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Grant Thornton Corporate Finance
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C-Store M&A update

- M&A activity
- Precedent transaction valuations
- Public company comparables

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Mergers & Acquisitions
Retail and Consumer Group

Christopher Kampe
Director
P: 617.848.4984
E: Christopher.Kampe@gt.com

Benjamin Gerwin
Associate
P: 617.848.4873
E: Benjamin.Gerwin@gt.com

226 Causeway Street
Boston, MA 02114
www.GrantThornton.com

Convenience Stores:

Consolidation in the highly-fragmented C-Store segment is the key driving factor in recent M&A activity

Industry background

- The U.S. C-Store segment is a large market with total industry sales estimated at $395.0 billion.[1]
- Overall, the industry is comprised of approximately 60,000 companies and more than 138,000 convenience stores.[2]
- The C-Store segment is one of the few remaining sectors of the U.S. retail industry that is still highly fragmented.
  - The top twenty C-Stores companies operate less than 13% of total units in the United States.[3]
  - Nine of the top twenty C-Store operators are captive divisions or subsidiaries of integrated oil companies, a few of which have chosen to divest significant portions of their retail operations.
  - Two-thirds of all stores in the United States are operated by a chain of 10 or fewer stores.
- The highly fragmented structure of the industry creates a significant opportunity for consolidation. Three major consolidators have emerged – Alimentation Couche-Tard Inc., The Pantry Inc. and Casey's General Stores, Inc. These consolidators seek to improve target profitability through leveraging greater purchasing power, category management and eliminating duplicative central costs.
- The fact that many C-Store operators have fee ownership of the underlying real estate enables acquirers to finance a substantial part of acquisition price with relatively low cost debt. The robust sale/leaseback market is a significant source of acquisition financing.

[1]NACS 2005 State of the Industry Report

[2]First Research Convenience Stores and Gas Stations Industry Profile; NACS 2005 State of the Industry Report

[3]Convenience Store News Top 100 U.S. Convenience Store Companies

M&A activity

- M&A activity in the C-store segment remains high with nine significant transactions announced in the last twelve months (referenced in Table One).
- Recent mergers & acquisitions have primarily consisted of middle-market private sales to one of the three key industry consolidators: Couche-Tard, The Pantry and Casey's. Other notable companies active in the M&A market have included GPM investments, Mapco/Delek and WilcoHess.
- This consolidation trend is in stark contrast to M&A activity during 2003 and 2004, which was driven primarily by large integrated oil company divestiture programs (e.g. ConocoPhillips) and a host of sizable bankruptcies.
- The Southeast region of the United States has been most active.

Valuation

Precedent transactions

While most C-Store sales are private, there were several recent M&A transactions that disclosed valuation metrics in the public domain, either in Securities and Exchange Commission (SEC) filings, press releases, or court documents. These transactions include Fas Mart, Golden Gallon, Circle K, Uni-Marts, Clark Retail and DB Mart. However, it should be noted that most of these transactions were either divestitures or bankruptcy sales.

In general, average multiples on these select transactions were 7.3x corporate EBITDA and 5.5x store level EBITDA(referenced in Figure One). However, it is important to consider that many other factors outside of last twelve months (LTM) EBITDA influence C-Store valuations. These include whether or not locations are owned or leased, the value of the underlying fee owned real estate (highest and best use), the condition of the property's real improvements, environmental issues, opportunities for operational improvements, market growth potential, competitive dynamics, and quality of the sites. We believe that some of these factors may have favorably impacted valuation in both the Fas Mart transaction and the Uni-Mart going private deal.

In reviewing additional past transactions over a much longer historical period, we find the following:

- C-store deal prices has been as low as 3x store level EBITDA and, in some cases, in excess of 7.0x store level EBITDA.
- The majority of transactions fall in the range of 4.0x to 6.0x store level EBITDA.

We believe that these metrics generally still hold up in today's market. However, ownership of the real estate, high volume locations (in excess of 1.0 million gallons

Table One - Listing of significant recent C-Store transactions

Announced	Target	Units	Location	Region	Buyer	Price
9/12/05	Conway Oil Co.	16	NM	Southwest	Alimentation Couche-Tard, Inc.	N/A
8/2/05	Speedmart Food Stores	13	AL	Southeast	The Pantry, Inc.	N/A
6/1/05	Trade Mart Stores	100	NC	Southeast	WilcoHess	N/A
6/1/05	Sentry Food Mart	23	VA	MidAtlantic	The Pantry, Inc.	N/A
5/19/05	Gas 'N Shop, Inc.	58	NE, KS, IA	Midwest	Casey's General Stores, Inc.	N/A
4/27/05	Wilson Farms & Sugarcreek c-stores	198	NY	Northeast	Bruckmann, Rosser, Sherrill, & Co. LLC; Nanco Enterprises Inc.	N/A
2/28/05	Cowboys Food Mart	53	AL, GA, MS	Southeast	The Pantry, Inc.	N/A
2/3/05	Pump 'N Shop Stores	19	GA	Southeast	Alimentation Couche-Tard, Inc.	$34.0
9/8/04	DB Mart Stores	147	CT, MA, RI, NY	Northeast	Getty Realty Corp., Amerada Hess, GPM Investments, and approximately 49 other investors	$71.0
9/3/04	Shell Oil Products U.S., 21 Sites	21	AZ	Southwest	Alimentation Couche-Tard, Inc.	$31.8
8/19/04	J&L Oil	18	IL	Midwest	Combined Oil Co.	$20.0
7/9/04	Crown Central Petroleum Corporation, 150 sites	150	MD, VA	MidAtlantic	Petroleum Marketing Investment Group, LLC	N/A
6/16/04	Git-n-Go Inc., 76 Convenience Stores	76	OK	Southwest	Kum & Go	$13.0
3/31/04	Kiel Bros. Oil Co.	188	KY, IN	Midwest	Bulk Petroleum	$31.9
3/30/04	Williamson Oil Co.	100	AL, GA, TN	Southeast	MAPCO/Delek US Holdings Inc.	$50.6
1/27/04	ConocoPhillips Company	779	NJ, PA	MidAtlantic	Getty Petroleum Marketing/Lukoil	$265.8
1/27/04	ConocoPhillips Company, Mobil Brand Retail Sites	385	DE, MD, Wash DC, VA	MidAtlantic	Sunoco, Inc.	$187.4

sold per year), strong fuel margins, growing markets and the absence of environmental issues will push valuation up to the upper end of the range.

Public company comparables

The C-Store industry has few pure-play comparable companies, with only 7-Eleven, Couche-Tard, Casey's and The Pantry available for comparison. Interestingly, the relative valuation of these public companies has increased at a rate greatly exceeding the broader market as a whole. In general, the median enterprise value to corporate EBITDA multiple for the public company comparables base was 9.1x as of the date of this report. The market is clearly favoring these companies, as the median enterprise value to corporate EBITDA multiple was less than 7.0x just two years ago (referenced in Table Two).

However, because of the large size of these public C-Store operators and their favorable expected growth rates, several adjustments need to be made to draw a comparison to smaller middle market C-Stores. These adjustments include a material liquidity discount and a control premium.

Conclusion

M&A activity in the C-Store segment is expected to be robust due to the active presence of large industry consolidators in the market, the highly fragmented nature of the industry and a favorable financing environment.

The shift in the market from large bankruptcy sales and oil company divestitures to smaller, healthy middle-market transactions appears to favor sellers of 30 to 50 unit chains, particularly in the United States' Southeast region.

Figure One - Select precedent transaction multiples

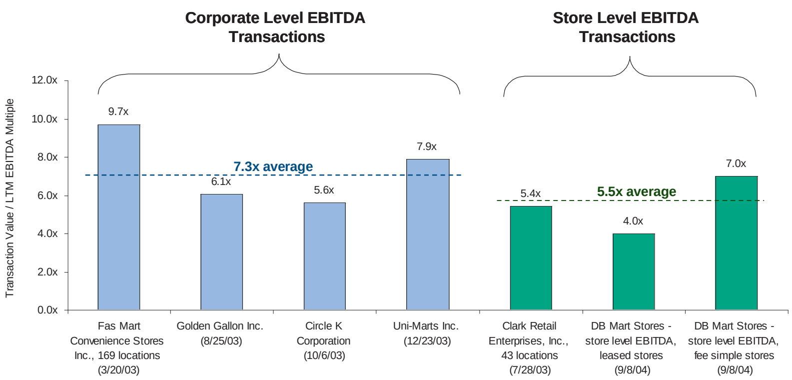

Table Two - Public company valuation multiples

Independent C-Store Operators

Multiples	Market Cap. ($MM)	Enterprise Value ($MM)	EV/TTM Sales	EV/TTM EBITDA
7-Eleven	$4,255	$5,547	0.4x	9.2x
Alimentation Couche-Tard	$3,800	$4,094	0.5x	11.8x
Casey's General Stores	$1,168	$1,237	0.4x	8.9x
The Pantry	$840	$1,310	0.4x	7.6x
		Median	**0.4x**	**9.1x**

Source: Company filings

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