

Smaller Chains

Unceasing consolidation in the c-store industry paves the way for several new movers and shakers on this year's *Convenience Store News Top 100* ranking

A *Convenience Store News* Staff Report

IN THE CONVENIENCE CHANNEL, known for its smaller, neighborhood-focused stores, the big chains keep getting bigger.

In the past year, Irving, Texas-based 7-Eleven Inc. added roughly 1,000 stores across 17 states when it acquired most of the retail assets of Dallas-based Sunoco LP. Meanwhile, Laval, Quebec-based Alimentation Couche-Tard Inc. kept up its reputation as an aggressive acquirer by adding CST Brands Inc. (roughly 1,300 stores) and Holiday Cos. (500-plus stores) to its ever-growing portfolio.

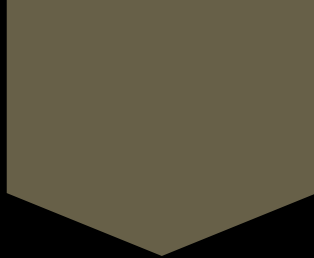
With those mega-deals in the books, it's no surprise 7-Eleven and Couche-Tard sit in the No. 1 and No. 2 spots on this year's *Convenience Store News Top 100* ranking — the same positions they have occupied since 2016.

The past year also saw already-large chains like San Antonio-based Andeavor (formerly known as Tesoro Petroleum Corp.) jump 26 spots in ranking to No. 10 after acquiring Western Refining Inc.; and Richmond, Va.-based GPM Investments LLC gain two spots to now rank No. 12 upon acquiring E-Z Mart Stores Inc.

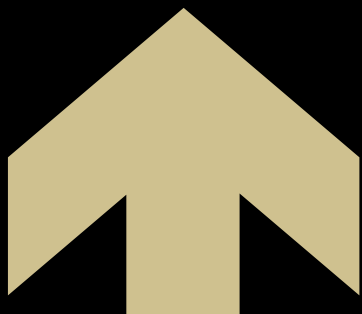
Four of last year's top 25 chains — including CST, Western Refining and Holiday — disappeared from this year's ranking on account of acquisitions. However, this paved the way for several new names to join this year's *Top 100* ranking, and for several smaller chains to make big moves on the list. Seven chains on this



TOP 1



Make Big Moves



year's *Top 100* jumped 10 or more spots in ranking year over year, with six of those seven being smaller chains operating less than 125 stores each.

Two smaller chains, in particular, made huge moves year over year: Enmarket Inc. and Pester Marketing Co. Savannah, Ga.-based Enmarket moved up 54 positions, rising from No. 108 in 2017 to No. 54 (a tie) this

year. In a leap just as impressive, Denver-based Pester Marketing gained 49 spots, going from No. 110 (tie) in 2017 to No. 61 (also a tie) this year.

Growth spurts

Enmarket nearly doubled its footprint to 122 stores by picking up 34 sites from Bamberg, S.C.-based Brabham Oil Co. and 35 sites from Glennville, Ga.-based Clyde's Market.

As Enmarket President Brett Giesick told *Convenience*

TOP 100

| 2018 Rank | 2017 Rank | Company, City, State | Annual ACV* (\$000) | Total U.S. Store Count | Company-Operated Stores | Franchise/Licensee Stores | Primary Store Names |
|-----------|-----------|---|---------------------|------------------------|-------------------------|---------------------------|---|
| 1 | 1 | 7-Eleven Inc. Irving, Texas | \$34,857,472 | 9,348 | 2,565 | 6,783 | 7-Eleven, Stripes |
| 2 | 2 | Alimentation Couche-Tard Inc. Laval, Quebec, Canada | \$27,276,080 | 7,230 | 6,224 | 1,006 | Circle K, Corner Store, Dairy Mart, Diamond Shamrock, Flash Foods, Gas Express, Holiday, Kangaroo Express, Nice N Easy Grocery Shoppe, On the Run, Petro Express, Quick Stop |
| 3 | 3 | Shell Oil/Motiva Enterprises LLC Houston | \$11,914,604 | 4,406 | 12 | 4,394 | Shell |
| 4 | 4 | Marathon Petroleum Corp. Findlay, Ohio | \$17,154,280 | 4,395 | 2,725 | 1,670 | Marathon, Rich Oil, Speedway |
| 5 | 5 | Chevron Corp. San Ramon, Calif. | \$28,758,600 | 3,812 | 290 | 3,522 | Chevron, Chevron ExtraMile, Texaco |
| 6 | 7 | Exxon Mobil Corp. Irving, Texas | \$9,083,308 | 3,303 | 0 | 3,303 | Exxon, Exxon Tiger Mart, Mobil, Mobil Mart |
| 7 | 6 | BP North America Houston | \$11,373,908 | 3,009 | 0 | 3,009 | Amoco, <i>ampm</i> , Arco, Arco Thrifty, BP, BP Connect, BP Shop |
| 8 | 10 | Casey's General Stores Inc. Ankeny, Iowa | \$7,761,000 | 2,082 | 2,082 | 0 | Casey's General Store |
| 9 | 8 | Sunoco LP Dallas | \$9,462,960 | 1,771 | 65 | 1,706 | APLUS, Aloha Island Mart, Coastal, Menehune Food Mart, Sunoco |
| 10 | 36 | Andeavor Corp. San Antonio | \$6,059,092 | 1,485 | 516 | 969 | <i>ampm</i> /Andeavor, Flyers, Giant, Giant Service, Howdy's Foodmart, Mustang, SuperAmerica, Tesoro, USA Fuel Center, USA Gas, USA Mini Mart, USA Petroleum |
| 11 | 11 | CITGO Petroleum Corp. Houston | \$3,529,448 | 1,425 | 0 | 1,425 | CITGO |
| 12 | 14 | GPM Investments LLC Richmond, Va. | \$2,999,620 | 1,204 | 1,204 | 0 | Admiral Petroleum, Apple Market, BreadBox, Crenco Food Store, Fas Mart, Jiffi Stop, Jiffy Stop Food Marts, Li'l Cricket, Next Door Food Store, Roadrunner Markets, Scotchman, Shore Stop, Village Pantry, Young's |
| 13 | 12 | ConocoPhillips/Phillips 66 Houston | \$3,323,112 | 1,164 | 0 | 1,164 | 76, Conoco, Phillips 66 |
| 14 | 13 | Cumberland Farms Inc. Westborough, Mass. | \$6,178,796 | 939 | 559 | 380 | Cumberland Farms, Gulf |
| 15 | n/a | Valero Energy Corp. San Antonio | \$4,498,520 | 831 | 0 | 831 | Valero |
| 16 | n/a | EG Group (U.S. HQ) Cincinnati | \$5,593,120 | 798 | 798 | 0 | Fresh Eats MKT, Kroger Express, Kroger Fuel Center, Kwik Shop, Loaf 'N Jug, Quik Stop, Tom Thumb, Turkey Hill Minit Market |
| 17 | 16 | Wawa Inc. Media, Pa. | \$9,334,780 | 795 | 795 | 0 | Wawa |
| 18 | 17 | QuikTrip Corp. Tulsa, Okla. | \$9,709,700 | 783 | 783 | 0 | QuikTrip |

Store News in March, these acquisitions were opportunistic in terms of both timing and location. They allow the retailer to fill in several markets faster than it could with new-to-industry sites.

Upon integration of the 69 stores, Enmarket expects to benefit from its larger footprint by creating greater value from this new larger scale. The growth will enhance the operator's designated market area (DMA)

density, brand recognition, and employee opportunity.

"Longer term, it makes us more attractive for recruiting talent, becoming a more cost-efficient organization by leveraging our new size," Giesick explained. "It also forces us to drive more process through our organization to manage our new store count."

Not unlike Enmarket, Pester Marketing nearly doubled in size as a result of three moves since mid-2017. Most of the company's growth to 110 stores came from its acquisition

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|-----------|-----------|---|---------------------|------------------------|-------------------------|---------------------------|---|
| 19 | 18 | RaceTrac Petroleum Inc. Atlanta | \$5,572,320 | 736 | 481 | 255 | RaceTrac, Raceway |
| 20 | 20 | Pilot Flying J Knoxville, Tenn. | \$2,806,700 | 679 | 652 | 27 | Flying J, Mr. Fuel, Pilot Express, Pilot Food Mart, Pilot Travel Center |
| 21 | 19 | Military Arlington, Va. | \$4,100,200 | 667 | 667 | 0 | Coast Guard Mini Mart, Marine Corps Shoppette, NEXCOM Mini Mart, Shoppette, Troop Store |
| 22 | 23 | Kwik Trip Inc. La Crosse, Wis. | \$4,372,940 | 611 | 611 | 0 | Kwik Star, Kwik Trip, Tobacco Outlet Plus Grocery |
| 23 | 21 | Sheetz Inc. Altoona, Pa. | \$6,689,020 | 568 | 568 | 0 | Sheetz |
| 24 | 25 | TravelCenters of America LLC Westlake, Ohio | \$4,271,800 | 484 | 462 | 22 | Minit Mart, Petro Stopping Center, TravelCenters of America |
| 25 | 27 | Love's Country Stores Inc. Oklahoma City | \$1,276,860 | 454 | 454 | 0 | Love's Country Store, Love's Travel Stop |
| 26 | 26 | CHS Inc. Inver Grove Heights, Minn. | \$860,080 | 413 | 47 | 366 | Ampride, Cenex, CHS, Zip Trip |
| 27 | 28 | Kum & Go LC Des Moines, Iowa | \$2,286,960 | 409 | 409 | 0 | Kum & Go |
| 28 | 29 | COPEC Inc. Brentwood, Tenn. | \$1,663,480 | 346 | 346 | 0 | Delta Express, Discount Food Mart, Favorite Market, MAPCO, MAPCO Express, MAPCO Mart |
| 29 | 30 | Stewart's Shops Corp. Ballston Spa, N.Y. | \$1,505,920 | 338 | 338 | 0 | Stewart's Shop |
| 30 | 32 | Allsup's Convenience Stores Inc. Clovis, N.M. | \$244,036 | 316 | 316 | 0 | Allsup's |
| 31 | 33 | Maverik Inc. Salt Lake City | \$632,580 | 315 | 315 | 0 | Maverik |
| 32 | 37 | Murphy USA Inc. El Dorado, Ark. | \$491,400 | 292 | 292 | 0 | Murphy Express, Murphy USA |
| 33 | 38 | United Pacific Long Beach, Calif. | \$1,169,740 | 245 | 241 | 4 | C Stop, My Goods Market, United Oil, We Got It Food Mart |
| 34 | 42 | Global Partners LP/Alliance Energy Corp. Waltham, Mass. | \$597,740 | 239 | 239 | 0 | Alltown, Convenience Plus, Fast Freddie's, Honey Farms, Mr. Mike's, Xtra Mart |
| 35 | 39 | Jacksons Food Stores Inc. Meridian, Idaho | \$306,280 | 232 | 232 | 0 | Jacksons Food Store |
| 36 | 31 | Dunne Manning Allentown, Pa. | \$730,808 | 231 | 163 | 68 | Choice, Express Lane, Hy-Miler, Joe's Kwik Mart, Rocky Top Market, Uni Mart, Zoomerz |
| 37 | n/a | Cal's Convenience Inc. Frisco, Texas | \$1,730,300 | 221 | 221 | 0 | Stripes |
| 38 | 41 | Landmark Industries Inc. Houston | \$522,860 | 218 | 218 | 0 | Timewise Food Store |
| 39 | 40 | Fikes Wholesale Inc. Temple, Texas | \$243,360 | 215 | 215 | 0 | CEFCO Food Store, Food Fast |
| 40 | 35 | United Refining Co. of Pennsylvania Warren, Pa. | \$955,500 | 207 | 203 | 4 | Country Fair, Kwik Fill, Kwik Fill & Smokers Outlet |

of Western Convenience Stores Inc. earlier in 2018. In addition to those 43 locations, Pester Marketing acquired the eight-store Kwik Stop chain based in Canon City, Colo., and formed a five-store joint venture with R.H. Smith Distributing Co. Inc. in Washington State.

Pester Marketing has gone through quite a few iterations since it was founded by Jack Pester in 1958. Today, the company is under

the umbrella of San Antonio-based Western Alta Holdings LP. The convenience stores operate under the Alta Convenience banner.

Opportunity was the main driver behind its recent growth, Pester Marketing President and CEO Rich Spresser told CSNews.

"First, it was opportunity; they were for sale. Secondly, we had looked at the Kwik Stops for many years. It was a family-owned business located in the middle of where we

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|-----------|-----------|---|---------------------|------------------------|-------------------------|---------------------------|---------------------------------------|
| 41 | 46 | Two Farms Inc. Baltimore | \$408,720 | 193 | 193 | 0 | Royal Farms |
| 42 | 43 | Thorntons Inc. Louisville, Ky. | \$708,760 | 192 | 192 | 0 | Thorntons |
| 43 | 44 | Meijer Inc. Grand Rapids, Mich. | \$1,659,060 | 185 | 185 | 0 | Meijer Gas Station |
| 44 | 45 | United Dairy Farmers Cincinnati | \$605,280 | 169 | 169 | 0 | United Dairy Farmers |
| 45 | 47 | Giant Eagle Inc. Pittsburgh | \$1,644,240 | 160 | 160 | 0 | GetGo |
| 46 | 50 | QuickChek Inc. Whitehouse Station, N.J. | \$1,099,280 | 156 | 156 | 0 | QuickChek |
| 47 | 52 | Sinclair Oil Corp. Salt Lake City | \$348,764 | 145 | 0 | 145 | Sinclair |
| 48 | 54 | Hy-Vee Food Stores Inc. West Des Moines, Iowa | \$342,940 | 138 | 138 | 0 | Hy-Vee Gas Station |
| 49 | 55 | Krauszer's Food Store Edison, N.J. | \$266,760 | 133 | 0 | 133 | Krauszer's Food Store |
| 50 | 51 | Convenient Food Mart Inc. Mentor, Ohio | \$247,260 | 132 | 59 | 73 | Convenient Food Mart |
| 51 | 31 | CrossAmerica Partners LP Allentown, Pa. | \$301,340 | 130 | 130 | 0 | Freedom Valu Center, Jet Pep |
| 51 | 56 | Blarney Castle Oil Co. Bear Lake, Mich. | \$510,640 | 130 | 130 | 0 | E Z Mart |
| 53 | 57 | Go Mart Inc. Gassaway, W. Va. | \$590,980 | 123 | 123 | 0 | Go Mart |
| 54 | 108 | Enmarket Inc. Savannah, Ga. | \$557,960 | 122 | 122 | 0 | E-Z Shop, Enmarket |
| 54 | 53 | Kwik Stop Inc. Plantation, Fla. | \$272,480 | 122 | 0 | 122 | Kwik Stop |
| 56 | 59 | Martin & Bayley Inc. Carmi, Ill. | \$679,120 | 121 | 121 | 0 | Huck's |
| 57 | 49 | Clark Brands LLC Naperville, Ill. | \$322,140 | 119 | 0 | 119 | Clark |
| 57 | 58 | Englefield Oil Co. Heath, Ohio | \$487,240 | 119 | 119 | 0 | Duchess Shoppe |
| 59 | 62 | Terrible Herbst Inc. Las Vegas | \$138,060 | 114 | 114 | 0 | Terrible Herbst |
| 60 | 60 | 7-Eleven Stores of Oklahoma Oklahoma City | \$232,180 | 112 | 112 | 0 | 7-Eleven |
| 61 | 61 | Plaid Pantries Inc. Beaverton, Ore. | \$221,780 | 110 | 110 | 0 | Plaid Pantry |
| 61 | 110 | Pester Marketing Co. Denver | \$367,380 | 110 | 110 | 0 | Alta Convenience, Kwik Stop, Smitty's |

operate. We've had an interest in them for several years. They were a well-run company. When that opportunity came along, that was something we had been looking at for a long time," he explained.

The Western Convenience acquisition was a bit different. The Colorado-based chain filed for Chapter 11 in late 2015, exiting from bankruptcy in September 2016. Pester Marketing received word of what Spresser

termed "a little bit of a distressed sale" in October 2017 and closed on the deal this January.

"The turnover was relatively quick. We were very familiar with the company and familiar with their stores. They, again, fit us regionally," he said. "The majority of the stores are located in Colorado, and really located in towns and areas where we already operate."

Pester Marketing continues to operate all eight Kwik Stop locations, according to Spresser, who calls the stores

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| 63 | 63 | Mirabito Energy Products Binghamton, N.Y. | \$246,480 | 108 | 108 | 0 | Mirabito |
| 64 | 64 | Little General Stores Inc. Beckley, W. Va. | \$506,480 | 106 | 106 | 0 | Little General |
| 64 | 65 | Stinker Stations Boise, Idaho | \$313,924 | 106 | 106 | 0 | Stinker Stores |
| 66 | 68 | True North Energy Brecksville, Ohio | \$245,700 | 105 | 105 | 0 | True North |
| 67 | 66 | Town Pump Inc. Butte, Mont. | \$306,020 | 100 | 100 | 0 | Town Pump |
| 68 | 69 | Panjwani Energy LLC Houston | \$192,920 | 90 | 90 | 0 | Star Stop |
| 69 | 75 | C.A.R. Enterprises Inc. Upland, Calif. | \$417,300 | 89 | 89 | 0 | 2 Go Mart, Rebel |
| 69 | 72 | M.M. Fowler Inc. Durham, N.C. | \$236,600 | 89 | 89 | 0 | Family Fare |
| 71 | 86 | Croton Holding Co. Pittsburgh | \$336,440 | 88 | 88 | 0 | Par Mar Stores |
| 71 | n/a | Empire Petroleum Partners LLC Dallas | \$544,960 | 88 | 88 | 0 | Fast Market, Fiesta Mart, Quik Way Food Mart |
| 73 | 71 | Express Mart Franchising Corp. Syracuse, N.Y. | \$164,580 | 87 | 78 | 9 | Express Mart |
| 73 | 84 | Sampson Bladen Oil Co. Inc. Clinton, N.C. | \$147,160 | 87 | 87 | 0 | Han-dee Hugo's |
| 73 | 94 | BW Gas & Convenience LLC Beverly, Mass. | \$240,760 | 87 | 87 | 0 | Yesway |
| 73 | 67 | Sam's Food Store Rocky Hill, Conn. | \$168,220 | 87 | 87 | 0 | Chucky's Food Store, Hess/Aldin Associates, Sam's Food Store |
| 77 | 74 | Victory Marketing LLC Ridgeland, Miss. | \$134,680 | 85 | 85 | 0 | Sprint Mart |
| 77 | 70 | Tri Star Energy LLC Nashville, Tenn. | \$273,780 | 85 | 85 | 0 | Daily's, T Fuel, Tri Star Energy, Twice Daily |
| 79 | 73 | Reid Stores Inc. Lockport, N.Y. | \$124,800 | 84 | 84 | 0 | Crosby's |
| 80 | 76 | Gulshan Enterprises Sugar Land, Texas | \$150,280 | 82 | 42 | 40 | Handi Plus, Handi Stop |
| 81 | 79 | Johnson Oil Co. Rock Falls, Ill. | \$162,760 | 81 | 81 | 0 | Express Lane |
| 81 | 77 | Toot N Totum Food Store Inc. Amarillo, Texas | \$204,620 | 81 | 81 | 0 | Toot N Totum |
| 83 | 78 | The Spinx Co. Inc. Greenville, S.C. | \$256,100 | 80 | 80 | 0 | Spinx Store |
| 84 | 83 | Newcomb Oil Co. Bardstown, Ky. | \$257,140 | 79 | 79 | 0 | Five Star Food Mart |

“really good assets.” Upon closing the Western Convenience transaction, Pester Marketing decided to sell one location and not reopen another.

From year to year, Spresser said the company does not lay out an acquisition game plan; rather, it lets opportunity dictate how many stores it adds in a particular year.

“We’ve never sat down at the end of the year and said, ‘OK, next year, we want to have this many stores,’” he said. “It’s always been growth through acquisitions, but we want to be smart about our growth and target the right acquisitions.”

Often, a few deals will trigger others to

materialize. Once you get the reputation of being an acquirer, Spresser said the calls start coming in from those interested in selling.

“The opportunities are still out there — mainly from smaller chains,” he explained. “There are still a lot of opportunities, but they have to fit regionally.”

Moving forward, Pester Marketing is focused on acquisitions in its core operating region of western Kansas, northern New Mexico, Colorado and Nebraska. Rural areas work especially well for the company.

“Those would be growth areas for us. At this point, it is growth through acquisitions. That is how Pester was built. We did some ground-ups in the mid-90s, but since that point, it has all been through acquisitions,” Spresser said.

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|-----------|-----------|--|---------------------|------------------------|-------------------------|---------------------------|---|
| 85 | 82 | FKG Oil Co. Belleville, Ill. | \$317,460 | 78 | 78 | 0 | Moto Mart |
| 85 | 80 | Buchanan Oil Co. Omaha, Neb. | \$332,020 | 78 | 78 | 0 | Bucky's |
| 87 | n/a | Turn Outz Inc. Roanoke, Va. | \$274,820 | 77 | 40 | 37 | One Stop WV, Stop In |
| 87 | 81 | C. N. Brown Co. South Paris, Maine | \$157,560 | 77 | 77 | 0 | Big Apple |
| 89 | 89 | Southwest Georgia Oil Co. Bainbridge, Ga. | \$197,600 | 76 | 76 | 0 | Inland Sun Stop, S&S Food Store, Sun Valley Market & Deli |
| 90 | 87 | MFA Oil Co. Columbia, Mo. | \$131,040 | 75 | 75 | 0 | Break Time, MFA Oil, Petro Card 24 |
| 91 | 88 | Gate Petroleum Co. Jacksonville, Fla. | \$172,380 | 72 | 72 | 0 | Gate |
| 92 | 91 | CHR Corp. York, Pa. | \$112,580 | 69 | 69 | 0 | Rutter's |
| 92 | 90 | Family Express Corp. Valparaiso, Ind. | \$157,560 | 69 | 69 | 0 | Family Express |
| 94 | 100 | Southeast Petro Distribution Cocoa, Fla. | \$174,460 | 67 | 51 | 16 | Sunshine Express, Sunshine Food Mart |
| 95 | 93 | 7-Eleven Hawaii Inc. Honolulu | \$85,540 | 66 | 66 | 0 | 7-Eleven |
| 95 | 97 | Weigel's Stores Inc. Powell, Tenn. | \$174,980 | 66 | 66 | 0 | Weigel's, Jug O Milk Store |
| 97 | 101 | Sunmart Inc. Spring, Texas | \$183,300 | 65 | 37 | 28 | Sunmart |
| 97 | 98 | Dandy Mini Marts Inc. Sayre, Pa. | \$144,820 | 65 | 65 | 0 | Dandy Mini Mart |
| 97 | 107 | Clark's Pump-N-Shop Inc. Ashland, Ky. | \$182,520 | 65 | 65 | 0 | Clark's Pump-N-Shop |
| 100 | 96 | Walters-Dimmick Petroleum Inc. Marshall, Mich. | \$159,120 | 64 | 64 | 0 | Johnny's Markets |
| 100 | 99 | Certified Oil Co. Columbus, Ohio | \$40,612 | 64 | 64 | 0 | Certified |

Source: Nielsen TDLinX, May 2018
Only U.S. stores are included in this ranking.

*All Commodity Volume (ACV) is provided by Nielsen TDLinX. ACV is an annualized range of the estimated retail sales volume of all items sold in a store that pass through the retailer's cash registers. Lottery sales are not included; gas sales are included where applicable. The Nielsen TDLinX ACV is an estimate — a directional measure to be used as an indicator of company size.

Picking Up the Pace

By a rough count, 2018 merger and acquisition (M&A) activity in the convenience channel as of press time has included at least nine notable deals, either completed or pending. The most significant is the pending merger of Andeavor and Speedway LLC parent Marathon Petroleum Corp. that will create a nationwide retail and marketing business of approximately 4,000 company-owned and -operated locations and approximately 7,800 branded locations.

This seems to be the new normal in the c-store realm.

"All the M&A activity doesn't surprise me anymore. It's been going on for five or six years now and if there is any surprise, it's that it has not slowed down at all," Spresser noted.

He does admit, though, to being surprised by some smaller deals being done by big chains. "It's like all the big guys have been gobbled up," he said. "When you are seeing chains of 20 to 30 stores being purchased by some of the bigger guys, that's a little bit of a surprise."

M&A mania in the convenience and gas (C&G) sector remains very strong, according to John Sartory, managing director of Petroleum Capital & Real Estate LLC, a provider of transactional advisory services.

"The market forces, such as generational succession issues for many existing operators, the long-term capital investment requirements to remain competitive in the retail industry, the need for the publicly traded C&G companies to continue to grow market

share and cash flow, etc. — to only name a few — that have driven this consolidation have not subsided," he noted.

However, Sartory believes it's a little too early to state that 2018 is going to be a record year in the number of acquisitions completed in the convenience and gas industry.

Steve Griffin, managing partner of Downstream Energy Partners LLC, says in his opinion, 2018 appears to be robust compared to other years. And his company expects to see even more.

"Some of the activity may be holdover from 2017, given that was an election year where M&A activity tends to be stagnant. However, multiple consecutive years of strong financial performance have given marketers an opportunity to consider finally selling their equity," he said. "Many of our clients wish there were more acquisition opportunities to consider."

Driving Forces

Cheap money and continuing industry consolidation are key factors behind the pace of activity, according to Terry Monroe, president of American Business Brokers & Advisors.

"If I can get cheap money, then I can buy more stores and therefore increase my buying power, which relates to lowering my costs to operate," he explained. "That enables me to have more profit, so the cycle continues until the cheap money goes away. But, by then, I will have a bunch of stores and a lot of locations tied up around the country."

The days of cheap money may be coming to an end soon, however, as mortgage rates rise — and the Federal Reserve appears to favor that trend, noted Steve Montgomery, president of b2b Solutions.

"If a significant rate increase should occur, we will see a slowdown in M&A activity as buyers factor higher discount rates into their valuations," Griffin echoed. "Wall Street buyers generally, and MLPs as a subset, are hyper-rate sensitive."

In addition, sellers who previously may have

BIGGEST MOVERS

| COMPANY | 2018 RANK | 2017 RANK | SPOTS MOVED |
|--|-----------|-----------|-------------|
| Enmarket, Savannah, Ga. | 54 | 108 | 54 |
| Pester Marketing Co., Denver | 61 | 110 | 49 |
| Andeavor, San Antonio | 10 | 36 | 26 |
| Yesway, Beverly, Mass. | 73t | 94 | 21 |
| Croton Holding Co., Pittsburgh | 71 | 86 | 15 |
| Sampson Bladen Oil Co. Inc., Clinton, N.C. | 73t | 84 | 11 |
| Clarks Pump N Shop Inc., Ashland, Ky. | 97 | 107 | 10 |

Source: Nielsen TDLinX, Convenience Store News Market Research



been picky about their exit timing now may be looking favorably at exiting, the Downstream Energy Partners exec pointed out.

“Recent financial results have been stronger than normal, particularly with fuel margins boosting EBITDA, and while the sale multiples seem to be holding, market conditions are positive for those exiting,” he said, adding that crude price increases foretell a fall in fuel pool margins with a commensurate drop in EBITDA, correspondingly reducing exit prices.

There is another factor behind the M&A push: the relative cost and time requirements of buying vs. building. “Even at today’s multiples, it is cheaper and faster to buy than to build. This strategy works well for chains that can adapt their business model to the acquired sites,” Montgomery said.

Big players are also seeing big opportunities in taking over companies that are accretive to earnings, and low corporate tax rates are resulting in more liquidity to do so, according to Dennis Ruben, executive managing director of NRC Realty & Capital Advisors LLC.

“People have more liquidity to do acqui-

sitions — not just the big players; everyone’s looking out for things,” Ruben told *CSNews*. “People have come to us asking what we have that they can look at. We’re seeing a lot more of that.”

Grow or Go?

A lot of smaller companies are looking to buy or sell — it cuts both ways, said Ruben.

“Because the big guys are getting bigger, the smaller guys are looking to see how they can compete. Some are saying maybe it’s time to get out,” he explained.

Smaller regional chains that have the financial flexibility and ability to expand, and have made the strategic investments necessary to compete with the larger consolidators such as 7-Eleven, realize that acquiring a competitor can be one of the quickest and most cost-effective methods to expand their existing retail footprint, explained Petroleum Capital & Real Estate’s Sartory.

7-Eleven, Couche-Tard, Speedway, etc., are not interested in every M&A opportunity for a variety of strategic, geographic and operational reasons and, as a result, they are not going to bid on every acquisition opportunity. For example, an opportunity that contains a number of dealer-operated sites is most likely not going to interest a number of the larger consolidators that are primarily focused on acquiring larger company-operated sites.

Instead, Sartory said these type of acquisition opportunities are prime targets for smaller operators that have the ability and financial flexibility to expand, and the strategic patience to rationalize and improve the retail assets acquired.

In its representation of sellers, Downstream Energy Partners has seen middle-tier competitors (under 125 stores) bid assertively to grow their footprints, particularly for assets they believe to be strategic.

“The middle tier understands they, too, must grow to defend their markets, or exit,” Griffin said.

Smaller chains feeling the need to go big or go home can effectively compete in the M&A arena, but they need to address four basic strategy considerations, according to Montgomery:

- Who are their target customers?
- What are the need states they want to fulfill?
- What retailers are in their customers’ consideration set(s)?
- What are their points of differentiation?

The latter may be the most important. “They need to become more of a destination and less of a ‘me too’ retailer,” Montgomery advised.

Positioning for Acquisition

It’s possible some of the moves by smaller chains up the *Top 100* ladder may represent a strategic play to make themselves an attractive acquisition target.

NEW ADDITIONS TO THE LIST

- EG Group, Cincinnati
- Cal’s Convenience Inc., Frisco, Texas
- Enmarket Inc., Savannah, Ga.
- Pester Marketing Co., Denver
- Empire Petroleum Partners LLC, Dallas
- Turn Outz Inc., Roanoke, Va.
- Sunmart Inc., Spring, Texas
- Clarks Pump N Shop Inc., Ashland, Ky.

Source: Nielsen TDLinx, Convenience Store News Market Research

"As the old saying goes, it takes a willing seller and buyer to have a transaction. The market seems to have a healthy number of willing buyers," Montgomery said.

If smaller chains want to be sold, they have to make themselves "sale ready." This may require very little work for some, and a lot of work for others. Sell-side companies are very good at highlighting the upsides a buyer might extract from a site, but they need something to work with, the b2b Solutions executive explained.

NRC's Ruben believes smaller chains could very well be the next round of M&A.

"We've been talking to a lot of clients. We're seeing guys who have five to 25 to 30 stores ask, what does their future hold? Maybe, this is the right time for them to get out," he said.

In fact, Monroe's American Business Brokers & Advisors is selling stores to private-equity clients whose thoughts are to build a larger chain of stores that will later be sold to an even larger chain of stores.

"We are taking small chains of stores (10 to 50 stores) and consolidating them into a number above 100 stores so that eventually a larger chain will buy them," Monroe shared. "The more stores that are involved in a transaction, the easier the transaction. Meaning it is easier to do a 50-store deal than it is to do a 10-store deal."

While setting themselves up for acquisition may be the current strategy for some smaller chains, it is not an across-the-board trend, in Sartory's view.

If a privately owned c-store company is not dealing with succession issues, and has made the investments necessary in its business to compete with the larger operators in its trade areas, then these operators are not under pressure to sell, he pointed out.

"Many of our clients love the convenience store business and have no plans or desire to exit the industry," Sartory said. "They are primarily focused on growing their business and making sure their retail network remains competitive in a marketplace that will continue to consolidate for the foreseeable future."

The Rise of Smaller Chains

The unceasing consolidation in the c-store industry is having multiple effects, including evolution in the very definition of a "smaller chain." According to Monroe, a smaller chain used to consist of 10 c-stores. Now, that number has jumped to 30.

"The idea of a large chain is becoming more elusive every day. When you look at the top 100 stores in the U.S., it's almost like looking at the haves and the have-nots. We go from a chain of stores in the thousands, to a few chains who have several hundred stores, and then we drop down into the number of owners who have less than 100 stores," he observed.

Even as the big chains keep getting bigger, there is still a needed role in the market to be played by smaller chains and midsize players. "Very much so," said Pester Marketing's Spresser.

"We are not a national brand like a 7-Eleven, but we have developed a regional brand, so we have brand recognition and we've found a niche," he said.

"Also, these [big] guys are not going into some of these rural areas. 7-Eleven's self-distribution of their food items limits where they can go," he added. "I think there is a niche for us, and I think there is a niche for us going forward, particularly on a regional basis." **CSN**

DROP-OFFS FROM LAST YEAR

CST Brands Inc.

Acquired by Alimentation Couche-Tard Inc.

Holiday Cos. Inc.

Acquired by Alimentation Couche-Tard Inc.

The Kroger Co.

Sold convenience store division to EG Group

E-Z Mart Stores Inc.

Acquired by GPM Investments LLC

Western Refining Inc.

Acquired by Tesoro Petroleum Corp. (now Andeavor)

Jet Pep Inc.

Acquired by CrossAmerica Partners LP & Alimentation Couche-Tard Inc.