



# Couche-Tard + CST Brands = ???

Industry insiders believe Couche-Tard will likely rebrand the stores Circle K, while adapting some of the foodservice and loyalty concepts acquired in the sale

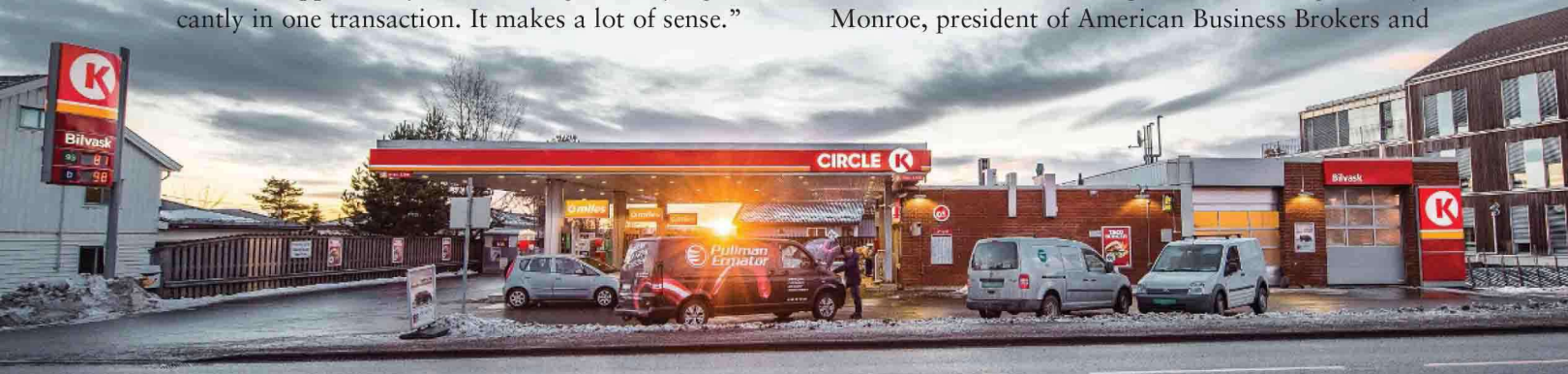
In a move that will make it the largest U.S. independent convenience store operator in store count, Circle K parent Alimentation Couche-Tard Inc. announced plans to acquire CST Brands Inc. for \$4.4 billion in August 2016. The company has been expanding through a number of acquisitions as of late, but this one offers an opportunity to purchase one of the few remaining North American c-store chains with more than 1,000 stores.

“CST Brands has properties in both the U.S. and Canada, so there were a lot of synergies associated with that, and Circle K has not been shy about the fact that they want to grow dramatically,” Dennis Ruben, executive managing director of NRC Realty & Capital Advisors LLC, based in Scottsdale, Ariz., told *Convenience Store News*. “They have bid aggressively on a number of acquisitions that have come along, and this is an opportunity for them to grow very significantly in one transaction. It makes a lot of sense.”

As part of the deal, Couche-Tard will acquire 1,146 CST Brands c-stores, primarily operating under the Corner Store, Nice N Easy and Flash Foods banners, and also control the general partner of Allentown, Pa.-based CrossAmerica Partners LP. Additionally, Couche-Tard plans to sell CST Brands’ Canada retail assets to Parkland Fuel.

“They are buying sites with c-stores so they can immediately re-identify and rebrand to expand their brand in Texas, where they are already pretty big. It also gets them in California and a few other states where their presence is not as heavy,” noted Ken Shriber, managing director and CEO of Petroleum Equity Group in Chappaqua, N.Y.

Despite the hefty price tag, it’s a great deal financially for Couche-Tard because by increasing its mass of stores, the company increases its buying power and decreases its marketing costs, according to Terry Monroe, president of American Business Brokers and







CST's Corner Stores (left) are expected to be rebranded to Couche-Tard's new global Circle K brand (right) within a year of the acquisition closing.

Advisors, based in Naples, Fla.

“There are 154,000 c-stores out there, and there is no McDonald’s so to speak. There is no No. 1, and Couche-Tard will be No. 1. When they go to talk to Pepsi or Frito-Lay or any vendors, their buying power is getting better and better,” Monroe explained.

Couche-Tard will also save money in the back-office costs that CST Brands was paying to run its company. With CST making \$1 billion a year in net profit, the back-office costs could be around \$200 million. For Circle K, those costs will go down to about \$40 million, according to Monroe.

**THE FUTURE OF CST**

Despite its best efforts, the market grew impatient with CST. The retailer did creative things like purchasing Nice N Easy and CrossAmerica, but some activist investors were buying shares and there was a lot of pressure on the company to do a transaction, Ruben explained as to how CST found itself on the sale block.

“The sale was more shareholder driven because as a standalone chain of c-stores with gas, unless you are growing significantly, there is not much of an opportunity to improve the performance of the company and, hence, the share price,” Shriber agreed. “Despite their best efforts, CST didn’t have a significant growth plan that would satisfy shareholders.”

Some investors thought the stock price was not high enough, noted Ruben. “I don’t think they were given enough time to establish an independent presence in the marketplace,” he remarked. “They were only an independent spinoff for a couple of years, and some

activist investors were trying to stir things up. The board felt they had to respond and hired a financial advisor to look at alternatives. They went out to see if they could get offers. I think some of the investors were just impatient.”

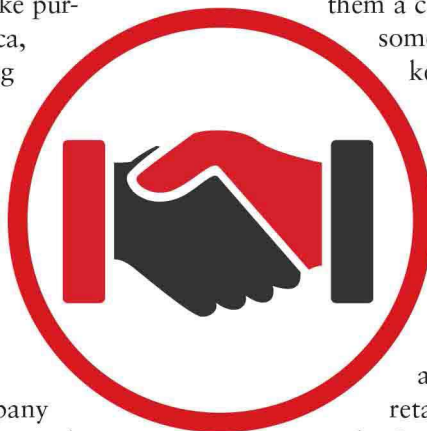
While Couche-Tard has not announced any specific plans regarding the rebranding of CST Brands’ c-stores, convenience store industry analysts and experts believe the stores will eventually be turned into Circle K sites. This will allow Couche-Tard to expand the global Circle K brand and gain brand recognition in new areas of operation.

“I would suspect within the first year, it will be rebranded,” NRC’s Ruben said. “They look at each deal separately to see how to transition it. We sold them a chain in Texas and some stayed and some were converted. There may be markets they convert to Circle K and some where they keep the Corner Store name, but generally they convert stores to their brand.”

Monroe compared the deal to the acquisition of Amoco by BP, where everything was eventually rebranded BP. He foresees the same future for CST and Couche-Tard. Speedway also did the same thing with Hess’ retail assets, which were all converted to the Speedway brand in less than a year, he pointed out.

“If McDonald’s acquired a chain of stores, they wouldn’t leave them Joe’s Hamburgers. They would eventually convert them over,” Monroe said.

The only exception to the rebranding could be CST’s Nice N Easy locations because 21 of the locations are franchised to a single owner, explained Steven





Montgomery, president of b2b Solutions LLC, based in Lake Forest Ill.

“Should the Nice N Easy company-operated locations be rebranded, they may determine that occurrence diminishes the brand’s value and elect to create their own standalone brand,” Montgomery said.

The future of CST’s fuel brand, which is currently Valero, is also a question mark.

“I’m fairly certain the stores will be rebranded Circle K, but the gas brand is in question,” Shriber acknowledged. “Do they keep Valero, do they convert to other brands, or do they leave it as Circle K and be unbranded? It depends on the terms of the deal.”

So, what does this mean for CST Brands and its employees? The current executives may benefit financially from the deal, but the likelihood of them being offered a position with Circle K is slim, according to Shriber. However, the Petroleum Equity Group head does believe Couche-Tard will extend offers to store personnel and field management.

*The San Antonio Business Journal* reported CST Brands CEO Kim Lubel could receive nearly \$20 million in compensation, including \$5.5 million in separation payments, with the remainder from incentive plans and stock options, including previously restricted stock. Other executives are likewise entitled to severance payments, annual short-term incentive awards, and health benefits, which could total \$24 million, according to documents on file with the U.S. Securities and Exchange Commission (SEC). Former CrossAmerica Partners CEO Joseph Topper will receive compensation, too, cashing out his 1.2 million shares in CST for \$59 million, according to SEC documents.

### ADOPTING NEW PRACTICES

With the likelihood of the CST stores being rebranded, many of the current brands or offers found within Corner Store are also likely to be changed to Circle K, and this includes the work CST Brands did on its foodservice offerings. However, Monroe believes Couche-Tard will look at the aspects of CST that are working well and may consider incorporating some of those into the Circle K brand.

“They may take an aspect CST was doing well, such as foodservice, and test it. If they can incorporate it into their other stores, they will,” he said. “Couche-Tard is publicly traded and will look for profitability.”

Ruben cited the example of Sunoco LP’s purchase of Susser Holdings Corp., where Sam Susser had devel-



Couche-Tard CEO Brian Hannasch recently stated that Corner Store’s foodservice offer “fits very well for the southern half of the U.S.”

oped the Stripes chain and Laredo Taco Co., which was a “big money-maker.” Sunoco is trying to roll out Laredo Taco Co. now.

“It will be interesting to see what Couche-Tard decides to do after they take a look at what CST Brands is offering,” said Ruben.

Circle K does have its own brands and concepts, including the Simply Great Coffee program, which as of November 2016 had been rolled out to more than 400 stores in its North America network. The chain plans to introduce the offering to 750 stores within the year, according to Couche-Tard CEO Brian Hannasch.

Additionally, Couche-Tard is expanding the offering of fresh sandwiches, pastries and salads to more of its stores, and the chain’s fresh prepared food program — referred to as “foodvenience” — was operational at 10 sites as of November.

During the company’s second-quarter earnings call for fiscal year 2017, Hannasch commented on the foodservice operations of CST, saying: “They’ve been on the same journey with regard to foodvenience or made-to-go type offer. And I think they’ve got an

offer that fits very well for the southern half of the U.S.” The chief executive added that his company is anxious to get the experts together from both retail chains “in the coming years, as I’m confident that it can accelerate our journey.”

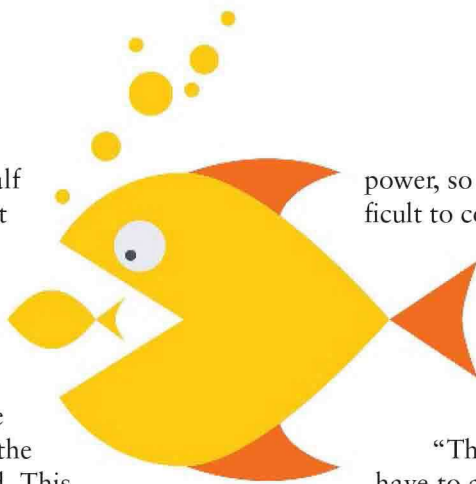
When CST acquired Nice N Easy, one of the reasons the acquisition was attractive was because of the foodservice capabilities the locations demonstrated, Montgomery noted. This is something Circle K will want to apply where it can, but would be limited to its larger-format stores, he said, explaining Circle K will also utilize the loyalty program knowledge gained from CST’s purchase of Flash Foods.

#### INDUSTRY IMPACT

As Couche-Tard continues to grow and dominate more regions in terms of presence and buying power, what does this mean for competitors, or the convenience store industry as a whole?

The biggest impact will be for those companies bidding against the retailer for future acquisition deals, Ruben predicts. “In the last few years, there has been an ongoing consolidation, and when we do deals, there is a big number of larger buyers who could do a deal without having to get financing,” he explained. “I think this will mean a less competitive environment for deals because with Couche-Tard buying CST, there is one less big player to call.”

For those in direct competition with Circle K stores, the bigger Couche-Tard gets, the better the buying



power, so it will become more difficult to compete with the retailer on price, Monroe pointed out. Couche-Tard will be getting better deals from vendors, leaving neighboring stores to find other ways to stand out.

“These competing stores will have to accept the fact that they can’t get the same deals from vendors. It’s no different than when Walmart came to town and put people out of business,” Monroe said. “Companies need to distinguish themselves from Circle K, whether it’s different flavors of coffee or their own type of breakfast rolls.”

Foodservice is a great way to differentiate from the competition in any area and, for those competing against Circle K, another option is to offer services they don’t, such as a loyalty program, said Ruben.

“Some Circle Ks are branded Shell and they have a loyalty program, but many are unbranded,” he noted. “If a store competes in an area with Circle K and they offer a loyalty program, this is something they should promote.”

Overall, Circle K’s reputation in the industry is very good, and they are known as great operators, Ruben shared. This will give the entire industry a boost and give people the incentive to “improve their game and offering.”

“By putting more name-brand equity into the marketplace and showing, good consistent operations, it helps the entire c-store industry,” Monroe agreed. **CSN**



Couche-Tard directors (from L to R) – Brian Hannasch, Richard Fortin, Réal Plourde and Alain Bouchard – showed their support for the new Circle K look.