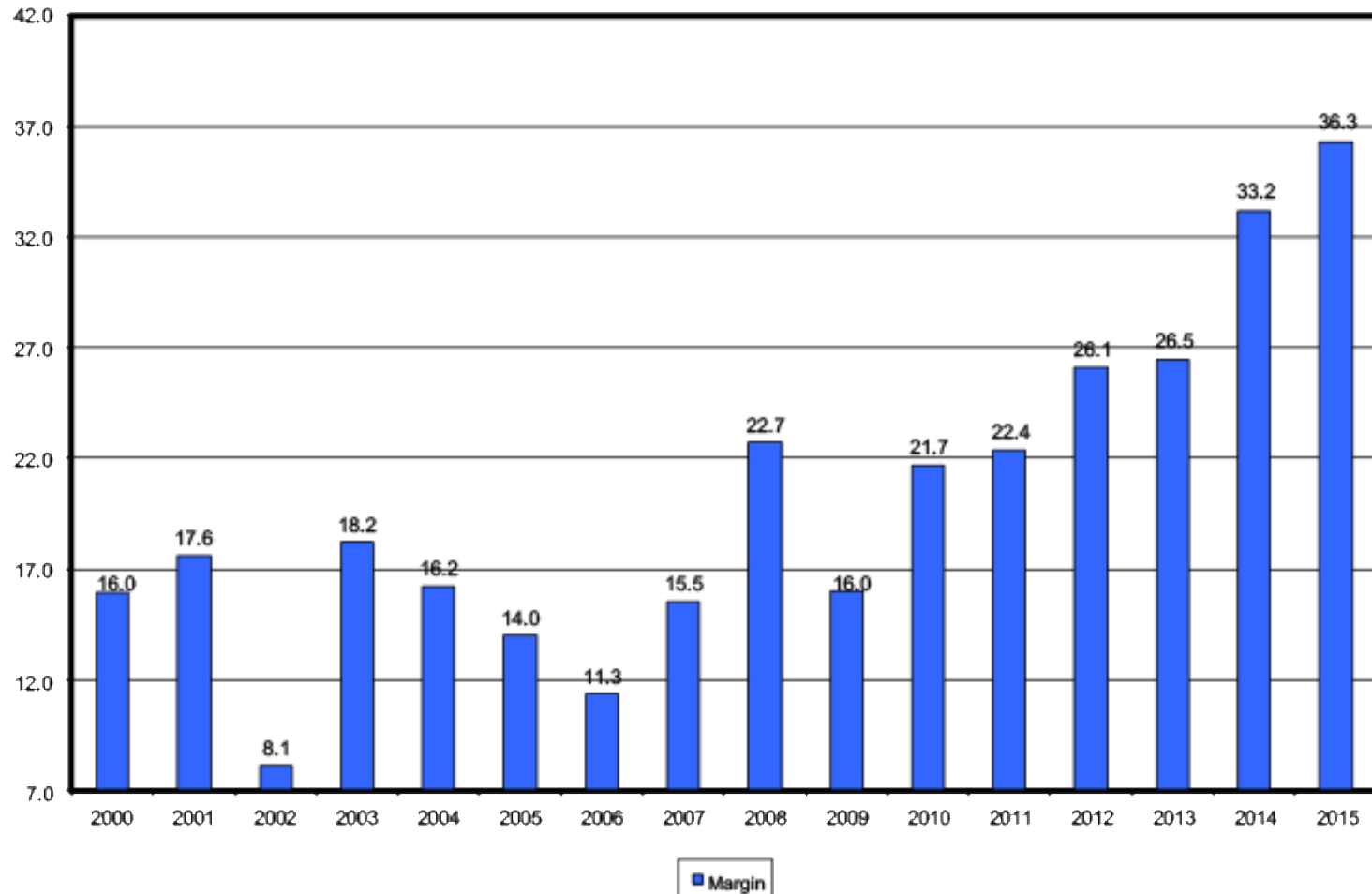
Economics of M&A (cont.)

New England Rack-to-Retail Margin



Economics of M&A (cont.)

West Rack-to-Retail Margin



Economics of M&A (cont.)



- Based on the factors affecting the key multiple:
 - Retail company-owned and operated unit multiples vary from 7x to 12x
 - Compares to 5x in 2008-2010 period
 - Retail leased and company-operated units vary from 2x to 6x, depending also on length and strength of the lease
 - Dealer units vary widely depending on contract length and strength, investments, brand, relationship, etc.
 - Wholesale and commercial volumes also valuable in today's environment
 - Trucking may have added value due to drivers

- We are in the real estate business, which is inherently cyclical

Are we in a bubble?

Probably, based on history of multiples, but very difficult to guess when bubbles will end.

Economics of M&A (cont.)

Spirit Realty Capital, Inc. (SRC)



Economics of M&A (cont.)

Getty Realty Corp. (GTY)



Who Are The Buyers?

- Trump Tax Bill gave huge tax infusion to corporations
- Smaller transactions
 - Jobbers
 - 'New Americans'
 - Even larger companies in this market
- Large industry retailers
 - 7-Eleven
 - Alimentation Couche-Tard/Circle K
 - Casey's
 - Murphy
 - Cumberland Farms

Who Are The Buyers? (cont.)

Alimentation Couche-Tard Inc Stock Chart (ANCUF)



Who Are The Buyers? (cont.)

Caseys General Stores, Inc. (CASY)



Source: stockcharts.com

Who Are The Buyers? (cont.)

- Integrated refiners
 - Marathon/Speedway
 - Andeavor/Western

Marathon Petroleum Corp. (MPC)



Who Are The Buyers? (cont.)

Andeavor (ANDV)



Who Are The Buyers? (cont.)



- New concept integrated refiners
 - Chevron/Jackson
 - Conoco-Phillips
 - Gasoline ownership
 - Size speaks
- MLP's
 - Problems with debt and 'affordable' growth
 - Company differences
 - Global
 - Cross America Partners
 - Sun/Energy Transfer Enterprises
 - MPLX
 - Sprague

Who Are The Buyers? (cont.)

JP Morgan Alerian MLP (AMJ)



Source: stockcharts.com

Who Are The Buyers? (cont.)

Alerian MLP ETF (AMLP)



Who Are The Buyers? (cont.)

Global Partners LP (GLP)



Who Are The Buyers? (cont.)

Cross America Partners LP (CAPL)



Who Are The Buyers? (cont.)

Sunoco LP (SUN)



Who Are The Buyers? (cont.)

MPLX LP (MPLX)



Who Are The Buyers? (cont.)



- Venture Capital and Foreign Buyers
 - Need scale to start
 - Low interest rates worldwide
 - U.S. still 'safe'
 - Lower U.S. dollar makes investment cheaper
 - Very rich multiples rumored
 - MAPCO/CEPEC, 12.5x
 - Kroger C-Stores, 11x-12x
 - Applegreens
 - Yesway

Summary



- Many more buyers than sellers
- Too many on the same side of the ship?
- At least consider selling off losing stores or business segments
- Hangover coming? Likely, but when?
- Will multiples fall?

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