CASE STUDY:
ACQUISITION ESCAPE VELOCITY

Challenge

Our Client, a growing mid-size retail convenience store operator and wholesale petroleum distributor that represents 4 major oil brands as well as operates several private branded and co-branded retail locations, needed to evaluate, negotiate, structure and finance the potential purchase of 51 company operated retail locations, a transportation company and several miscellaneous parcels of land located in 5 states. The acquisition was projected to increase our Client's EBITDA by over 50%.

Goals

The Client's goal was to obtain the highest return on investment with the least amount of risk while either purchasing the 51 retail locations at the transaction closing or using a sale leaseback ("SLB") financing option that also granted the tenant the right to purchase the sites for a fixed amount at a future date. Our Client decided early in the process to fund the acquisition of the Seller's transportation business by using its existing retained earnings.

Solution

PetroCapRE was engaged to develop an 8-year pro-forma acquisition model, assist in finalizing the Client's initial purchase offer, support the overall negotiation process between the parties, develop several viable acquisition capital structures, raise the funds necessary to close the acquisition and facilitate the closing of the entire acquisition. PetroCapRE worked with its Client to create a 3-year historical and 8-year proforma site-by-site model to evaluate the post-closing cash flow potential of each retail location. As a result of this analysis, our Client decided to separate the 51 sites into two groups or models: the 36 highest performing/most attractive sites and the 15 non-strategic sites and miscellaneous parcels of land that would be divested on a post-closing basis. The 36 most attractive retail sites were further analyzed to determine their best long-term class of trade, potential fuel margin enhancement opportunities, expected volume growth and projected convenience store sales levels. The pro-forma model for the 36 locations also established the projected corporate overhead, required capital expenditures and the post-closing environmental expense associated with operating each location. The 15 non-strategic sites were evaluated to determine a sales price for each location and whether or not the site would

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be offered to interested dealers with or without a post-closing supply-only agreement. This analysis also determined that several locations would be sold to potential buyers outside of the industry. Once the Client understood the projected cash flow of all the assets to be acquired, PetroCapRE provided support in negotiating the final sales price.

After negotiating a final purchase price, our Client decided to pursue the SLB funding option to close on the 36 strategic retail sites that the Client planned to retain on a long-term basis and use a bridge loan funding mechanism to acquire the 15 non-strategic locations and miscellaneous parcels of land. Once a Purchase and Sale Agreement was executed by both parties, PetroCapRE prepared a comprehensive Confidential Information Presentation ("CIP") detailing the specifics of the overall acquisition, a Client overview and a supplemental information file that included the Client's pro-forma model and post-closing business plan. PetroCapRE recommended a customized capital solicitation process that would obtain not only the best terms available in the marketplace, but also the quickest guaranteed closing. After reviewing all the financing options procured during the solicitation process, our Client picked its preferred SLB and bridge loan capital providers and PetroCapRE continued to facilitate the process of coordinating the financing due diligence and finalizing the closing.

Results

Our Client was able to close on all 51 sites with only a 5% equity contribution, obtain a fixed 5-year buyout option for the 36 most attractive strategic sites and align each site with an optimal funding structure, SLB or bridge financing, which was projected to provide the lowest risk with the highest return on investment.

About PetroCapRE

PetroCapRE is recognized as a national leader in providing buy-side advisory, refinancing and capital restructuring services for clients exclusively in the downstream multi-site retail and wholesale petroleum industry. Managing directors John C. Flippen, Jr. (jflippen@PetroCapRE.com) and John E. Sartory (jsartory@PetroCapRE.com) are both fully involved in every transaction process and since forming the company in 2009 have successfully completed closings totaling over $2.3 billion.