



Houlihan
Lokey

The U.S. Convenience Store
and Car Wash Industry
Fuel, Food, and Foam



Fall 2024

About Our Firm

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Our firm is the trusted advisor to more top decision-makers than any other independent global investment bank.



Learn more about how our advisors can serve your needs

CORPORATE FINANCE

2023 M&A Advisory Rankings
Global Transactions Under \$1 Billion

	Advisor	Deals
1	Houlihan Lokey	346
2	Rothschild & Co	308
3	Lazard	200
4	JP Morgan	187
5	Goldman Sachs & Co	176

Source: LSEG (formerly Refinitiv).
Excludes accounting firms and brokers.

No. 1

Global M&A Advisor Under \$1 Billion

Leading

Capital Markets Advisor

FINANCIAL RESTRUCTURING

2023 Global Distressed Debt &
Bankruptcy Restructuring Rankings

	Advisor	Deals
1	Houlihan Lokey	73
2	PJT Partners Inc	64
3	Rothschild & Co	51
4	Lazard	37
5	Evercore Partners	27

Source: LSEG (formerly Refinitiv).

No. 1

Global Restructuring Advisor

1,700+

Transactions Completed Valued at
More Than **\$3.5 Trillion** Collectively

FINANCIAL AND VALUATION ADVISORY

1999–2023 Global M&A
Fairness Advisory Rankings

	Advisor	Deals
1	Houlihan Lokey	1,247
2	JP Morgan	1,035
3	Duff & Phelps, A Kroll Business	977
4	UBS	884
5	Morgan Stanley	716

Source: LSEG (formerly Refinitiv).
Announced or completed transactions.

No. 1

Global M&A Fairness Opinion
Advisor Over the Past 25 Years

2,000+

Annual Valuation Engagements

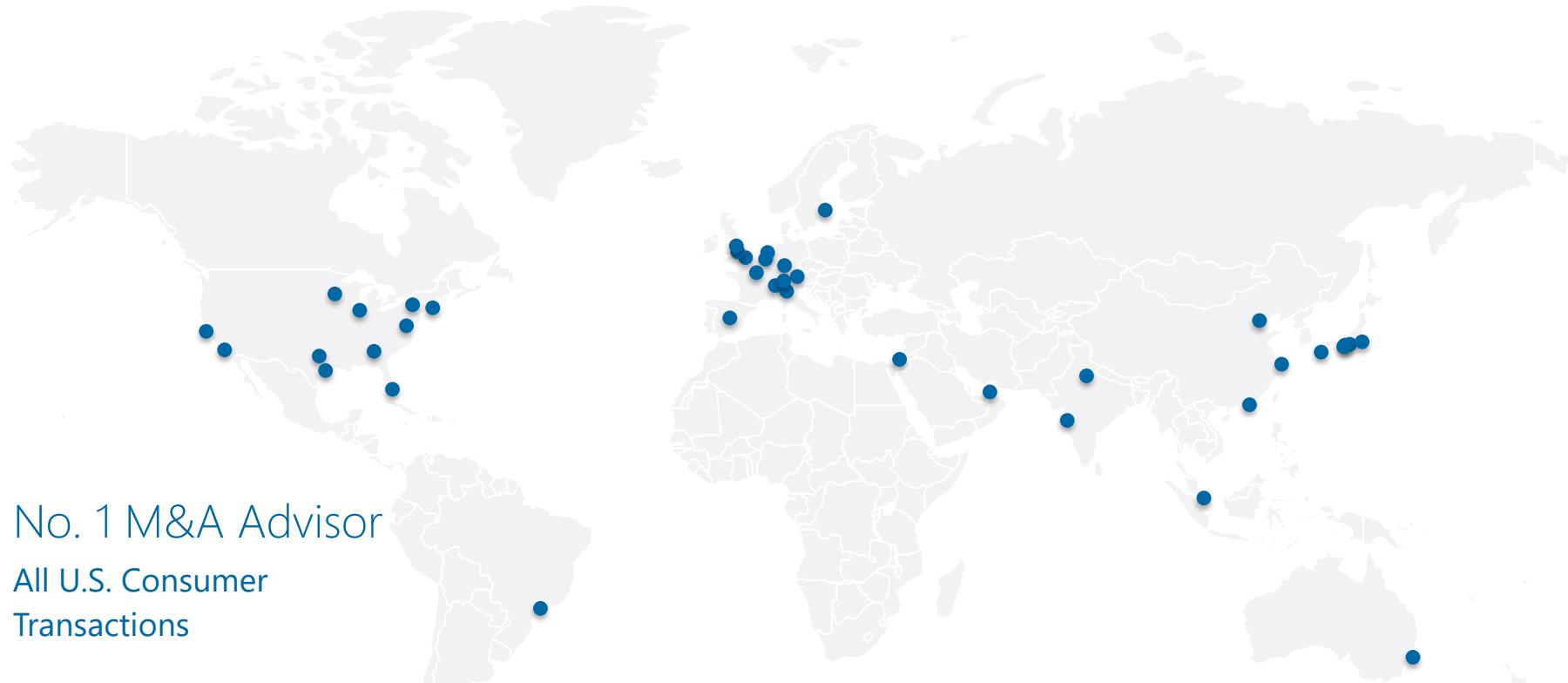
Corporate Finance →

Financial Restructuring →

Financial and
Valuation Advisory →

Our Industry Coverage →

Leading Global Independent Investment Bank



No. 1 M&A Advisor
All U.S. Consumer
Transactions

- AMERICAS**
- Atlanta
 - Baltimore
 - Boston
 - Charlotte
 - Chicago
 - Dallas
 - Houston
 - Los Angeles
 - Miami
 - Minneapolis
 - New York
 - San Francisco
 - São Paulo
 - Washington, D.C.

- EUROPE & MIDDLE EAST**
- Amsterdam
 - Antwerp
 - Dubai
 - Frankfurt
 - London
 - Madrid
 - Manchester
 - Milan
 - Munich
 - Paris
 - Stockholm
 - Tel Aviv
 - Zurich

- ASIA-PACIFIC**
- Beijing
 - Fukuoka
 - Gurugram
 - Hong Kong SAR
 - Mumbai
 - Shanghai
 - Singapore
 - Sydney
 - Tokyo

 **14**
Locations Worldwide

 **130+**
Consumer Bankers

 **100+**
Total Consumer Deals in
Past Three Years

 **600+**
Cross-Border Transactions
Since 2011

2023 M&A Advisory Rankings
All U.S. Consumer Transactions

	Advisor	Deals
1	Houlihan Lokey	25
2	Goldman Sachs	20
3	Generational Equity	18
4	JP Morgan	12
5	Benchmark International	11
5	Jefferies	11
5	Moelis	11

Source: LSEG (formerly Refinitiv).

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Please reach out to us to schedule a call to discuss this quarter's market update or to explore how we can serve your business needs.

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Overview



Convenience Stores
and Car Wash
Executive Summary

01

Convenience Stores and Car Wash

Executive Summary

The convenience store and car wash industries operate in some of the most resilient categories within the multi-site/retail industry.

Valuations for these categories persist at elevated multiples relative to the broader retail space.

Both the convenience store and car wash industries remain extremely fragmented, even with the significant amount of consolidation that has occurred over the past decade.

M&A activity in the convenience store space has persisted with more than 295 transactions across the past decade⁽¹⁾. Despite this massive wave of consolidation, the space remains highly fragmented, creating ample opportunity for further consolidation and new platforms of scale. Additionally, as store formats evolve to appeal to a broader universe of consumers (with increasingly sophisticated foodservice offerings), new-to-industry (NTI) site growth and raze-and-rebuild (RNR) of existing units are yielding continually strong ROIs for operators (even in the current interest rate environment).

Additionally, M&A activity in the car wash space experienced a boom from 2019–2022 led by a significant wave of \$10 billion+ of investment by private equity firms and family offices⁽¹⁾. Given a disconnect between public market valuations and private market valuation expectations, M&A has somewhat cooled, with existing operators electing to allocate capital toward greenfield strategies.

Despite broader macroeconomic challenges, our outlook for both sectors remains favorable as operators benefit from recurring traffic, stable demand, strong unit economics, and a core consumer that deems these products and services essential.

In this piece, we share insights and observations on the themes currently driving the M&A market and those expected to drive it going forward. We will highlight the key consumer trends driving market behavior and the key criteria and factors that optimize acquirer interest and value in today's environment.

Sources: (1) Pitchbook



Macro Landscape

1) Resilient Automotive Fundamentals

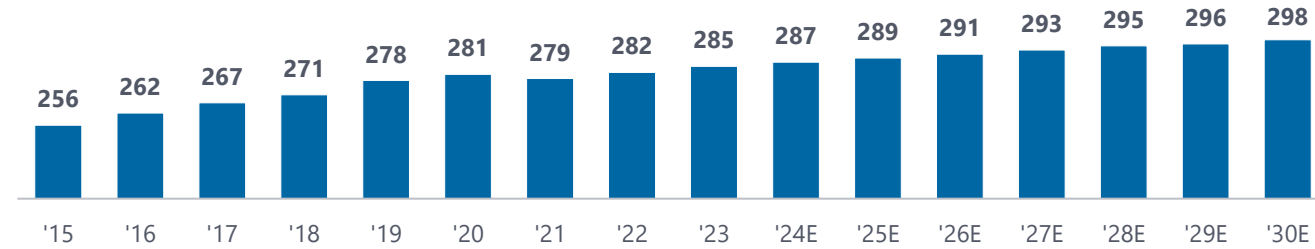
Automotive Industry Trends

The broader automotive landscape provides a favorable backdrop that warrants continued demand for convenience stores and car washes.

The total U.S. car parc has grown steadily as the overall number of vehicles in the car parc is expected to reach 300 million by 2030. Further, the age of the fleet continues to increase, which highlights not only the continued need to service vehicles but the longevity of fuel-consuming vehicles as part of the overall parc. Likely the biggest driver of demand for convenience retail and car wash is vehicle miles traveled (VMT), where after a brief drop-off in 2020 because of the pandemic, miles driven have continued to increase and have now surpassed pre-pandemic levels. The correlation between miles driven, convenience store traffic, and car wash utilization is undeniable. As miles driven grows, refueling visits become more frequent for ICE vehicles, and all vehicle owners are more inclined to wash their cars.

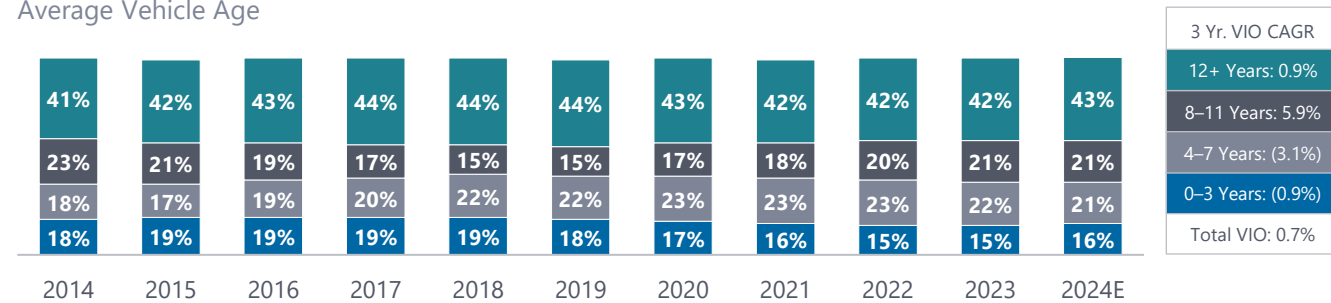
U.S. Car Parc Expected to Approach 300 Million Cars by 2030⁽¹⁾

Annual Light Vehicles in Operation, Values in Millions



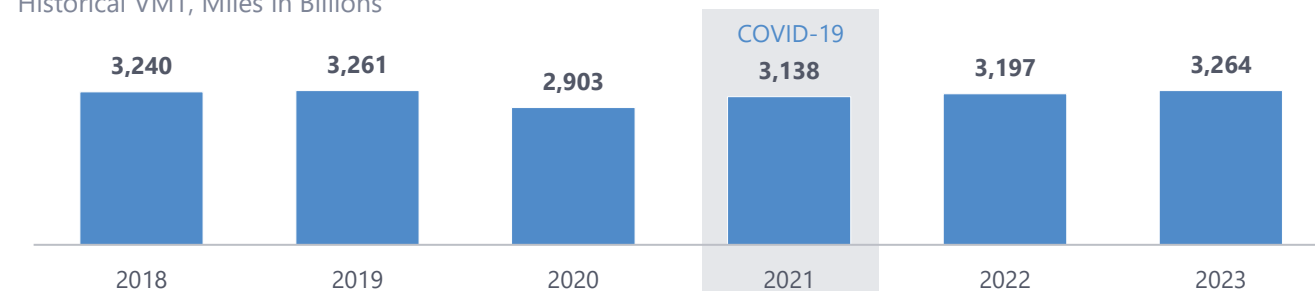
U.S. Fleet Is Aging, Increasing Aftermarket Service Demand⁽²⁾

Average Vehicle Age



Stable Underlying Demand Driven by Rebounding VMT⁽³⁾

Historical VMT, Miles in Billions



Notes: VIO represents vehicles in operation; VMT represents vehicle miles traveled.
 Sources: (1) Bloomberg, S&P Global Mobility/IHS, U.S. DOT Information;
 (2) BofA Global Research; (3) Federal Reserve Economic Data.

1)
Resilient
Automotive
Fundamentals

2)
Watchful Eye on
Consumer

3)
Gas Prices

Macro Landscape

2) Watchful Eye on Consumer

State of the Consumer

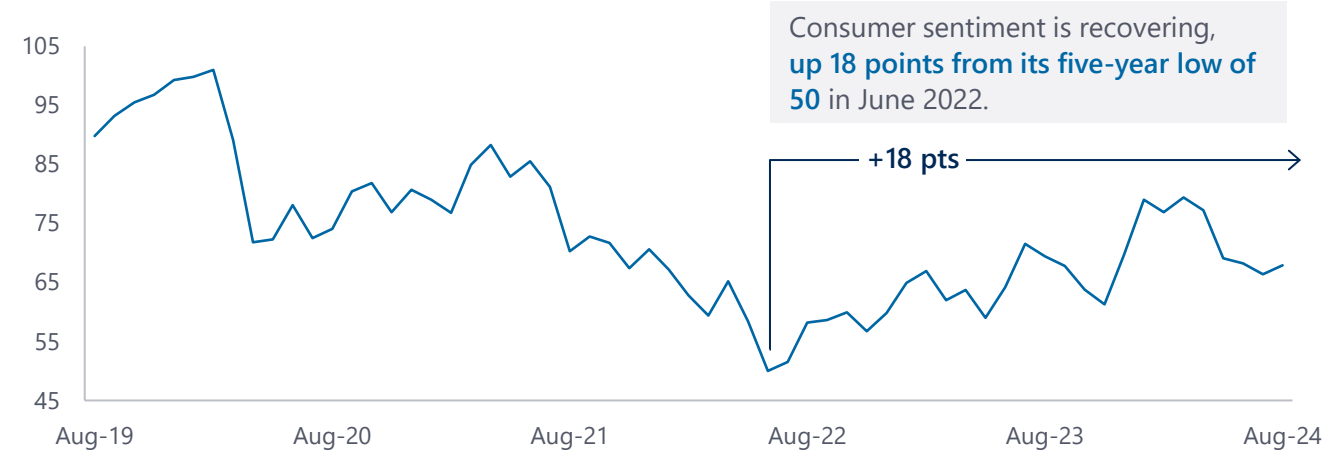
Another important factor driving sector demand is the overall health of the consumer. A challenging 2023 macroeconomic environment resulted in consumers reducing discretionary expenditures.

However, there has been an uptick in consumer spending over the past five years, allowing greater amounts of disposable income to be allocated toward nonessential goods and services offered in the convenience store and car wash industries. Stable economic conditions and increased consumer confidence will support continued consumer spending and market growth in these categories. Inflationary pressures have abated somewhat in July and August with the CPI having finally reached below 3% (the first time since March 2021). Energy and food prices, the most volatile two contributors to the CPI and the key two inputs to the convenience store space, were both relatively flat this summer. With a general sense that inflation is largely under control, Central Banks now seem more focused on employment data and the health of the job market as they prepare interest rate policy for the remainder of the year.

Sources: (1) University of Michigan Survey of Consumers; (2) U.S. Bureau of Labor Statistics.

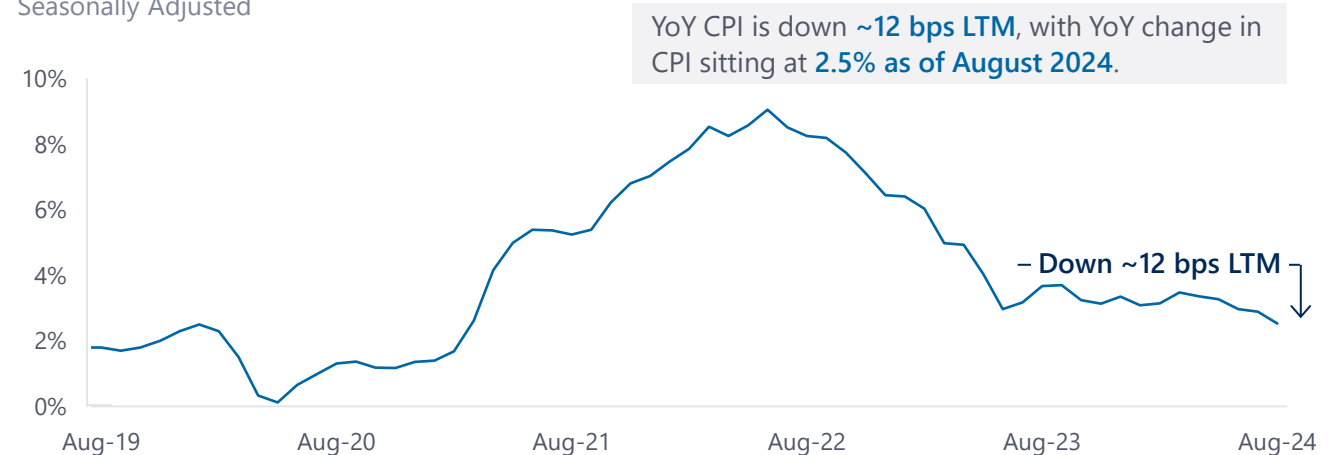
Consumer Sentiment Index⁽¹⁾

Index Value (1966: Q1 = 100)



Year-Over-Year Change in U.S. CPI⁽²⁾

Seasonally Adjusted



1)
Resilient
Automotive
Fundamentals

2)
Watchful Eye on
Consumer

3)
Gas Prices

Macro Landscape

3) Gas Prices

Oil and Gas Economic Landscape

Fuel sales, which account for more than two-thirds of total sales at a convenience store, depend on underlying oil prices, which can move swiftly based on supply and demand imbalances.

These prices have been in a volatile period since the pandemic, hitting peak volatility in 2022 and 2023. Volatility in these times was driven primarily by the aftereffects of COVID-19 and geopolitical conflicts (particularly Russia's ongoing conflict with Ukraine). In 2024, the price of oil and corresponding retail fuel prices began relatively flat but have seen recent declines—a byproduct of steady supply in the U.S. and weaker global demand (particularly in Asia). Around \$70 as of September 2024, oil is at its lowest level since December 2023 and OPEC has responded with production cuts extended through November 2024 to stabilize pricing. Despite top-line challenges of declining fuel prices, fuel retailers tend to enhance gross profit during periods of declining fuel prices by managing inventory balances and optimizing price strategies in step with the declines to protect margins.

WTI Crude Oil Price



U.S. Retail Gasoline Price



Note: Crude oil price as of 9/30/24; gasoline price as of 10/7/24.
Source: U.S. Energy Information Administration.

1)
Resilient
Automotive
Fundamentals

2)
Watchful Eye on
Consumer

3)
Gas Prices



Convenience Store Overview

02

Convenience Store

Overview

Market Size

Today, there are more than 150,000 convenience stores in the U.S., a figure that has remained relatively unchanged over the past decade. Of those stores, approximately two-thirds remain owned by mom-and-pop (less than 10 store operators).

Despite a steady wave of ongoing consolidation driven by the largest retailers in the industry, market fragmentation suggests that an increasing number of acquisitions could occur, particularly as founder-owners seek to retire, transition their businesses, or capitalize on the current valuation environment. Further, the convenience store industry has seen a shift to favor players with scale particularly evident by the increase in breakeven fuel margins (which increased significantly during the COVID-19 pandemic and have held at elevated levels).

In today's operating environment with increased operating costs, higher interest rates, and heavy competition, those operators with scale can offer enhanced customer proposition with appealing food offerings, loyalty programs, vertical integration (in-store and in the forecourt), experience (signage, cleanliness, service), and technology.

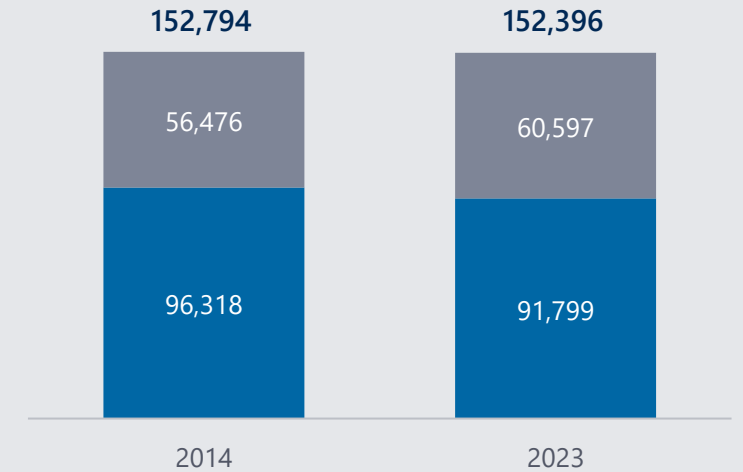
The benefit of chain stores operating with scale is evidenced by looking at store counts over the past decade. Since 2014, the total number of chain stores has grown by 7.3%, while the number of single stores has declined by nearly 5% in that time. The overall number of single stores is still 1.5x the number of chain stores, which showcases the significant level of fragmentation in the space and the fact that the consolidation story is still in the early innings.

Source: NACS/NIQ TDLinx Convenience Industry Store Count.

Chain Stores Have Grown 7.3% Since 2014

Count of U.S. Convenience Stores

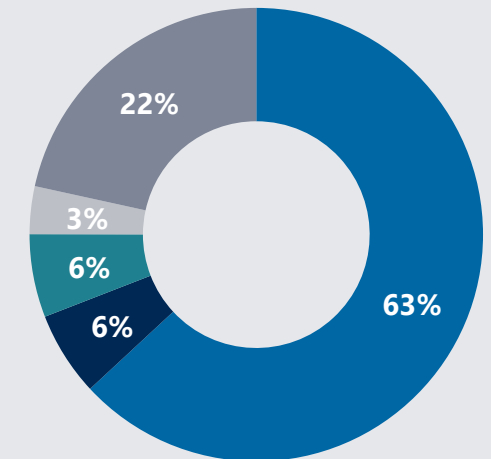
- Chain Stores
- Single Stores



C-Store Market Share by Store Count

Number of Stores in C-Store Chain, Percent of Market Share

- 1-10
- 11-50
- 51-200
- 201-500
- 501+



Key Trends

1) Market Resiliency

Despite a Number of Operating Challenges and Industry Headwinds, the Convenience Store Space Has Proven its Resiliency

The convenience store sector has weathered many challenges in recent years, including but not limited to the pandemic, inflation, rising interest rates, labor shortages, geopolitical conflict, coin shortages, and unfavorable weather.

Despite myriad challenges, inside sales and demand for convenience store products continue to increase. In fact, the c-store sector has experienced growth through every recessionary period since 1980.

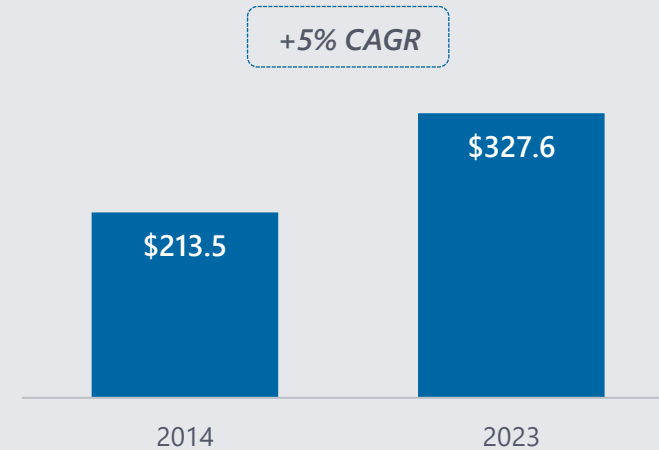
These favorable results are evidenced by the current financial performance of the public peers. Given the aforementioned fuel volatility and a fundamental reset of pricing strategies during the pandemic, CPG (margin per gallon at the pump) has remained elevated while SSS growth inside the store continues to persist. This strong operating performance indicates that the U.S. consumer, busier than ever, increasingly values convenience. Many other food categories, notably restaurants, have experienced SSS declines since the pandemic (particularly in Q2 2024), as the consumer pushes back on price increases and feels the effects of the broader economic challenges. Public convenience store peers, as a proxy for the industry as a whole, have shown outsized sales growth and profitability in recent years—even outperforming pre-pandemic levels. Share price performance, shown later in this report, also illustrates how strong the convenience store sector has performed relative to other consumer-exposed sectors.

Sources: (1) NACS and the NACS CSX Benchmarking Database, 2023 NACS Convenience Voices; (2) 2023 OPIS Retail Year in Review.

Inside Sales Growth⁽¹⁾

Dollars in Billions

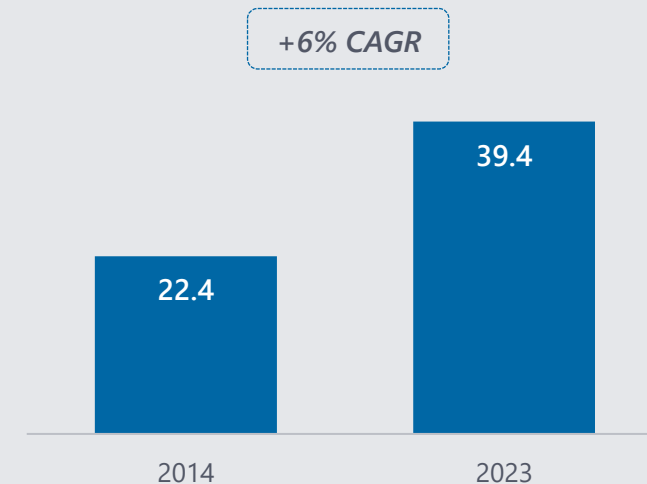
48.4%
Of Consumers Visit
Convenience Stores
1–2 Times per Week



Fuel Margins: Rack-to-Retail Margin Index⁽²⁾

Cents per Gallon for
Regular Unleaded Gasoline
~40 Cents per Gallon
Annual Average Margin in
'22 and '23

Gross margin in '24 is expected to exceed the recent record levels.



1)
Market Resiliency

2)
Consolidation
Wave Ongoing

3)
Enhanced
Regulatory
Environment

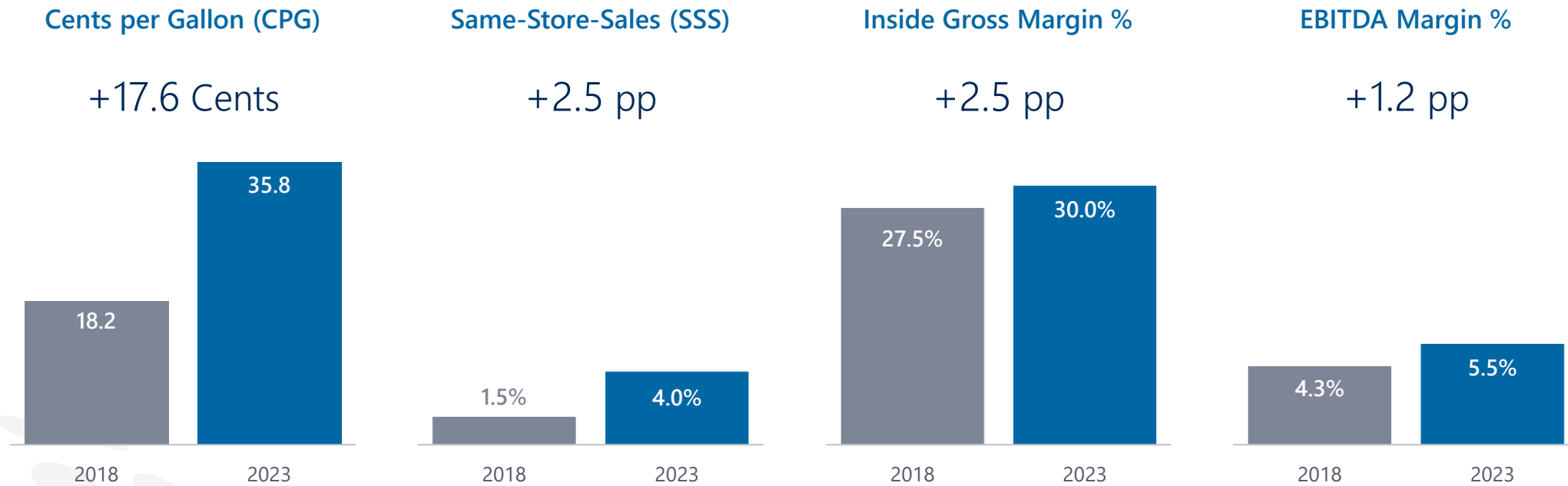
4)
Watchful Eye on
Long-Term
Headwinds

Key Trends

1) Market Resiliency (cont.)

Public Company Operating Performance: Mean in 2018 vs. 2023

Average Values Across Primary Convenience Store Peer Set



Note: Primary convenience store peer set includes Alimentation Couche-Tard, ARKO Corp., Casey's, and Murphy USA.

Sources: S&P Capital IQ, public company filings.

1)
Market Resiliency

2)
Consolidation
Wave Ongoing

3)
Enhanced
Regulatory
Environment

4)
Watchful Eye on
Long-Term
Headwinds

Key Trends

2) Consolidation Wave Ongoing

M&A Deal Activity Continues at a Near-Record Pace

Convenience store M&A volume continues at a rapid pace with more than 295 transactions completed over the past decade.

Given how fragmented the space remains, and continued challenges for smaller operators to compete with scaled incumbents, we foresee M&A volume remaining elevated in the next few years. Further, strategic appetite for assets should persist given the economic benefits of scale that larger operators experience. Private equity platforms have become increasingly popular in recent years, typically starting with a smaller acquisition and utilizing that vehicle as a platform to consolidate. Given increasing regulatory limitations for certain acquirers in the sector, we could see increased private equity activity in coming years in addition to foreign strategics and adjacent category players (such as refiners/marketers) who are getting increasingly more involved in M&A processes today.

Notes: (1) Approach date; (2) Announcement date.
Sources: S&P Capital IQ, public company filings.

Featured Key C-Store M&A Transactions

Date	Target	Acquirer	Strategic Rationale	Article Link
08-24 ⁽¹⁾			The transaction would unlock global reach and improve economies of scale; Couche-Tard divestitures are likely required by FTC.	Learn More
08-24 ⁽²⁾			Adds 270 locations to Couche-Tard's North America network; enables GetGo parent Giant Eagle to exit the c-store industry.	Learn More
08-24 ⁽²⁾			FEMSA entry into the U.S. market, Delek, provides a foothold in the Southwest region.	Learn More
07-24 ⁽²⁾			Provides Casey's with an expanded presence in Texas and the Southeast region; Casey's projects \$45 million in run-rate synergies post-close.	Learn More
06-24 ⁽²⁾	<i>Zuber Issa</i>		Enables Zuber Issa to operate the U.K. convenience market as TDR and Moshin Issa continue to focus on a broader asset base.	Learn More
05-24			Increase presence in West Texas and rebrand locations to Kent Kwik.	Learn More
04-24			Acquisition of remaining Stripes stores related to the Sunoco transaction.	Learn More
11-23			The consortium bid approach gives both operators the chance to continue to grow in the Southeast U.S.	Learn More
08-23			The acquisition doubles Maverik's footprint and creates a top-12 player in the market.	Learn More
03-23			Building presence in the Southeast market; stores to continue operating under Tom Thumb banner.	Learn More

1)
Market Resiliency

2)
Consolidation Wave Ongoing

3)
Enhanced Regulatory Environment

4)
Watchful Eye on Long-Term Headwinds

Key Trends

3) Enhanced Regulatory Environment

Regulatory Environment Plays a Significant Role in M&A Processes as FTC Focused on Consumer Protection, Geographic Overlap

In 2021, the FTC published commentary regarding the convenience store sector detailing enhanced scrutiny procedures around potential transactions.

According to the FTC, markets for retail gasoline are made on a highly localized basis, and consumers do not have practical alternatives to purchase fuel outside of gas retailers. Generally, the FTC indicates a desire to maintain competition with three or more operators selling fuel in a given localized market, dictated by a tight mile radius depending on geographic location. While M&A activity has not been curtailed, the regulatory implications of large-chain M&A remain top of mind. This dynamic has given rise to a variety of new entrants who historically had either been uncompetitive in M&A processes (e.g., financial investors) or sought growth via other channels (e.g., less historically acquisitive strategics). M&A processes remain competitive with multiple avenues for prospective buyer pools. Large chain acquisitions by strategics often result in FTC-mandated divestitures prior to closing the transaction, creating a secondary environment for c-store acquirers even after deals are announced.

Regulatory Environment Has Given Rise to New Entrants in M&A Processes

International			
Refiners/Marketers			
Private Equity			
			
Private Strategics			
			

1) Market Resiliency

2) Consolidation Wave Ongoing

3) Enhanced Regulatory Environment

4) Watchful Eye on Long-Term Headwinds

Key Trends

4) Watchful Eye on Long-Term Headwinds

Certain Longer-Term Risks Present Threats to the Current Operating Model: Electric Vehicles, Ride Sharing, Digital Food Delivery

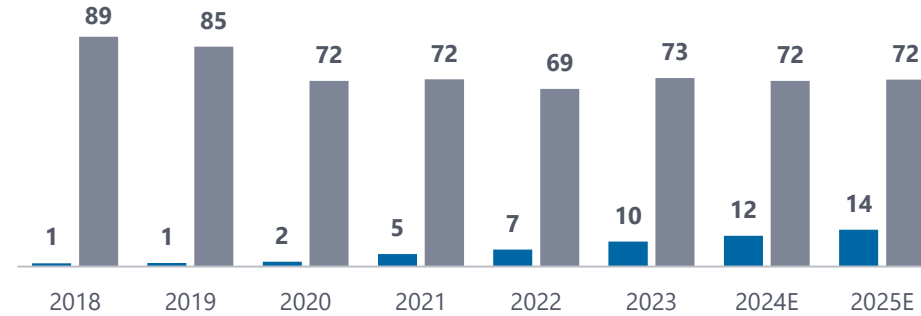
Risks to continued strong market performance include CPG margin compression, electric vehicle proliferation, autonomous fleet and ride-sharing in urban markets, and digital delivery.

While the EV adoption story is top of mind, gallons purchased and overall c-store traffic indicate the sector is well-positioned in the relatively near term. Additionally, many operators are piloting EV charging programs, which increase traffic time inside the store. Relative to EV, trends should be monitored with respect to the convenience channel impact, but adoption rates do not present an immediate threat. ICE unit sales have stabilized in recent years while EV sales momentum has been mixed. In addition to selectively adding charging stations and renewable fuels at locations that might benefit from doing so, operators are increasingly focused on enhancing foodservice offerings as a means of offsetting these long-term threats. These offerings include prepared foods, beverage programs, or even foodservice partnerships or co-locating with restaurant franchisees. Being a source destination for foodservice has the added benefit of sales uplift to grocery items such as center-of-the-store merchandise and packaged beverage.

Global Light Vehicle Sales⁽¹⁾

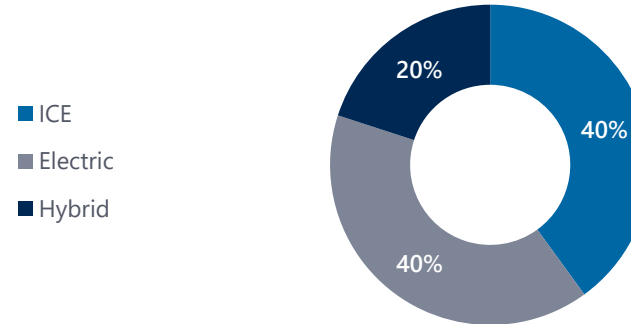
Global Annual Unit Sales, Values in Millions

■ EV Sales
■ ICE Sales



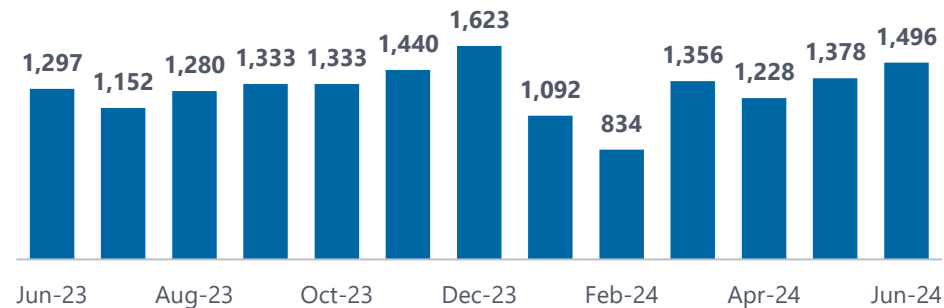
Projected New Vehicle Offerings by Powertrain⁽²⁾

% of New Nameplate and Powertrain Count 2025E-2028E



EV Sales Momentum Is Mixed⁽³⁾

Global Monthly EV Unit Sales, Values in Thousands



Notes: ICE represents internal combustion engine; Fuel Cell powertrain makes up <1% of volume of projected new vehicle offerings. Sources: (1) IHS AutoInsight; (2) S&P Global, Wards Auto, company announcements, trade publications; (3) Autovista Group.

1) Market Resiliency

2) Consolidation Wave Ongoing

3) Enhanced Regulatory Environment

4) Watchful Eye on Long-Term Headwinds

Valuation Environment

The valuation environment for c-store M&A remains elevated as strategic consolidators continue to build scale and derive meaningful synergies from acquisitions.

The majority of M&A is conducted by strategic buyers (vs. financial buyers) due to the magnitude of synergy creation (>50% of target EBITDA on average in the past decade).

These synergies are derived from three major sources:



Fuel Procurement



Merchandise Procurement



G&A Savings

EBITDA Valuations

Based on our recent transaction experience, deals that warrant the highest EBITDA valuations have elements of the following:

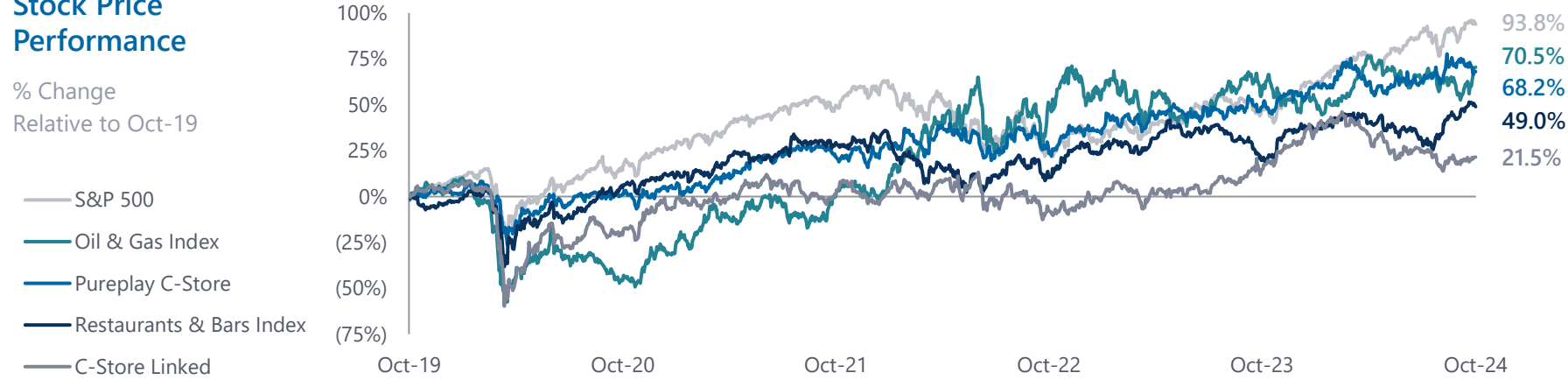
- 1 Scale
- 2 Owned Real Estate
- 3 Strong Brand Recognition and Loyalty Program
- 4 Differentiated Foodservice, Merchandise, and/or Private Label Program Inside the Store
- 5 Defensible Markets
- 6 Whitespace Potential (NTIs, RNRs, Acquisitions in Pipeline)



Valuation Environment (cont.)

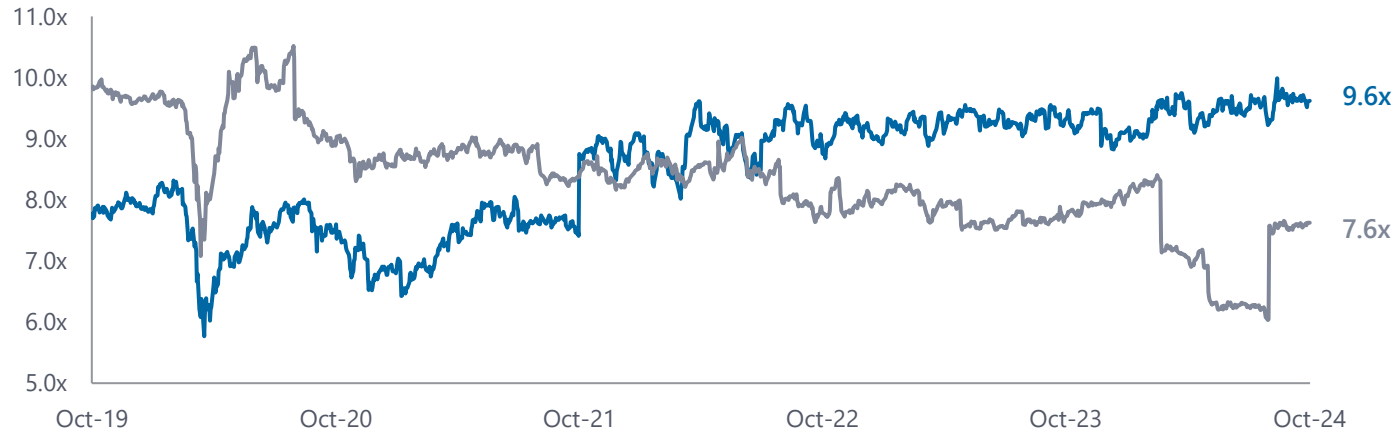
Stock Price Performance

% Change
Relative to Oct-19



NTM EBITDA Multiple Performance

NTM EBITDA Multiple Performance



Notes: Market data as of 10/7/24; indices are weighted by market capitalization.
Sources: FactSet, S&P Capital IQ.

Commentary

Valuations in the public markets remain strong and elevated relative to historical periods. Most operators have witnessed multiple expansions on a higher base of earnings, resulting in outsized share price performance versus the broader retail and oil and gas sectors. The share price index averaging the four pureplay convenience store operators (Alimentation Couche-Tard, ARKO, Casey’s, and Murphy USA) has outpaced most retail sectors in recent years—including meaningfully outperforming the Dow Jones U.S. Restaurant & Bars Index as well as the Dow Jones U.S. Oil & Gas Index.

Pureplay C-Store

Casey’s General Store (NASDAQ:CASY), Murphy USA (NYSE:MUSA), Alimentation Couche-Tard (TSX:ATD), Seven & i Holdings (TSE:3382), Arko (NASDAQ:ARKO)

C-Store Linked

Cross America Partners (NYSE:CAPL), Global Partners (NYSE:GLP), Parkland (TSX:PKI), Sunoco (NYSE:SUN)

C-Store EBITDA Multiple Performance

FY 2024E vs. 2019A

2019A Multiple Based on
NTM EBITDA

	Class	2024E	Delta	2019A
	Pureplay	13.2x	2.3x	10.9x
	Pureplay	11.5x	1.2x	10.3x
	Linked	10.9x	1.9x	9.0x
	Pureplay	10.7x	(0.6x)	11.3x
	Linked	9.6x	1.3x	8.3x
	Linked	8.6x	(0.4x)	9.0x
	Pureplay	8.3x	3.3x	5.0x
	Pureplay	7.2x	NA	NA
	Linked	6.5x	(2.9x)	9.5x

Note: Data as of 10/7/24.
Sources: FactSet, S&P Capital IQ.

Convenience Store Landscape Overview Top 50 Operators

2024 Rank	Company	Headquarters	U.S. Store Count
1	7-Eleven	Irving, TX	12,577
2	Alimentation Couche-Tard	Laval, QC	5,851
3	Casey's General Stores	Ankeny, IA	2,663
4	EG America	Westborough, MA	1,568
5	bp	Houston, TX	1,540
6	GPM Investments	Richmond, VA	1,515
7	Murphy USA	El Dorado, AK	1,133
8	QuikTrip	Tulsa, OK	1,060
9	Wawa	Media, PA	1,050
10	Kwik Trip	La Crosse, WI	858
11	Maverik	Salt Lake City, UT	832
12	Sheetz	Altoona, PA	725
13	Pilot	Knoxville, TN	659
14	Love's Country Stores	Oklahoma City, OK	647
15	RaceTrac	Atlanta, GA	579
16	Military	Arlington, VA	539
17	Yesway	Fort Worth, TX	434
18	Stewart's Shops	Ballston Spa, NY	360
19	Majors Management	Lawrenceville, GA	348
20	Global Partners/Alliance Energy	Waltham, MA	339
21	United Pacific	Long Beach, CA	337
22	Jacksons Food Stores	Meridian, ID	314
23	Anabi Oil	Upland, CA	307
24	ExtraMile Convenience Stores	Pleasanton, CA	305
25	CrossAmerica Partners	Allentown, PA	294

2024 Rank	Company	Headquarters	U.S. Store Count
26	Two Farms	Baltimore, MD	286
27	Delek	Brentwood, TN	253
28	Croton	Pittsburgh, PA	234
29	H&S Energy	Orange, CA	232
30	Giant Eagle	Pittsburgh, PA	229
31	United Refining Co. of Pennsylvania	Warren, PA	228
32	Refuel	North Charleston, SC	225
33	Cal's Convenience	Frisco, TX	210
34	Tri Star Energy	Nashville, TN	198
35	Fikes Wholesale	Temple, TX	193
36	Meijer	Grand Rapids, MI	187
37	G&M	Huntington Beach, CA	179
38	Terrible Herbst	Las Vegas, NV	177
39	United Dairy Farmers	Cincinnati, OH	176
40	True North Energy	Brecksville, OH	173
41	Bolla	Garden City, NY	171
42	Shell	Houston, TX	168
43	Hy-Vee	West Des Moines, IA	167
44	Blarney Castle Oil	Bear Lake, MI	166
45	Nouria Energy	Worcester, MA	160
46	CF Altitude	Los Angeles, CA	159
47	Parkland USA	Minot, ND	132
48	Petroleum Marketing Group	Falls Church, VA	132
49	Martin & Bayley	Carmi, IL	128
50	Go Mart	Gassaway, WV	123



Car Wash
Overview

03

Car Wash

Overview

Market Size

Approximately 60,000 car washes exist in the U.S., and more than 80% of those are operated by a less-than-five-unit operator. Overall unit count has grown dramatically, increasing at a > 15% CAGR since 2012, and the overall installed base of washes is expected to continue its climb and potentially double by 2030.

This unit development trend is largely driven by the express tunnel format, leveraging a low-cost labor alternative and touchless wash experience, which can be optimized by the membership model that provides > 50% of the revenue base for a typical express wash.

From 2018 to 2022, the car wash sector experienced an unprecedented level of unit growth, profitability, and corresponding strategic activity. Since 2022, the sector has been somewhat quiet in terms of sector M&A activity, but overall fundamentals remain favorable. Sector resiliency has been a function of several drivers, including the recurring revenue nature of subscription models, continued elevated VMT, and a more stable consumer base that deems car washing to be a necessary service despite broader macroeconomic conditions.

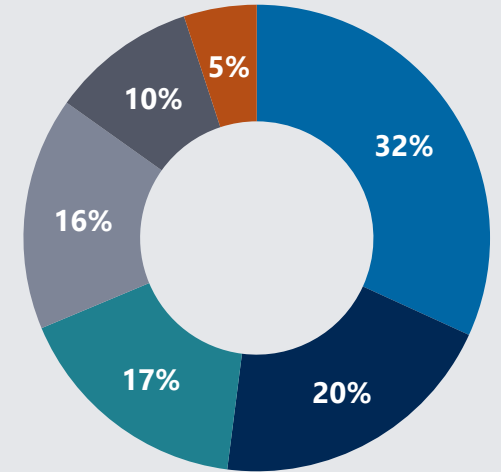
\$19.8B Revenue	\$4.4B Profit	22.3% Profit Margin	60,355 Businesses
'19-'24 5.1%	'19-'24 7.4%	'19-'24 2.3pp	'19-'24 4.6%
'24-'29 2.8%			'24-'29 3.4%

Source: IBIS July 2024 Car Wash & Auto Detailing in the U.S. Industry Report.

Product and Service Mix

% of Total

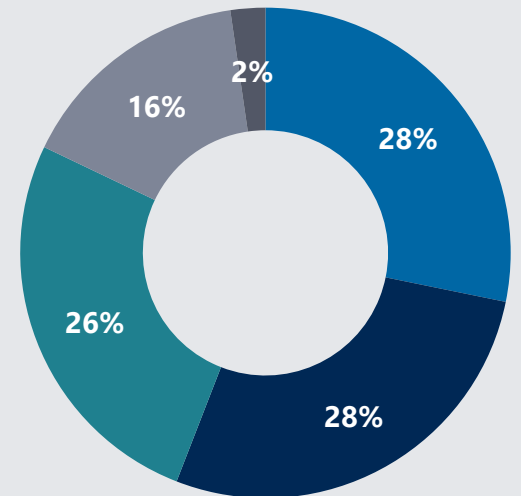
- Full-Service Clean (Conveyor Car Washes)
- Exterior Only Clean (Conveyor Car Washes)
- Detailing Services
- In-Bay Automatic Car Washes
- Self-Service Bay
- Hand Washing Services



Customer Mix

% of Total

- Higher-Income Buyers
- Middle-Class Consumers
- Businesses
- Lower-Income Buyers
- Government



Key Trends

1) Success Factors Driving Strong Performance

Car Wash Operators With Key Success Factors Winning

Many car wash operators have seen record operating performance in recent years with continued favorable outlook despite rising cap rates, interest rates, and construction costs.

The key success factors that the industry's strongest operators tend to benefit from include some combination of the following:



Geographic Location

Site selection is critical, identifying those locations with easy ingress/egress and limited competition.



Brand

Having a strong brand identity improves the overall look of a wash location, as well as customer loyalty and subscription revenue.



Loyalty

Membership models typically account for the majority of annual revenue for the largest operators, delivering a predictable recurring revenue model, enhanced profitability, and higher annual customer throughput.



Technology

Both in terms of customer offerings like digital subscriptions, license plate readers, and self-service, but also technological innovations in conveyors, equipment, and coatings.



Speed and Service

Systems that allow customers to process their wash quickly and efficiently while also interacting with helpful staff enhance loyalty and membership data.



Consistency of Standards

Brand consistency, offering consistency, wash quality, and service all drive increased traffic, maintaining quality standards while growing scale.

1)
Success Factors Driving Strong Performance

2)
Heavy Private Equity Investment in Recent Years

3)
Current Focus on Greenfield vs. Acquisition

4)
Convenience Store Operators Finding Adjacent Revenue in Car Wash

5)
Regulatory Scrutiny Focused on Environmental

Key Trends

2) Heavy Private Equity Investment in Recent Years

Private Equity Continues to Deploy Capital Into the Car Wash Category

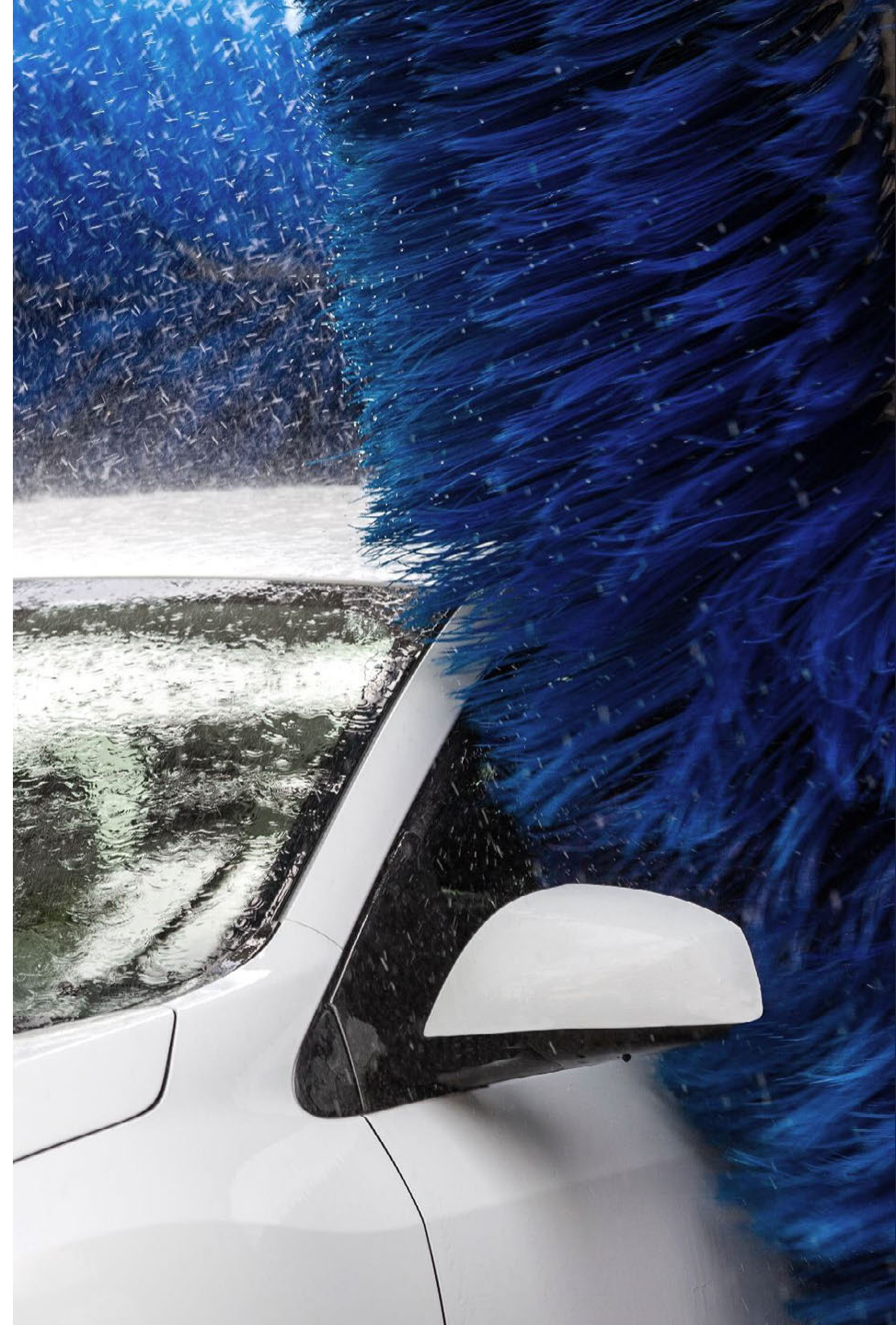
2021 and 2022 saw record levels of private equity investment in the car wash sector, and these transactions were done at premium multiples often exceeding 20x+ EBITDA valuations.

While the activity has been somewhat slower in 2023 and 2024, private equity investment rationale remains given the attractive fundamentals of the car wash sector:

- Highly Fragmented Space
- Whitespace Potential
- Strong Unit Economics
- Recurring Revenue Subscription Business
- Low-Cost Labor Express Wash Model

The pace of deal activity in recent years can be attributed to a pullback in the valuation of the public market car wash operators. While there has been less platform investment activity in recent years, many larger private equity firms continue to evaluate the sector and will likely deploy capital as valuations normalize to pre-2021 levels. The majority of larger PE firms are actively monitoring processes, and some have recently deployed capital in structured transactions (e.g., Quick Quack/KKR).

Importantly, many financial buyers remain active with ample investible dry powder seeking to be deployed in the car wash space. While not all acquisition activity is driven by PE, the majority of recent transactions have involved the PE universe.



1)
Success Factors
Driving Strong
Performance

2)
Heavy Private Equity
Investment in
Recent Years

3)
Current Focus on
Greenfield vs.
Acquisition



























4)
Convenience Store
Operators Finding
Adjacent Revenue in
Car Wash

5)
Regulatory Scrutiny
Focused on
Environmental

Key Trends

2) Heavy Private Equity Investment in Recent Years (cont.)

Featured Key Car Wash M&A Transactions

Date	Transaction	Strategic Rationale	Article Link
08-24	 → 	Expansion in the greater Dallas and Southern California areas; new sites will be updated with Raceway Car Wash branding.	Learn More Learn More
06-24	 → 	KKR's minority investment to grow Quick Quack through marketing and expansion.	Learn More
07-23	 → 	Recapitalization transaction to focus on growth.	Learn More
06-23	 → 	Deal terms undisclosed; focus on New England/Northeastern U.S. footprint.	Learn More
01-23	 → 	Growth capital to fund greenfield development; Wafra's second foray into the sector.	Learn More
01-23	 → 	Growth investment into Mammoth to fund capex, acquisitions, and integration projects.	Learn More
12-22	 → 	Significant footprint overlap; notable given first public convenience store acquirer announcement.	Learn More
07-22	 → 	Unified branding in attractive South Florida market; greenfield story; highly competitive auction.	Learn More
12-21	 → 	Largest platform sold since Tidal Wave; a leased platform with an early focus on greenfields.	Learn More
12-21	 → 	First significant public company acquisition; focus on Florida market ownership; owned real estate and greenfield pipeline.	Learn More
11-21	 → 	Strong branding in attractive West Coast geographies with expansion plans into Intermountain states.	Learn More
06-21		First pureplay car wash IPO; highest sector valuation multiple post-IPO.	Learn More
01-21		First sector IPO; diversified automotive services platform including car wash.	Learn More
12-20	 → 	Founder-led transaction seeking partnership funding for unit growth strategy.	Learn More

- 1) Success Factors Driving Strong Performance
- 2) Heavy Private Equity Investment in Recent Years
- 3) Current Focus on Greenfield vs. Acquisition
- 4) Convenience Store Operators Finding Adjacent Revenue in Car Wash
- 5) Regulatory Scrutiny Focused on Environmental

Key Trends

3) Current Focus on Greenfield vs. Acquisition

Greenfield Prioritized Over M&A

Historically, M&A was the primary growth avenue for the largest players in the car wash sector. Public companies like Mister Car Wash and private equity-backed platforms like Mammoth Holdings utilized the M&A of smaller mom-and-pop operators as a key driver for growth.

However, as the sector has evolved, unit growth via greenfield has become the preferred approach. The greenfield strategy possesses advantages, such as the ability to select sites, build density around core flagship markets, maintain consistent branding, and control build-out economics. In 2023, the top 10 convenience store operators added ~300 locations (representing more than 18%-unit growth year-over-year), whereas growth via M&A was significantly lower. In the higher growth period of 2021 to 2022, the top operators added nearly 1,000 units (representing 30%-unit growth year-over-year) as M&A markets were more active and more favorable cap rate and interest rate environments had not yet slowed development activity to more muted levels.

Even with increased cap rates, rising construction costs, and economic challenges, the unit economics of a greenfield location and the whitespace potential in the sector warrant continued greenfield investment. The following chart highlights the typical unit-level economics as Mister Car Wash publicly stated in its most recent investor presentation, illustrating attractive \$2 million+ AUVs, 40%+ 4-wall EBITDA margins, and a less than three-year payback on net investment of \$1.8 million.

Mister Car Wash Average Unit Economics⁽¹⁾

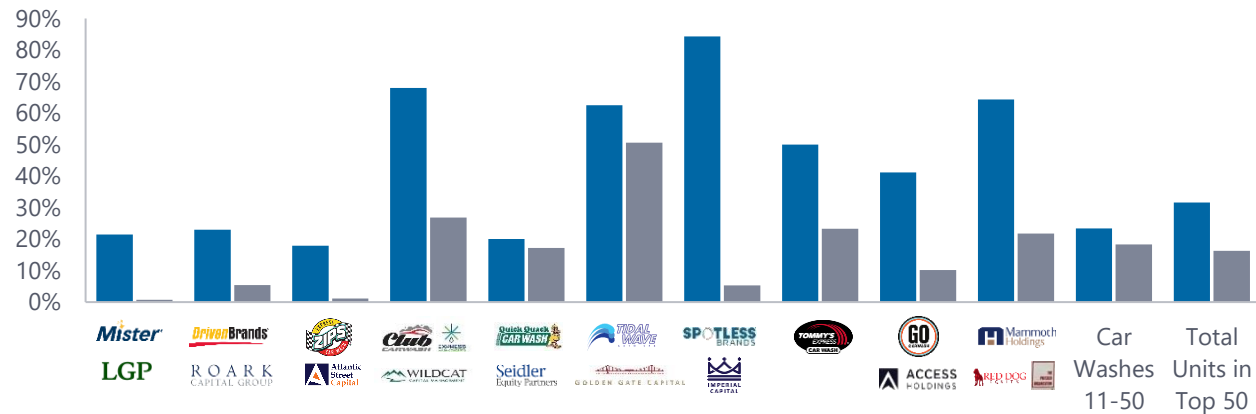
Values in Thousands

		Year 1	Year 2	Year 3	
Buildout Cost	\$6,300	Revenue	\$1,320	\$1,910	\$2,220
Sale Leaseback Proceeds	\$4,500	4-Wall EBITDA	\$270	\$740	\$970
Net Investment	\$1,800	Margin	20%	39%	44%
Payback Period	<3 years	Cumulative EBITDA	\$270	\$1,010	\$1,980
		% Paid Back	15%	56%	110%

Unit Growth of Top Car Washes⁽²⁾

Car Washes Ranked 1–10 Based on 2022 Unit Count

■ '21-'22 Unit Growth ■ '22-'23 Unit Growth



1)

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Key Trends

4) Convenience Store Operators Finding Adjacent Revenue in Car Wash

New Entrants Seeking Adjacent Revenue Sources

Convenience store operators have become increasingly focused on the car wash sector as a means of driving adjacent revenue streams above and beyond the core fuel retail and inside sales business. Many operators have begun to develop stand-alone wash tunnels in markets where they have a significant fuel presence, leveraging loyalty programs and brand awareness to drive cross-selling.

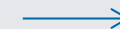
Additionally, certain operators have sought out M&A to further car wash growth—evidenced by Couche-Tard’s acquisition of True Blue Car Wash in 2022. We expect to see continued greenfield and M&A activity by c-store operators in the car wash space, given the commercial logic of cross-promotion and loyalty enhancement. Of late, most convenience store operators have sought development versus acquisition for building new express wash tunnels. Those operators who have built stand-alone washes tend to do so in markets where their convenience store brand resonates well, leveraging customer loyalty and cross-selling opportunities as a means of driving traffic and subscription growth (such as discounts for gas/merchandise at a c-store, offered to car wash subscription members).



“

With more than 85% of True Blue’s locations within three miles of a Circle K location, the transaction provides a strong geographic overlap to support traffic-driving offers between True Blue sites and Circle K convenience stores. ”

Alimentation Couche-Tard⁽¹⁾



1) Success Factors Driving Strong Performance

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5) Regulatory Scrutiny Focused on Environmental

Key Trends

5) Regulatory Scrutiny Focused on Environmental

Watchful Eye on Regulation

Regulation has served as both a catalyst for and inhibitor of growth in the car wash sector with the most common two areas being environmental and safety regulations.

As climate change and pollution control become increasingly scrutinized by regulators, car wash operators need to be cognizant of water and chemical usage. This scrutiny has led some operators to implement innovative processes to reclaim or recycle water, which provides for closed-loop systems.

Additionally, the rapid growth of the sector has caused many local jurisdictions to seek a cap for the total number of car washes in a given region. For operators with established density in a region, this can deepen their competitive moat. As an example, earlier in 2024, many city councils in northeast Ohio passed a moratorium on new car wash development, setting per capita limitations on the number of car washes in a given market.

That being said, the EPA has also suggested that consumers take their cars to a professional car wash location rather than washing them at home, given that a home wash can consume up to 140 gallons of water. Plus, homeowners rarely have the proper draining precautions to stop runoff from going into drains or sewers.

Car washes can benefit from other broader industry regulations. For example, car wash as a category has received increased institutional investor attention given its agnosticism to electric vehicle adoption rates. As EVs proliferate, the car wash sector will be of increasing focus for automotive-dedicated investors.

United States Environmental Protection Agency



The EPA closely regulates the handling of pollutants used in the car wash industry.



Nonconventional

Phosphorus, Chlorine, Nitrogen



Conventional

Grease and Oil



Toxic

Metals and Artificial Compounds

1)

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Valuation Environment

The private market valuation environment for car washes remains constructive, though a “bid-ask” spread has grown in recent years as sellers seek out the friendlier valuations of 2021/2022 and buyers seek more constructive levels.

While valuations have abated somewhat from the peaks for 2021/2022, precedents do exist in the current market environment for investors deploying capital at double-digit EBITDA valuations. Factors that lead to the strongest valuation outcomes include density in resilient markets, minimal competitors of scale or potential for new entrants, a strong membership model with limited churn, and a bias toward an asset-lite express tunnel model.

One gating factor in private M&A transactions is the market’s willingness to give credit for pro forma adjustments. In prior years, the market was willing to lean in more aggressively on store maturity adjustments, growth in subscriber base, new stores in development pipeline, or M&A targets that range from early engagement to post-LOI. Today, the market meets those adjustments with a higher degree of scrutiny. Operators with a strong track record of delivering on those adjustments are likely to be met with a higher degree of acceptance, though supporting data is of paramount importance.

Achieving Premium Valuations

Operators who achieve premium valuations tend to meet many of the following criteria:

- 1 Strong Brand Recognition
- 2 Density in Certain Markets
- 3 Cohort Analysis Supporting Financial Performance Across Multiple Vintages of Store Openings/Acquisitions
- 4 Strong Unit Economics
Path to \$2 million+ AUVs at Healthy EBITDA Margins
- 5 Scalability of Infrastructure
Overhead, Shared Services, etc.
- 6 Track Record of Greenfield and/or Acquisition Integration Success
- 7 Strong Management Team

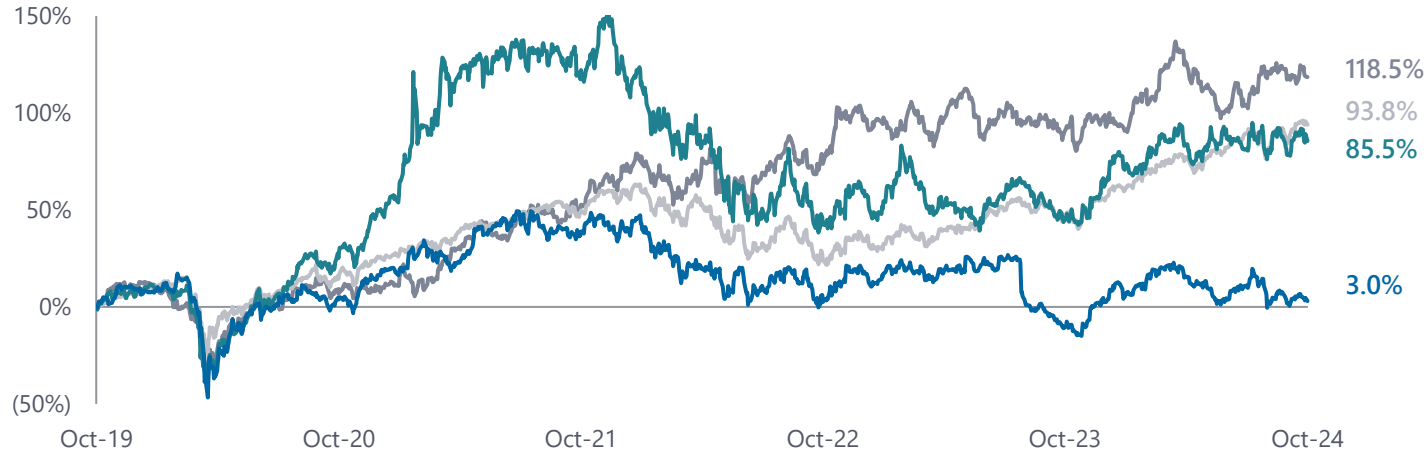


Valuation Environment (cont.)

Stock Price Performance

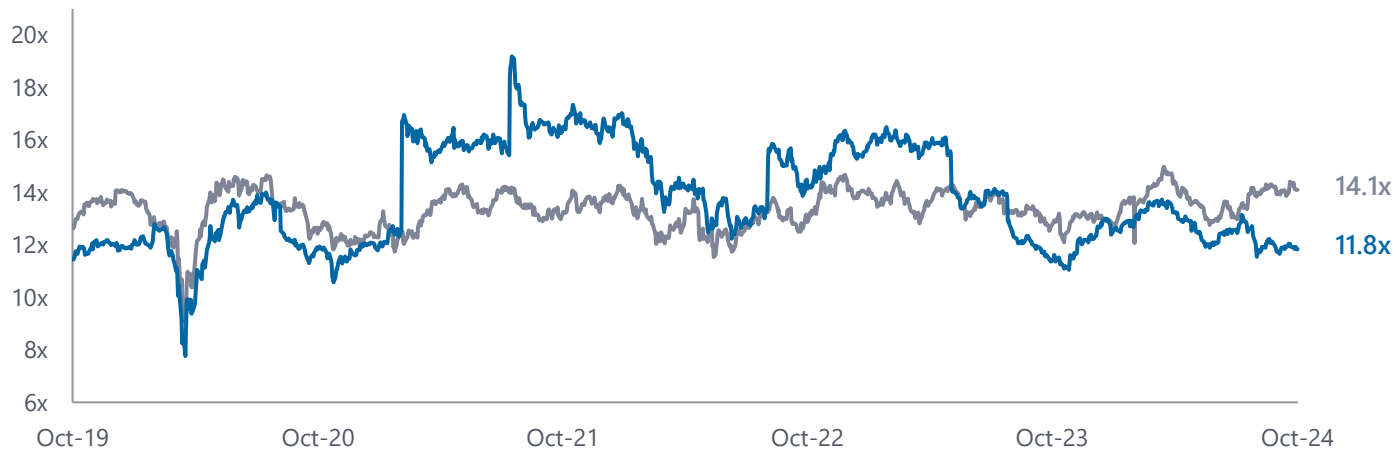
% Change
Relative to Oct-19

- Automotive Aftermarket
- S&P 500
- Retail Index
- Automotive Services



NTM EBITDA Multiple Performance

- Automotive Aftermarket
- Automotive Services



Notes: Market data as of 10/7/24; indices are weighted by market capitalization.
Sources: FactSet, S&P Capital IQ.

Commentary

Investors looking to the public markets generally focus on Mister Car Wash and Driven Brands as a proxy for the valuation environment for car wash operators, while also evaluating a broader set of automotive service companies and high-growth retailers.

Driven Brands and Mister Car Wash went public in 2020 and 2021, respectively, with great initial success. However, share prices and resulting valuation multiples began to decline in 2023 due to lower-than-expected sales growth and a muted growth outlook for the future.

Automotive Services

Mister Car Wash (NYSE:MCW), Driven Brands (NASDAQ:DRVN), Boyd Group Services (TSX:BYD), Valvoline (NYSE:VVV)

Automotive Aftermarket

Genuine Parts Company (NYSE:GPC), LKQ Corp. (NASDAQ:LKQ), Advance Auto Parts (NYSE:AAP), AutoZone (NYSE:AZO), O'Reilly Automotive (NASDAQ:ORLY)

Car Wash Landscape Overview Top 50 Operators

2024 Rank	Company	Headquarters	U.S. Store Count
1	Mister Car Wash	Tucson, AZ	465
2	Take 5 Car Wash	Charlotte, NC	389
3	ZIPS Car Wash	Plano, TX	279
4	EWC/Club: Wildcat Car Wash Platform	Columbia, MO	260
5	Tidal Wave Auto Spa	Thomaston, GA	235
6	Quick Quack Car Wash	Sacramento, CA	225
7	Tommy's Express Car Wash	Holland, MI	185
8	Spotless Brands	Oakbrook Terrace, IL	170
9	GO Car Wash	Denver, CO	144
10	Mammoth Holdings	Atlanta, GA	140
11	Whistle Express Car Wash	Charlotte, NC	130
12	WhiteWater Express Car Wash	Houston, TX	125
13	Super Star Car Wash	Phoenix, AZ	94
14	Autobell Car Wash	Charlotte, NC	89
15	ModWash	Chattanooga, TN	84
16	LUV Car Wash	Gilbert, AZ	73
17	True Blue Car Wash, owned by Circle K	Tempe, AZ	67
18	Casey's Express Wash	Ankeny, IA	66
19	Splash Car Wash	Greenwich, CT	57
20	Golden Nozzle Car Wash	Worcester, MA	55
21	Summit Car Wash	Palm Beach Gardens, FL	52
22	Caliber Car Wash	Atlanta, GA	47
23	Crew Carwash	Indianapolis, IN	46
24	Wash Depot Holdings	Fort Lauderdale, FL	46
25	Champion Xpress Car Wash	Lubbock, TX	45

2024 Rank	Company	Headquarters	U.S. Store Count
26	Sam's Xpress Car Wash	Matthews, NC	42
27	BlueWave Express	San Rafael, CA	41
28	El Car Wash	Miami, FL	40
29	Raceway Express Car Wash	Phoenix, AZ	39
30	Wash N Roll	Nashville, TN	39
31	Mike's Carwash	Cincinnati, OH	38
32	Jax Kar Wash	Southfield, MI	35
33	Surf Thru Express Car Wash	Bakersfield, CA	35
34	Watershed Car Wash	San Antonio, TX	35
35	Terrible's	Las Vegas, NV	33
36	WetGo PRO	Pittsburgh, PA	33
37	Rich's Car Wash	Mobile, AL	32
38	Delta Sonic	Buffalo, NY	31
39	The Wash Tub	San Antonio, TX	30
40	Brown Bear Car Wash	Seattle, WA	28
41	Waterway Carwash	St. Louis, MO	28
42	Hurricane Express Wash	Irmo, SC	27
43	Soapy Joe's Car Wash	Santee, CA	27
44	Trademark Carwash	Winston Salem, NC	26
45	Hoffman Car Wash	Albany, NY	25
46	Prestige Car Wash	Taunton, MA	25
47	Fast5xpress	Newport Beach, CA	24
48	Rocket Carwash	Lincoln, NE	24
49	Ultra Clean Express	Denver, CO	24
50	Zax Auto Wash	Wixom, MI	22

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