

Casey's evaluating small and large buys - CEO

By Deborah Balshem

July 20, 2015

Casey's General Stores (NASDAQ:CASY), the Ankeny, Iowa-based convenience store and gas station operator, is eyeing acquisitions in all its core markets, Chairman and CEO Bob Myers told this news service.

The company is interested in single store operators and those with multiple locations, according to Myers, who said Casey's recently looked at a target with "a couple hundred" stores. Casey's aims for unit growth of 4% to 6% per fiscal year, with roughly half derived through M&A, he noted. As of 30 June, the company had 1,881 stores.

Casey's considers targets within a 500-mile radius of its Iowa warehouse, and is seeking buys in the 14 states where it operates: Arkansas, Illinois, Indiana, Iowa, Kansas, Kentucky, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Tennessee and Wisconsin.

"Given the fragmented nature of the convenience stores in our market area, most of our acquisitions are smaller chains," CFO William Walljasper said, noting the February 2014 purchase of 24 Stop-n-Go stores was the company's most recent significant acquisition in terms of locations.

An industry source pointed to Carmi, Illinois-based **Martin & Bayley**, dba **Huck's Food and Fuel**, as one of the larger independent companies operating in Casey's markets, though he was unaware if the employee-owned business would be interested in a sale. Huck's has approximately 115 locations in Illinois, Indiana, Kentucky, Missouri and Tennessee, according to published reports.

Casey's new store construction and acquisitions budget for FY16 is between USD 436m and USD 528m. In its last earnings call, Walljasper said multiples range from 5x to 7x trailing 12-month EBITDA to the high single to low double-digits for targets with more than roughly 12 locations.

For the fiscal year ended 30 April, Casey's had revenue of USD 7.8bn. It reported cash and cash equivalents of USD 48.6m and long-term debt of USD 838.3m as of 30 April. The company has a market cap of USD 3.91bn.

In addition to new store growth, Myers noted Casey's is seeing an increase in revenue from various initiatives, including 24-hour stores, remodels of existing stores and a pizza delivery service. Increased demand for prepared foods, which accounted for 8% of revenue but 32% of gross profit in FY15, "is putting pressure" on existing capacity, and Casey's is building a second distribution facility in Terre Haute, Indiana that is expected to be complete in February, he said.

Last week, Casey's announced that 68-year-old Myers, who has been with the company for more than 26 years, will retire as CEO on 30 April 2016. Its Board of Directors named 55-year-old Terry Handley, currently president and COO and a 34-year veteran of Casey's, President and CEO, effective upon Myers' retirement. Myers, who has served as CEO since 2006, will continue to serve on the company's board following his retirement.

Institutional investors hold roughly 94% of Casey's stock with an additional 4% held by insiders. In 2010, the company was on the receiving end of two failed takeover attempts from **7-Eleven** and **Alimentation Couche-Tard** (TSE:ATD.B).

This news service reported in February of last year that Casey's was ripe for another takeover try, given its higher valuation and the fact that it could be more challenging for the company to move the needle via organic growth and acquisitions.

Kenneth Shriber, managing director of M&A advisory firm Petroleum Equity Group, said Casey's may be seen as an even more attractive target today, after the USD 1.8bn sale of **Susser Petroleum** to Sunoco owner **Energy Transfer Partners** (NYSE:ETP) in April of last year left Casey's as one of the few remaining players in its size range. Casey's could see takeover interest from players such as Couche-Tard; 7-Eleven; and **Marathon Petroleum** (TSE:ATD.B), owner of Hess and Speedway, Shriber reasoned.

Private equity firms such as **Apollo Global Management** (NYSE:APO), **Blackstone Group** (NYSE:BX), **KKR** and **Fortress Investment Group** (NYSE:FIG) could also show interest, added Shriber, who noted Fortress acquired gas station and convenience store retailer **United Oil** last year.

Though there continues to be industry speculation that Casey's might become a master limited partnership or a real estate investment trust, Myers said the company "can raise capital cheaply" at this time, so it doesn't see the value in either.

Casey's financial advisor is Goldman Sachs. It uses law firm Ahlers & Cooney and auditor KPMG. Previous advisors include Neil Stern of retail consulting firm McMillanDoolittle and distribution strategy consulting firm Forte Industries.