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2023 Top 202: The Calm Before the Storm

Smaller acquisitions in 2022 turned into a deluge in the 1st half of 2023 and uncertainty looking forward
By [Hannah Hammond] and [Rachel Gignac] on May 31, 2023

More than 200 acquisitions took place in the convenience-store industry in 2022, but no real blockbuster deals.

Steven Montgomery, president of b2b Solutions LLC, Lake Forest, Illinois, says the lack of major deals was due to uncertainty in the marketplace about several factors, including "inflation, the impact of the price of fuel on c-store visits, the rising cost of labor and the impact [electric vehicles] might have on the industry."

Then, in the first half of 2023, trends shifted when a deluge of deals came through. TravelCenters of America decided to move forward with Chicago-based bp's bid to buy the Westlake, Ohio-based travel-center company of more than 280 stores. Salt Lake City-based Maverik acquired similarly sized Kum & Go, a Des Moines, Iowa-based chain of nearly 400 stores. Majors Management, Lawrenceville, Georgia, and Canada's Alimentation Couche-Tard split up Franklin, Tennessee-based MAPCO Express' more than 300 sites. And Waltham, Massachusetts-based Global Partners LP and Irving, Texas-based Exxon Mobil Corp. acquired 64 Houston-area convenience and fueling facilities from Landmark Group. The list goes on.

Despite the pickup in activity, some industry experts warn that fear of a recession, bank failures and inflation, among other factors, could cause the tides of merger and acquisition (M&A) to shift again.

In this, *CSP*'s 2023 Top 202 issue, convenience retailers share their growth strategies, and industry experts analyze the M&A climate in 2022 and predict what the future might have in store.

Motivated to Sell

Despite the lack of major movement at the top of the Top 202 list, 2022 remained a busy year for M&A. Most of the acquisitions involved small- to mid-sized chains of about 20 to 40 stores, says Roger Woodman, managing director at Raymond James, St. Petersburg, Florida. He points to two reasons why sellers were motivated to sell.

The convenience-store industry was coming off a profitable year, with high fuel margins, so small- to mid-sized operators had a very profitable business upon which to market their business to buyers, Woodman says.

Then the retailers see the coming risks—from talks of a recession to inflation to rising interest rates—and that's just on a macroeconomic basis, he says. C-store retailers also face an increase in operating costs, a tight labor market, increased regulation and a decrease in gas volumes due to the impact of EVs on the market.

"If 2022 can be characterized by the lack of 'headline' transactions in our space, then the first quarter of 2023 should be marked by their resurgence."

"There's a lot of headwinds facing these smaller operators, and they know the environment is still good to transact," he says. "They're coming off record profits. So why not hit the market now while the window is open?"

Some noteworthy small- to mid-sized company deals that took place in 2022 include two from Monfort Cos., a Denver, Colorado-based investment management company of which 7E CO Holdings LLC is a division. It earned a spot on the list after acquiring 19 gas and c-store locations from Brent Bostick and a six-store portfolio from Dino Stop Stores.

Another notable grower was Massillon, Ohio-based Campbell Oil Co., which through its Minuteman Food Mart division, purchased Friendly Mart Food Stores, an 18-store chain, pushing it up to No. 115 on our list from 146.

Larger consolidators remain interested in acquisitions, too, Woodman says, but several factors likely stunted their ability to pursue deals in 2022.

"For example, 7-Eleven continues to integrate their acquisition of the massive Speedway network, and Couche-Tard was likely focused on international opportunities based on their recently announced acquisition of TotalEnergies in Europe," Woodman says.

The most interesting deal of 2022, in Woodman's opinion, was Laval, Quebec-based Couche-Tard's acquisition of True Blue Car Wash LLC, which has 65 car wash locations in Arizona, Texas, Illinois and Indiana.

"While the car wash business is closely related to the c-store business, this demonstrated Couche-Tard's desire and willingness to explore growth opportunities outside of their core business," he says.

Top of the List Shifts

Despite the lack of major movement for top companies, some shifts still took place.

Murphy USA, El Dorado, Arkansas, surpassed EG America, Westborough, Massachusetts, taking spot No. 5. after EG dropped 68 sites and Murphy USA added 43 in 2022.

Pilot Co. and Sheetz also swapped positions. Knoxville, Tennessee-based Pilot decreased its store count by three, and Altoona, Pennsylvania-based Sheetz took No. 12 with a 40-store increase built on new construction.

Other major retailers that saw movement in 2022 include GPM Investments LLC, Refuel Operating Co. LLC and Majors Management LLC.

GPM completed five medium to large purchases, including the Pride portfolio, extending its footprint into Massachusetts for the first time. At the same time, the company moved many sites from owned and operated to dealer status, resulting in a decrease in total operated stores from 1,415 to 1,404 compared to a year ago, according to a spokesperson. The Richmond, Virginia-based chain remains at No. 6 on *CSP*'s Top 202.

Refuel Operating Co., No. 40, which completed four significant acquisitions last year, now has 207 locations. The Mount Pleasant, South Carolina, chain has seen steady growth, adding 32 locations in 2022 and 62 locations in 2021.

Majors Management, Lawrenceville, Georgia, completed a few significant deals in 2022, gaining 21 c-stores from Davis Oil, **13 Maritime Farms convenience stores from Maritime Energy**, and another three acquisitions that added 17 stores in Alabama, Illinois and Texas. The company also acquired 69 c-stores from Circle K Stores Inc. in 2022 and kept acquiring at the start of 2023.

Market Uncertainty Rises

Challenges like high labor costs, a potential recession and the failure of Silicon Valley Bank (SVB), Signature Bank and most recently First Republic Bank will shape the deals of 2023.

The loan market was significantly slowing even before Silicon Valley Bank failed, Woodman says. Banks were already starting to take a more conservative approach to new loans.

"And that was only worsened by the SVB collapse and collapse of some of the other banks. But it really is different among different institutions," he says.

"I think we're going to see a lot of people who were sitting on the fence come to market, smaller players."

Companies with strong balance sheets, existing lender relationships and existing lines of credit with capacity will be in a real position of strength, Woodman says.

On top of that, a U.S. recession is expected to begin sometime in 2023, according to a survey of economists from the National Association for Business Economics.

"If the recession is more severe in the second half of the year and banks really shut off the spigot of lending, then I can assure you that M&A activity is going to slow, not only across all industries, but the convenience-store industry as well," Woodman says.

There's a strong correlation between capital and M&A moves: "When the banks stop lending, M&A deals stop getting done," he says.

C-Stores Fare Better

Even if there's a challenging economic environment, c-stores may come out on top.

M&A activity in the first quarter of 2023 is running opposite to M&A trends in U.S. industry in general, according to a report from Corner Capital, Austin, Texas. The investment banking team's "Downstream Energy Capital Markets Update: 1Q 2023" report said the convenience/fuel wholesale industry saw "one of the most active quarters of M&A activity in recent memory."

In the first quarter, M&A activity surged in the convenience retailing industry, accounting for about 2,900 stores or fuel-supply accounts changing hands, the most recorded by Corner Capital since third-quarter 2020. And with 17 deals reported, the first quarter was the busiest quarter of M&A since the fourth quarter of 2021, according to the Corner Capital Proprietary Transaction Database.

"If 2022 can be characterized by the lack of 'headline' transactions in our space, then the first quarter of 2023 should be marked by their resurgence," the report said.

2023 Outlook

It's hard to predict how the fear of a recession might impact M&A in the c-store industry, Montgomery of b2b Solutions says.

"Historically the industry has been viewed as recession-resistant. However, there has been concern by many over how the threat of a recession has been handled to date," he says.

People who have been sitting on the fence about selling their stores may want to consider now given the interest rate climate and potential recession looming, says Ken Shriber, managing director at Petroleum Equity Group Ltd., Chappaqua, New York.

Margins have been spectacular over the past four years, Shriber says. Now there are concerns that margins are shrinking, and interest rates are growing, both of which could affect purchase prices.

"I think we're going to see a lot of the smaller players coming to market in 2023 and 2024," Shriber says.

2,900 - The number of stores or fuel-supply accounts that changed hands in first quarter 2023

Headwinds for companies like Mountain Express, Parkland Corp. and 7-Eleven parent company Seven & i could also be early signs of a number of c-stores coming up for sale later this year.

Alpharetta, Georgia-based Mountain Express grew by 68 stores in 2022, some of its expansion coming from purchasing 26 stores under The Store brand from Team Schierl Cos. However, its year of growth was followed by a voluntary Chapter 11 bankruptcy protection filing in March in the U.S. Bankruptcy Court for the Southern District of Texas.

Calgary, Alberta-based Parkland Corp.'s store count remained at 213 from the beginning of 2022 to 2023. Prior to the last year, it saw quick growth through acquisitions.

While mergers and acquisitions have historically made sense for Parkland activist hedge fund Engine Capital LP said in March that the company has been unable to provide adequate returns for shareholders and should consider simplifying its business to focus more on fuel and convenience retail.

Engine Capital, New York, holds 2% of Parkland Corp.'s outstanding shares and urged the company to evaluate a sale or spinoff of non-core assets.

Given the strong demand for high quality strategic assets, Woodman says he thinks the M&A market will remain active in 2023. But in the face of rising financing costs and a more conservative underwriting by senior debt providers, closing transactions will likely become more challenging.

"It is not all doom and gloom," Woodman says. "The industry continues to perform very well, and the market window remains open. Capital is still available, and interest rates, although rising, remain relatively low compared to historical levels, so there is still a window for sellers to explore an exit while valuations and demand remain elevated."

No one knows when and if the window to transact will close, and if so, for how long, Woodman says.

"With rising interest rates, lower availability of capital, slowing economy, fear of a recession and a tight labor market, it is hard to anticipate a blockbuster year for M&A in 2023," Woodman says.