Report on Proposed Convenience Store

Located at

123 Main St, Somewhere TX 79821

Prepared by

TALAVERA
CONSULTING

Prepared for

Client

1.Scope of work:

Client engaged Talavera Consulting to provide a business plan study related for a proposed convenience store located at the 123 Main St, Somewhere TX 79821. The report is to provide the following information:

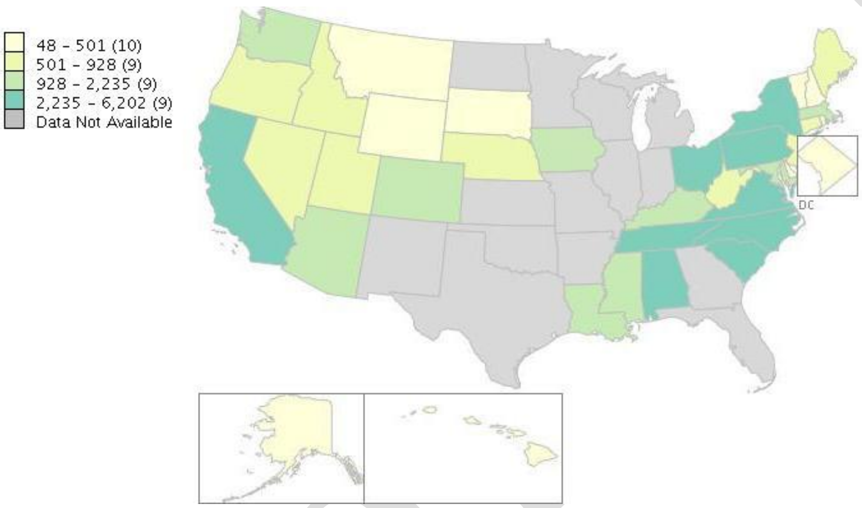
Current market information based on the following data:

- Current market information based on the following data:
    - Overall assessment of market's economic outlook
    - Assessment of proposed locations demographic makeup, within 5 and 10 mile radius.
    - Assessment of potential competition.
- Industry Report on Specific Industry:
    - Operating Ratios
    - Revenue Trends
    - Operating margins and expenses
    - Benchmark information
- Financial analysis of the following areas:
    - Capital Investment
    - Working Capital
    - Profit and Loss
    - Projected Operating Yield Trends
    - Profitability Indicator Ratios
    - Monthly Cash Flow Projections for 24 months.
- Provide a breakeven analysis that will outline feasible boundaries based on:
    - Overall Project Cost
    - Operating income based on number of clients
    - Operating income based on service price structure

2. Market Outlook Industry - Gasoline Stations with Convenience Store

Gasoline Stations with Convenience Stores are categorized under the NAICS code 447110 this industry comprises establishments engaged in retailing automotive fuels (e.g., diesel fuel, gasohol, and gasoline) in combination with convenience store or food mart items. These establishments can either be in a convenience store (i.e., food mart) setting or a gasoline station setting and may also provide automotive repair services.

Gasoline Stations with Convenience Stores (NAICS 447110)
Number of Establishments as of 2012 U.S. Census.

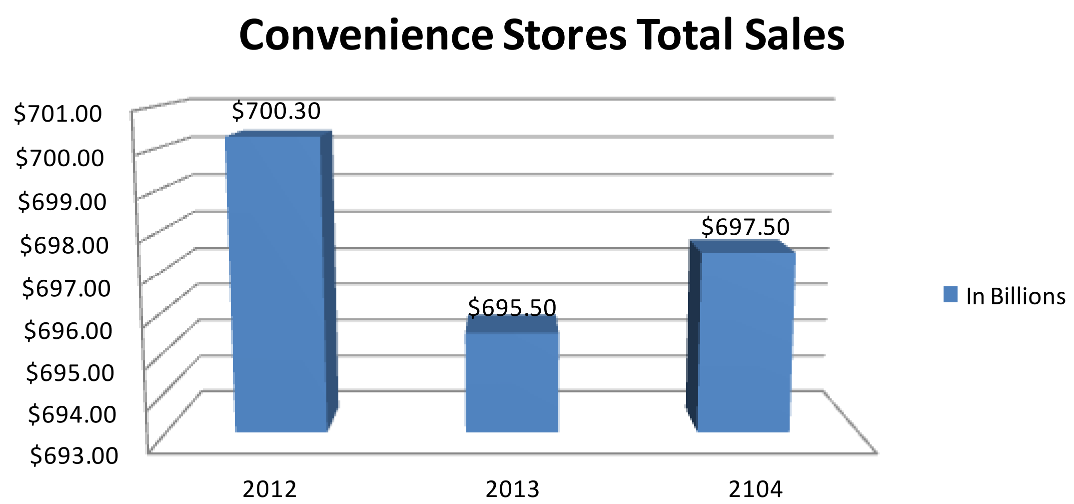


Key Industry Statistics: United States (US Bureau of Census Information)

Receipts/Revenue: United States

Receipts/Revenue per Employee: United States

While the US. Census Bureau reported totals sales of $426,061 million for 2012, the information provided was compiled excluded information from 15 states.



According to the National Association of Convenience Stores, the U.S. convenience store industry had **overall industry sales $697.5 billion for 2014.** For the same period, U.S. convenience had record in-store sales of $214.9 billion in, higher than overall industry sales in 1998.

The industry's **in-store sales of $214.9 billion represent an increase of 4.6% over 2013,** which was itself a record year. Although more gallons of fuel were sold in 2014 than 2013, **total industry fuel sales decreased by 1.8%,** due to gasoline prices that were 4% lower in 2014 than the previous year.

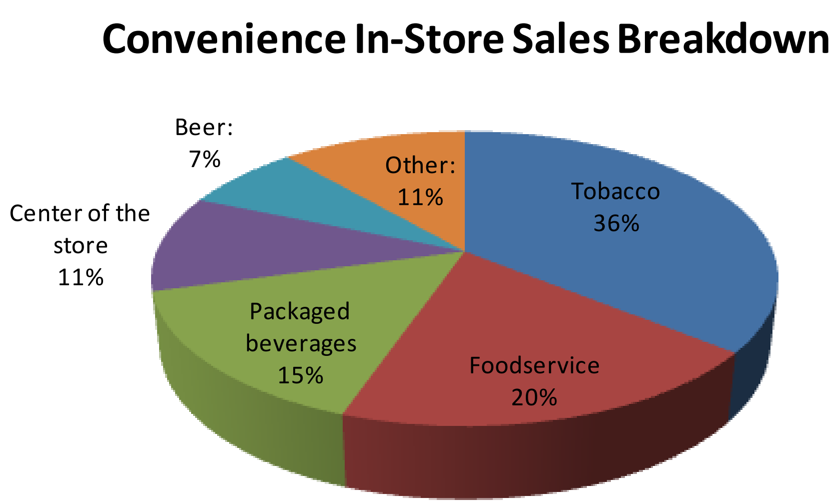
In 2012, the convenience store industry had record sales of $700.3 billion, with in-store sales increasing 2.2% to reach a record $199.3 billion and motor fuels sales increasing 2.9% to a record $501.0 billion. Convenience store pretax profits reached a record $7.2 billion in 2012, but taken as a percent of total sales, profits only moved from 1.027% to 1.028% of total sales.

Overall, 83.5% of convenience stores (127,588 total) sell motor fuels, a .7% increase (930 stores) over 2013, according to the 2015 NACS/Nielsen Convenience Industry Store Count. The growth of convenience stores selling motor fuels is double the overall growth in the industry, as fuel retailers add convenience operations and convenience retailers add fueling operations. **The U.S. convenience store count increased to 152,794 stores as of December 31, 2014, an almost 1% increase (1,512 stores) from the year prior.**

Convenience stores also account for 33.9% of all retail outlets in the United States, according to Nielsen, which is significantly higher than the U.S. total of other retail channels including drug stores (41,799 stores), supermarket/supercenter (41,529 stores) and dollar stores (26,572 stores).

In-store sales growth in 2014 was driven by sales gains in both foodservice and merchandise, with the highest growth in commissary (e.g., packaged sandwiches, deli salads) up 9.8%, salty snacks (up 8.5%) and packaged beverages (up 6.5%).

Here's how in-store sales were broken down in 2014:



- Tobacco (cigarettes and OTP): 35.9% of in-store sales

- Foodservice (prepared and commissary food; hot, cold and dispensed beverages): 19.4%
- Packaged beverages (soda, alternative beverages, sports drinks, juices, water, teas, etc.): 15.4%
- Center of the store (candy; sweet, salty and alternative snacks): 10.6%
- Beer: 7.3%
- Other: 11.4%

Beyond sales, convenience stores remain an important part of the economy. The convenience and fuel retailing industry employed 2.43 million people last year (a 10.6% increase from 2013).

Convenience store pretax profits increased in 2014 to $10.2 billion, due primarily to higher profit margins as wholesale fuel costs decrease. The industry saw an 18.8% increase in fuel margins this year, at an average of 22.2 cents per gallon for 2014 compared to 18.7 cents per gallon in 2013.

Motor fuels continued to drive sales dollars, but in-store sales drove profit dollars. Overall, 69.2% of total sales were motor fuels, but motor fuels only accounted for 39.5% of profit dollars.

The industry's bifurcation also continues, with a considerable difference between top quartile and bottom quartile performers — although the gap was less pronounced this year in some categories. The year also brought unprecedented M&A activity in the convenience channel, mainly driven by Master Limited Partnerships (MLPs), with four of the top five firms by store count selling or acquiring stores in 2014.

During 2014 food service accounted for 33.5% of gross profit dollars, a 4.4 percentage point increase over 2013. While tobacco products constituted 35.9%

of in-store revenue dollars, they accounted for only 17.3% of gross margin dollars. Packaged beverages were third, accounting for 18.5% of gross profit dollars.

3. General Demographics

Below is general demographic information within a 2 mile radius of the subject Property:

Population Summary for Proposed Location, 8290 Doniphan Dr, Vinton, TX, 79821, trade area of 2 mile(s):

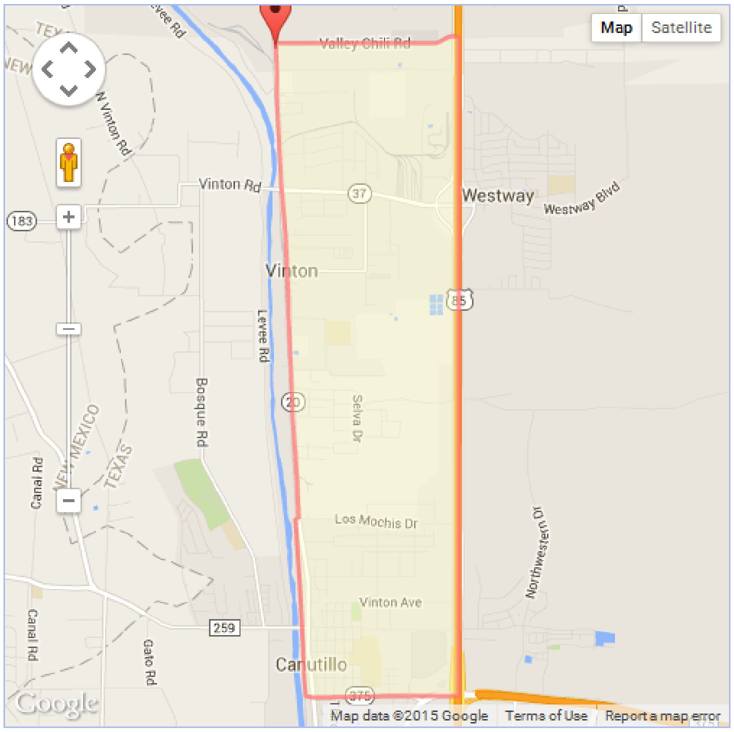
Population Demographics	2000 Census	%	2010 Census	%	2015A Estimates	%	2020 Projections	%	Percent Change 2000 to 2010	Percent Change 2015 to 2020
Total Population	7,639		9,578		10,193		10,496		25.4%	3.0%
Population Density (Pop/Sq Mi)	608.05		1,014.61		811.41		835.47		66.9%	3.0%
Total Households	1,698		2,238		2,433		2,550		31.8%	4.8%
Employed Civilian Population 16+	2,078		3,066		3,162		3,283		47.5%	3.8%
Blue Collar	1,225	58.9%	1,870	61.0%	1,926	60.9%	1,999	60.9%	52.7%	3.8%
White Collar	853	41.1%	1,196	39.0%	1,236	39.1%	1,284	39.1%	44.9%	3.9%
Employees	n/a		n/a		1,878		n/a		n/a	n/a
Establishments*	n/a		n/a		194		n/a		n/a	n/a
Population by Gender:										
Male	4,453	58.3%	5,697	59.5%	6,047	59.3%	6,205	59.1%	27.9%	2.6%
Female	3,185	41.7%	3,881	40.5%	4,147	40.7%	4,290	40.9%	21.8%	3.5%

Population by Race/Ethnicity	2000 Census	%	2010 Census	%	2015A Estimates	%	2020 Projections	%	Percent Change 2000 to 2010	Percent Change 2015 to 2020
White	6,186	81.0%	7,768	81.1%	8,142	79.9%	8,332	79.4%	25.6%	2.3%
Black	173	2.3%	466	4.9%	577	5.7%	592	5.6%	170.2%	2.6%
American Indian or Alaska Native	46	0.6%	123	1.6%	134	1.3%	135	1.3%	165.6%	0.9%
Asian/Native Hawaiian/Other Pacific Islander	24	0.3%	60	0.6%	74	0.7%	82	0.8%	22.8%	11.1%
Some Other Race	1,045	13.7%	977	10.2%	1,042	10.2%	1,110	10.6%	-6.5%	6.5%
Two or More Races	165	2.2%	185	1.9%	224	2.2%	245	2.3%	11.9%	9.4%
Hispanic Ethnicity	6,647	87.0%	7,880	82.3%	8,339	81.8%	8,690	82.8%	18.6%	4.2%
Not Hispanic or Latino	991	13.0%	1,698	17.7%	1,854	18.2%	1,806	17.2%	71.2%	-2.6%

Marital Status	2000 Census	%	2010 Census	%	2015A Estimates	%	2020 Projections	%	Percent Change 2000 to 2010	Percent Change 2015 to 2020
Married, Spouse Present	2,285	39.8%	2,420	32.0%	2,659	32.5%	2,731	32.1%	5.9%	2.7%

A 6 and 10 mile radius was excluded because it would not be representative of the service market area. The 2 mile radius information includes information from transcends various geographical barriers such as the freeway. A more representative segment of the service area would be the community of Somewhere Texas.

Somewhere, TX



Somewhere is a very small village located in Northwest of El Paso, TX with a population of 1,951 people and just one neighborhood, **Somewhere TX is on the smallest communities in Texas.**

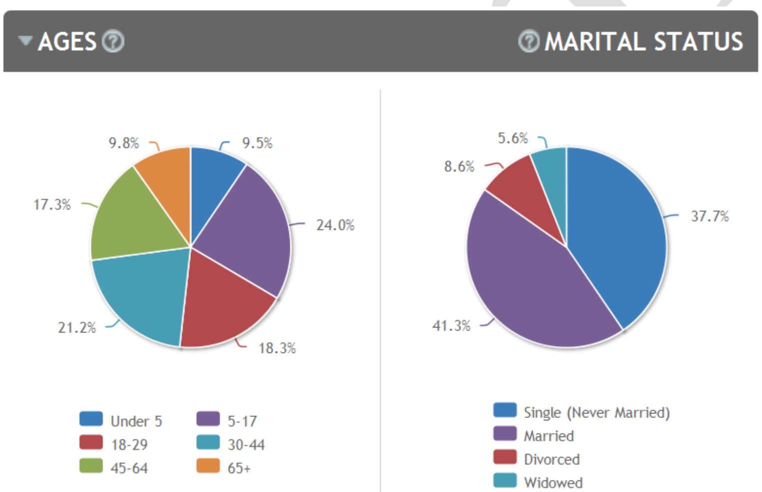
The per capita income in Somewhere TX in 2010 was $11,145, which is low income relative to Texas and the nation. This equates to an annual income of $44,580 for a family of four. Somewhere also has one of the higher rates of people living in poverty in the nation, with 35.53% of its population below the federal poverty line.

The population of Somewhere TX has one of the lowest overall levels of education in the country: only 4.35% of people over 25 hold a college degree. The national average for all municipalities is 21.84%.

Location

Somewhere, TX is located in the El Paso Metropolitan area.

Ages and Marital Status



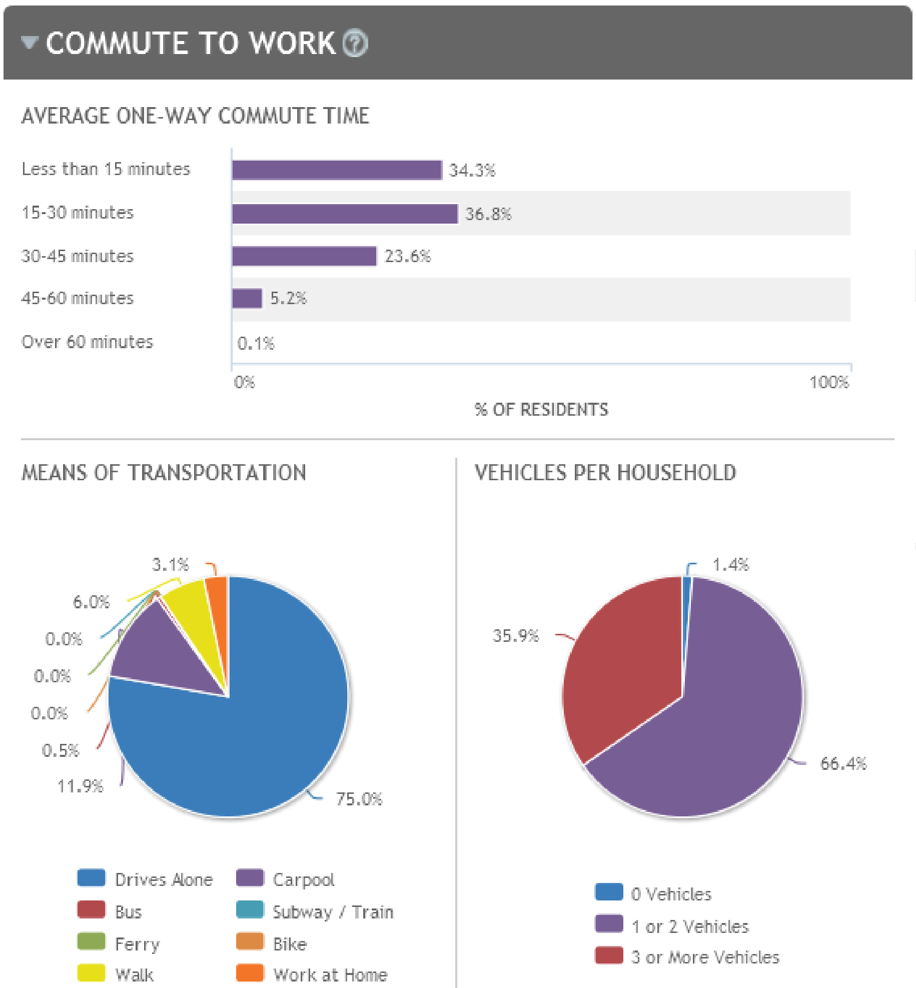
The majority of the population is under 30 years old, with 41.3% married.

Occupations and Workforce

Because occupations involving physical labor dominate the local economy, **Somewhere TX is generally considered to be a blue-collar town. 37.43%** of the Somewhere workforce is employed in blue-collar occupations, compared to the national average of

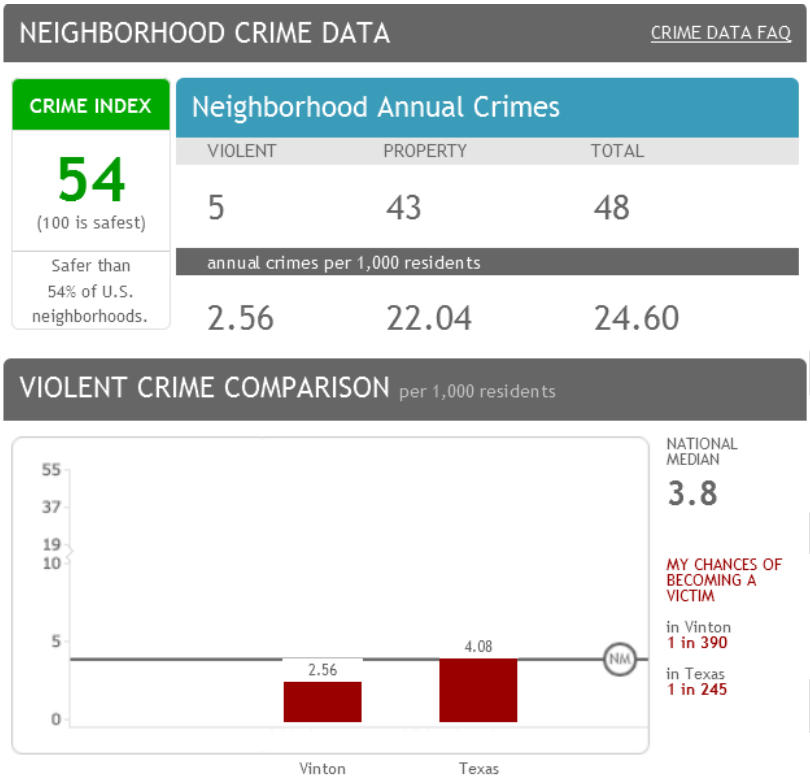
27.7%. Overall, Somewhere is a village of sales and office workers, service providers and construction workers and builders. There are especially a lot of people living in Somewhere who work in office and administrative support (13.90%), sales jobs (9.27%) and teaching (7.66%).

Transportation and Commute Time



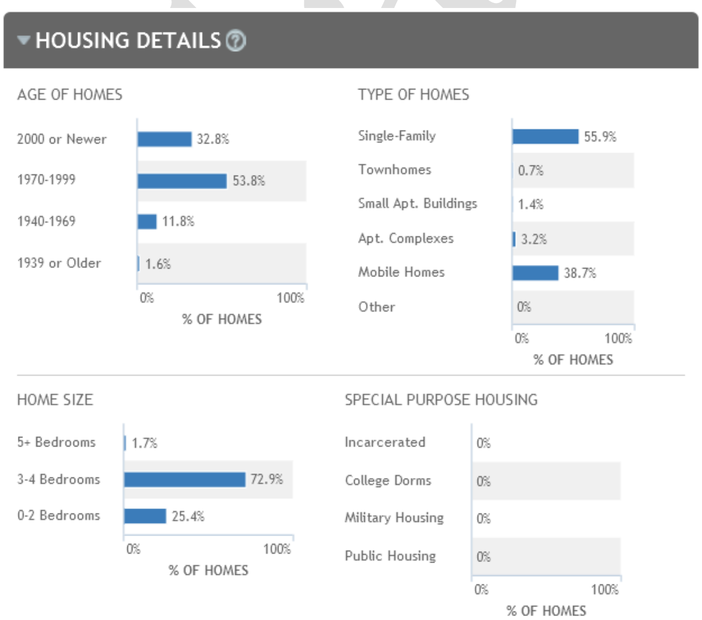
The vast majority of the populations (98.6%) owns at least one or more vehicles, and 86.9% drives to work either alone or carpools.

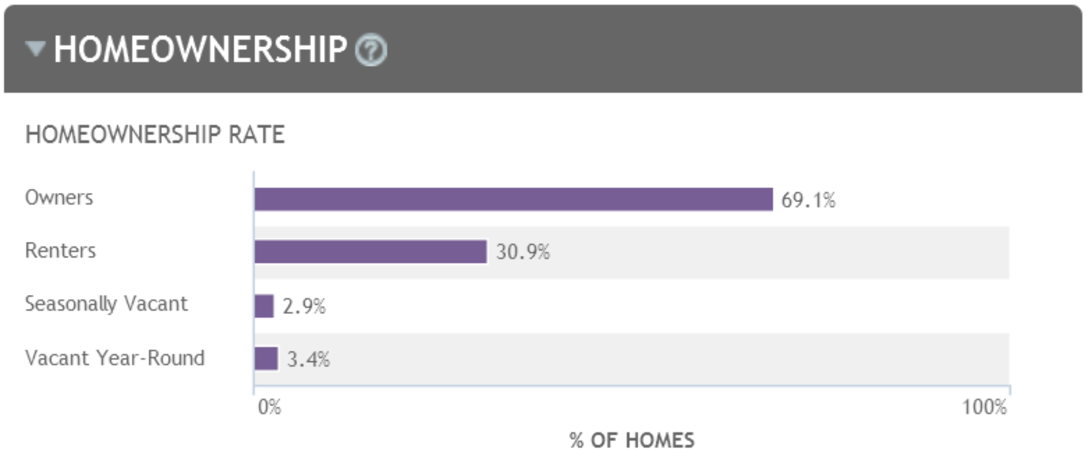
Crime Data



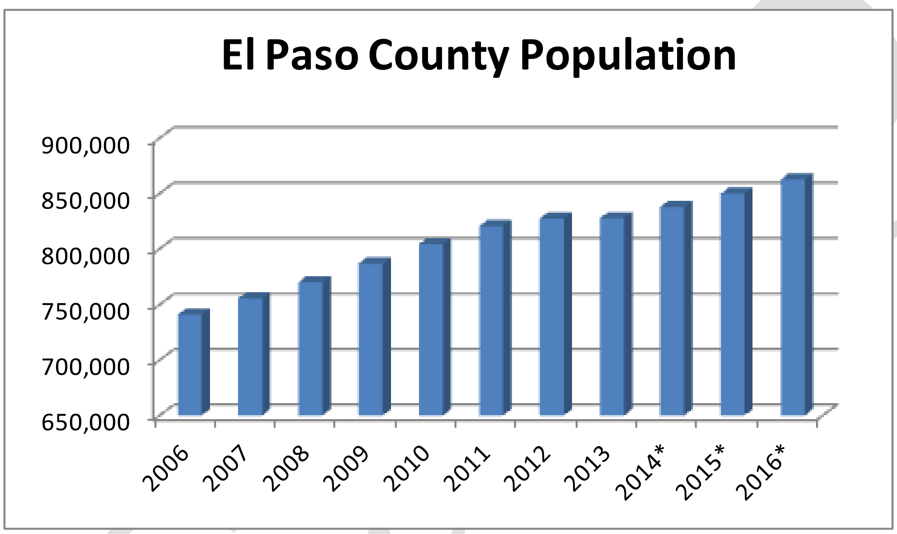
Somewhere, Texas has a relatively lower crime rate than the state of Texas and the national average.

Housing Details





El Paso Texas Metropolitan Area Overview



El Paso Population	
Year	Growth
2006	2.2
2007	2.0
2008	1.9
2009	2.2
2010	2.2
2011	2.1
2012	0.8
2013	0.0
2014*	1.2
2015*	1.4
2016*	1.5

Source U.S. Census Bureau and *Borderplex Economic Outlook: 2016*, UTEP Border Region Modeling Project.

El Paso is located at the westernmost tip of Texas, bordering Mexico and New Mexico. As of 2014, the City of El Paso was the fifth largest city in the state of Texas with an estimated population of 679,034. The City of El Paso is located within El Paso County, with an estimated population of 831,900 as of 2014. Across the Texas-Mexico border is Ciudad Juarez with an estimated population of 1.2 million. The two cities along with Las Cruces, form a combined international metropolitan area sometimes referred as the El Paso del Norte Region. The El Paso-Juárez region is the largest bilingual, bi-national work force in the Western Hemisphere. As shown in the graph above, **El Paso's population**

growth rate temporarily stalled in 2013, but it is estimated to have regained strength in 2014 and is projected to continue growing until at least 2016. (UTEP, US Census Bureau)

According to U.S. Department of Housing and Urban Development's Comprehensive Housing Market Analysis for El Paso Texas, the current population of the El Paso county/metropolitan-area is an estimated 831,900, which reflects an average annual increase of about 7,825, or 1.0 percent, from the April 2010 census population of 800,647. From 2000 to 2010, the population grew by an average of 12,100, or 1.7 percent, annually. Net in-migration during that decade accounted for slightly more than 20 percent of the population gain; the remainder of the growth came from net natural change (resident births minus resident deaths). **Population growth in the El Paso was strongest from 2006 to 2009, when the population increased by an average of 14,650, or 2.0 percent, annually. The growth peaked at about 16,800 people in 2009.** Previous population growth from 2009 to 2012 was largely attributable to greater net migration into the County associated with troop increases at Fort Bliss. In 2009 and 2010 alone, more than 11,000 soldiers and their families relocated to El Paso. (HUD, UTEP)

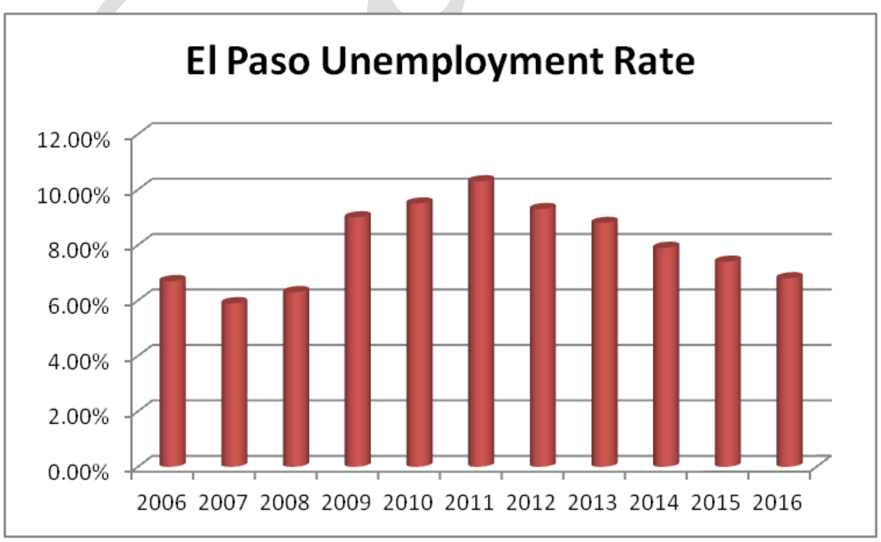
An estimated 272,300 households reside in El Paso, which represents an increase of 3,925 households, or 1.5 percent, annually since 2010. The number of Households in El Paso increased by 4,650, or 2.2 percent, annually from 210,022 households in 2000 to 256,557 households in 2010. The homeownership rate in the HMA decreased from 2000 to 2010, from 63.6 to 63.0 percent. The homeownership rate, which has decreased slightly since 2010, is currently estimated at 62.3 percent. (HUD)

From 2014 to 2017, the population is expected to increase by an average of 9,600, or 1.1 percent, annually. By April 1, 2017, the total population is projected to be 860,700. The number of households is expected to grow by 3,400, or 1.2 percent, annually to reach approximately 282,500 by April 1, 2017. (HUD)

A young metropolitan area, the median age of El Paso County residents during the last census was 30.68 years. According to the Borderplex Economic Outlook for 2016, it forecasted that an improved job market conditions in El Paso will result in positive in-migration flows throughout 2015 and 2016. Although natural increase remains positive, the gap between births and deaths is projected to slowly narrow through 2016. The number of households in El Paso is predicted to move beyond 285.2 thousand by the end of 2016.

Employment

El Paso's economy is primarily based on government, wholesale and retail, education and health services, warehousing and, increasingly, on professional and business services. As a consequence of the large government presence in El Paso, the local economy was insulated from the sustained economic downturn that occurred across most areas of the country from late 2007 through mid 2009. **The local unemployment rate decreased to 7.9% in 2014 from 8.8% in 2013, and it is projected to remain on a downward trend over the next couple of years.** It is estimated for unemployment rate to decrease to 7.4% and 6.8% for 2015 and 2016, respectively. Part of the reason behind the declines in the rate of joblessness during the last two years is a lower labor force participation rate.



Source U.S. Census Bureau and *Borderplex Economic Outlook: 2016*, UTEP Border Region Modeling Project.

The largest employment sector in El Paso is the government sector, which accounts for nearly 24 percent of total nonfarm payrolls. El Paso is home to Fort Bliss Army Base, headquarters of the William Beaumont Army Medical Center and the U.S. Army Sergeants Major Academy. As the leading employer in the El Paso, with approximately 28,650 troops and 8,350 civilian personnel, **Fort Bliss has an estimated $3.1 billion annual economic impact on the HMA (U.S. Army).** The 2005 Defense Base Closure and Realignment (BRAC) Commission Report positively affected Fort Bliss. The base was transformed into a heavy armor training post that included 11,500 new troops from the 1st Armored Division, previously stationed in Germany, and units from Fort Sill, Oklahoma, and Fort Hood, Texas. An estimated 15,900 military jobs and 380 civilian jobs transferred to Fort Bliss, bringing the total number of troops stationed at Fort Bliss to 35,000 by 2013. In addition, the U.S. Air Force is in the process of moving the newly configured Security Forces Regional Training Center to Fort Bliss, the military's preferred site for the training operation. When complete, the move will bring between 8,000 and 10,000 airmen to Fort Bliss each year for security forces training, beginning in September 2015.

The state government subsector accounts for nearly 15 percent of all government sector employment in the El Paso. UTEP is a major contributor to the El Paso economy, with 23,000 students enrolled and about 3,700 faculty and staff employed. The university has an estimated annual economic impact of $1.3 billion on the El Paso economy (Institute for Policy and Economic Development at UTEP). El Paso is also home to another large state education institution, the Texas Tech University Health Sciences Center El Paso campus, a 4-year medical school that enrolls approximately 420 students and 250 residents. The school employs 1,200 faculty and staff and has a $205 million operating budget. **The Table below provides a list of the largest employers in El Paso; two of the top three are in the government sector.**

Below are the top ten employers for the El Paso metropolitan area:

El Paso Major Employers

Employer	Sector	Number of Employees
Fort Bliss Army Base	Government	37,000
T&T Staff Management, Inc.	Professional & Business Services	4,400
University of Texas at El Paso	Government	3,700
Sierra Providence Health Network	Health Services	3,075
RMPersonnel	Professional & Business Services	1,950
Dish Network Corporation	Technical Support Center	1,800
Alorica Inc.	Professional & Business Services	1,750
ReadyOne Industries	Manufacturing	1,300
GC Services Limited Partnership	Professional & Business Services	1,200
Texas Tech University Health Science Center	Government	1,200

Excludes local school districts. Fort Bliss employment includes 28,650 military personnel.

El Paso is one of the primary entry points for trade and population flows between Mexico and the United States. El Paso derives a significant economic benefit from its proximity to Mexico. Mexican nationals spend $4.5 billion per year in Texas border retail, approximately 10 to 15 percent of which is spent in the city of El Paso (The Borderplex Alliance). **The 47,200 jobs currently in the wholesale and retail trade sector account for 16 percent of all jobs in El Paso, a substantial number of which result from the economic interaction between the two countries. (HUD)**

Total nonfarm payrolls in the El Paso have increased by an average of 2,350 jobs, or 0.9 percent, a year since 2000. From 2004 through 2008, nonfarm payrolls in El Paso increased by an average of 4,625 jobs, or 1.8 percent, annually, to an average of 278,100 jobs in 2008. During this period, the professional and business services, the government, and construction sectors led job growth, with average annual increases of 1,200, 1,100, and 800 jobs, or 4.2, 1.9, and 6.1 percent, respectively. (HUD)

The economy in El Paso began to decline in 2009, when payrolls decreased by 4,600 jobs, to 273,500. Job losses during 2009 were concentrated primarily in the manufacturing and the wholesale and retail trade sectors, which lost 2,400 and 2,000 jobs, or 12.2 and 5.7 percent, respectively. The decline in manufacturing was primarily a result of jobs relocating across the border to Mexico. During 2010 and 2011, nonfarm payrolls began to improve and increased by 3,150 jobs, or 1.1 percent, annually, to 279,800 jobs. Growth during the period was partially a result of significant employment gains in the education and health services, leisure and hospitality, and government sectors, which increased annually by 1,300, 1,050, and 700 jobs, or 3.5, 3.7, and 1.0 percent, respectively. (HUD)

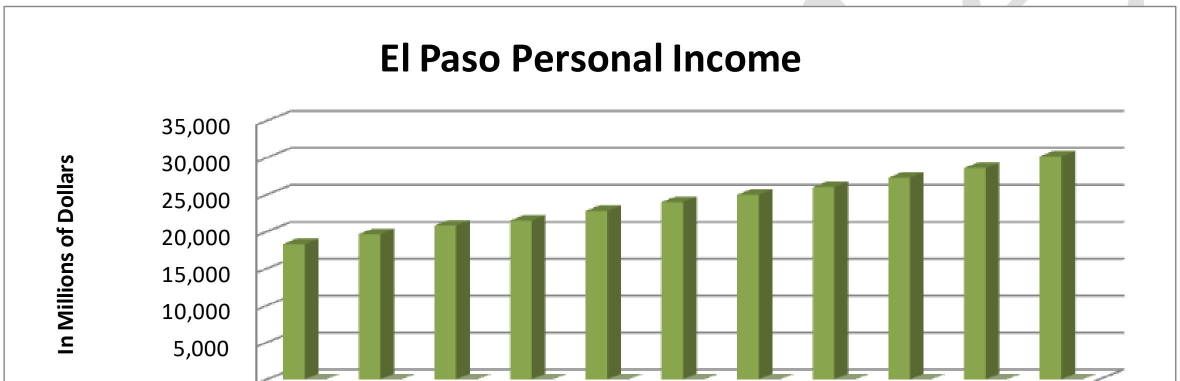
The total number of businesses operating in El Paso is forecast to surpass 14.3 thousand by 2016. **Because economic conditions have improved, the number of business bankruptcies is projected to decline through the end of 2016. A similar downward trajectory is also predicted for personal bankruptcies.** Local college enrollments, however, grow more slowly as increased hours worked reduces time available for academic pursuits.

Labor force participation is expected to recover at least some of its losses as employment increases in 2015 and 2016. Among other things, lower energy prices are allowing manufacturing jobs to stage comebacks in the United States and those increases have helped create new business opportunities on both sides of the border. Sectors expected to add to their payrolls in order to meet growing sales volumes in 2015 and 2016 include construction, retail, trade, call centers and healthcare companies. Job losses were experienced due to budgetary weaknesses by local government, state government, and federal civilian government payrolls. (UTEP)

El Paso Personal Income

Borderplex economic conditions strengthened substantially in 2014. Employment grew throughout the Paso del Norte Region, with the strongest job gains occurring in Ciudad Juarez. **Total personal income in El Paso is projected reach $30.1 billion by the end of the forecast period, with per capita income climbing to $34,965.** Emblematic of border region economic expansion, total commercial activity in El Paso is projected to exceed $12.5 billion. (UTEP)

Stronger labor market conditions allow personal income growth to accelerate and remain near 5.0 percent per year throughout 2015 and 2016. Wage and salary disbursements will grow at successively higher rates through 2016. More robust business balance sheets are behind the lower volumes of business bankruptcies. Not surprisingly, residence adjustments continue to increase in magnitude as residents of nearby communities on both sides of the border flock to El Paso for work. Dividends, interest, and rental incomes also do relatively well as a consequence of solid performances in both equity and real estate markets. Unemployment transfers are predicted to decline sharply as a function of ongoing erosion in the jobless rate. (Borderplex Economic Outlook, 2016)



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Personal Income	18,303	19,644	20,802	21,477	22,792	23,985	24,974	26,014	27,289	28,607	30,160
Percent Change	8.6%	7.3%	5.9%	3.2%	6.1%	5.2%	4.1%	4.2%	4.9%	4.8%	5.4%

Source U.S. Census Bureau and *Borderplex Economic Outlook: 2016*, UTEP Border Region Modeling Project.

Stronger labor market conditions allow personal income growth to accelerate and remain near 5.0 percent per year. Wage and salary disbursements are projected to grow at successively higher rates through 2016. Similar improvements are observed for proprietor incomes. More robust business balance sheets are behind the lower volumes of business bankruptcies highlighted above. Not surprisingly, residence adjustments continue to increase in magnitude as residents of nearby communities on both sides of the border flock to El Paso for work. Dividends, interest, and rental incomes also do relatively well as a consequence of solid performances in both equity and real estate markets. Along those lines, retirement transfers grow at increasing rates each year of the outlook. Better federal fiscal performance allows income maintenance transfers to also expand at faster rate.

Downtown El Paso and Quality of Life Bonds

El Paso has emerged as being one of the fifteen U.S. cities with up and coming revitalized downtowns. Located in the heart of downtown El Paso, the Southwest University Park opened in 2014, and won Ballpark of the Year Award for the same year. The El Paso Chihuahuas, the ballpark's official team, have drawn more than 500,000 fans during its first season, becoming just the fourth team in the Pacific Coast League to accomplish the feat.

There are additional amenities slated to come to the downtown area. One such amenity will be the bus rapid transit (BRT) system. When completed, it will provide transportation choices to connect residents to downtown El Paso. Another step in the right direction is the redevelopment of all public owned parking lots around the Union Depot, plus the development of an expanded mix of restaurants, shops, and high quality condominiums fronting a formal plaza. These developments should jointly help to improve economic conditions in this portion of the City.

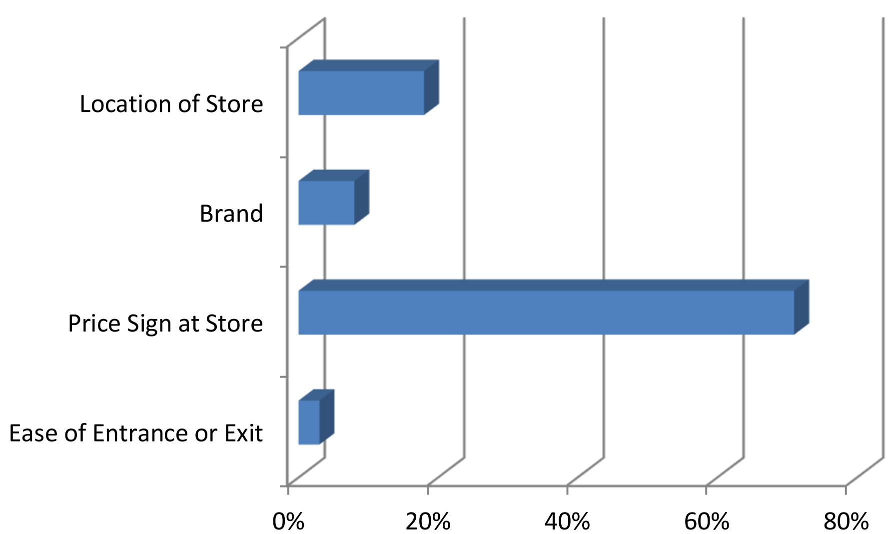
In 2012, the City of El Paso voted and approved the issuance of $473 million worth of bonds for quality of life improvements to be implemented over the next 7 years, in addition to an estimated $500 million in regular repair and maintenance to be spent in the upcoming years. As of 2015 the City of El Paso's debt had ratings of A2 according to Moody's Investors Service.

4. Convenience Store Operations

While most people assume that stores that sell gas rake in big profits of $1 or more per gallon, profits are pennies per gallon at the pump, and a store usually makes an average of about 30 to 50 cents total on a fill-up. **Gross margins (the markup before expenses are factored in) on gasoline have averaged 18.9 cents per gallon (5.7%) over the past five years.**Gross margins for fuel at convenience stores are roughly one-half of the gross margin of that renowned low-cost retailer Costco establishes as a benchmark for its products. Convenience stores sell about 80% of the fuel purchased in the United States and after expenses, especially credit card fees, the average pretax profit is around 3–5 cents per gallon. Fuel margins are slim because of consumer price sensitivity. **Nearly three in four consumers (71%) say that price is the most important factor in determining where they buy gas.** The percentage of customers who say price is the most important factor has stayed fairly consistent since 2007.

Most Important Factors for Gas Consumers

(Source: 2015 NACS Consumer Fuels Survey)



Consumers also will drive somewhere else to find a better price. Two-thirds of consumers (64%) would make a left-hand turn across a busy road to save 5 cents per gallon and nearly the same percentage (63%) would drive five minutes out of their way to save five cents a gallon.

It is common for retailers to offer competitive prices on fuel so they can have a much better chance to get that consumer inside the store for additional purchases beyond the low-margin gas purchase. While motor fuels drive sales dollars for convenience stores, in-store sales drive profit dollars. On average, 71% of a store's total sales are motor fuels, but motor fuels only account for 36% of profit dollars.

Among the 35% of consumers who went inside the store the last time they bought fuel, most of them made a purchase. Convenience stores sell immediate consumption items — 84% of the items sold inside a store are purchased for consumption within an hour.

A beverage or snacks are the two most popular items bought in stores by customers also buying gas. While in-store items drive profits, gross margins inside the store are in line with those in other retail formats.

In-store convenience store margins are about 27% for merchandise and 56% for foodservice. By comparison, grocery stores have gross margins of 27%, according to The Food Industry Speaks 2011, published by the Food Marketing Institute (FMI), the trade group representing grocery chains.

Traffic and Transactions

For convenience stores, the increase in customer traffic in stores doesn't necessarily correlate to more customers on the road — they are already on the road and visit a convenience store because it is on their way and convenient. Convenience stores seek out locations with a variety of favorable characteristics, including high traffic counts past the proposed site. In neighborhoods, convenience stores have the tightest shopping radius of any retail establishment (**most customers generally come from within a 2-mile radius,** as opposed to 10 miles for grocery stores and as much as

40 miles for big-box retailers) and the people in and around the stores reflect the community.

When looking at traffic, it's important to look at both customer counts and the length of time customers spend in stores. **The average convenience store has 1,130 transactions per day. Of that total, 293 are at the pump, and 837 are inside the store.** Of those consumers who buy gas, 35% say that they also went inside the store, whether to purchase merchandise, go to the bathroom or use the ATM. Parking lots at convenience stores are much smaller than other retail formats and the reasoning is simple: Parking lots are larger at locations where customers spend a lot of time inside the stores. The core proposition of convenience stores is convenience/speed of service. Time in convenience stores is limited; customers want to get what they need and move on quickly. The average time a convenience store customer spends from the time they leave their car to return to their car with a purchase is 3 minutes and 33 seconds. This transaction speed is less than one-tenth the time spent in grocery stores, where the average is 41 minutes, which doesn't include the time spent driving to and from the store. Convenience stores need parking lots large enough to accommodate peak traffic patterns, but overall these footprints are smaller than those of other formats, like grocery stores.

The average convenience store provides 15 jobs in the community, split about equally between full- and part-time workers. Many people in the community are familiar with stores because they worked in a store. Nationwide, 11% of adult Americans say they have worked at a convenience store or gas station. And those who have worked at convenience stores found it to be very positive experience.

Crime

According to the latest information in the FBI Uniform Crime Report, in 2013, **5.0% of total robberies were at convenience stores, and 2.4% were at gas stations.** Meanwhile, 13.3% were at a "commercial house" a bar or restaurant or other retail establishment, and 1.9% were at banks. Overall, most robberies in the United States occur at home or on the street. Street muggings account for 43.5% of robberies; robberies at a residence account for 16.9% of all robberies. Concerns over a higher likelihood of fires are also raised by groups opposed to new convenience stores. However, the data show that these concerns are unfounded. The National Fire Protection Agency examined all fires between 2007-2011 (the latest analysis available) and reported that 1.6% of vehicle fires were reported at convenience stores and gas stations. The group also examined structural fires and found that convenience stores and gas stations combined were responsible for only 0.3% of all structural fires and only 0.4% of all damage associated with these fires.

In regards to drunk driving, there is the overall misperception that there is a strong relationship between drunk driving and convenience stores. But there is 30 years of data suggesting otherwise**. Two California-based studies from 1985 found that less than 1% of drunk drivers had purchased their alcohol from a convenience store**. An updated study found that more than half of all drunk drivers (54%) had their last drink at an establishment licensed to sell on-premise consumed alcohol (bar, restaurant, club, stadium, etc.). Another 33% had their last drink in a private residence. Nearly half of those arrested (47%) had been at their place of last drink for more than 2 hours.

How Branded Stations Operate

Major oil companies have essentially exited the retail fuels business, but it often looks like they dominate the retail landscape. About half of the fueling stations in the United States sell a brand of fuel from one of the 15 major refiners/suppliers, which often makes the signage touting a particular fuel brand seem like an oil company owns the store.

But instead the contractual relationship for fuels is much like that inside the store, where beverage companies often help provide branded fountain dispensers that dispense a branded soft drink. Both the oil company and the beverage company help the retailer sell product, but that doesn't mean they own the store.

Retailer Benefits

For retailers, being branded means consumer recognition. **More than half of all convenience stores selling fuels (58%) are single-store operations,** so having a branded contract with a major refiner/supplier instantly provides a retailer with a familiar brand for their top product: motor fuels. A branded fuel can also determine where some customers choose to shop.

While price is still the number-one determinant for gas purchases, about one in 12 motorists consider fuel brand as the top reason for their purchasing decision. **A branded contract also guarantees fuel supply, especially when supplies are tight.** Supply guarantees can also smooth out extreme price volatility seen in the wholesale gas markets.

There also are non-fuel benefits to branding. Operators can take advantage of the oil company's knowledge in retail best practices for attracting customers and employee training tools. Retailers can also receive financial support such as an imaging allowance (loan) to improve the look of the store.

Major Oil Company Benefits

Major oil companies shed their retail portfolios to better utilize their assets in upstream production — that is, oil refining and/or oil production. Instead of tying up resources on real estate and making a few cents a gallon selling fuel, they can funnel their resources into large-scale, long-term projects. But there is obvious value to having your company name displayed in front of millions of consumers every day. And this is why the major oil companies continue to brand stations that they don't own or operate. A second reason is that branded relationships give oil companies a guaranteed customer for their product, and at predictable volumes. The same holds true for other refiners or supply companies.

Contractual Terms

What are the typical terms of these branded contacts? While every contract differs, here is a broad overview:

- **Length**

  A typical contract is for 10 years, although contracts may be as long as 20 years or as short as 3 years for renewed contracts.

- **Volume requirements**

  Contracts typically set forth a certain amount of fuel each month that retailers must sell. Usually retailers can sell more than the agreed-to amount, but when supply disruptions exist, they may be put on allocation and only given a percentage of what they historically receive in a given time period. This enables the supplier to more efficiently manage fuel distribution to all branded outlets in an equitable fashion.

- **Image requirements**

  A branded retailer receives marketing muscle from its oil company partner, which may include broad advertising to encourage in-store sales. Also, the oil company may provide financial incentives to display its brands. This also depends on who operates the station and whether the store owner has access to capital. In exchange, the oil company expects the store to adhere to certain imaging requirements, including specific colors, logos and signage, standards of cleanliness and service. The oil company often relies on mystery-shopping programs to assess compliance.

- **Wholesale price requirements**

  A branded retailer must purchase fuel from a branded supplier or distributor. Branded contracts benchmark the wholesale price to common fuels indexes, such as Platt's, plus a premium of a few cents for brand/marketing support. Some branded contracts also stipulate the retail markup on the fuel through a "consignment agreement," whereby the supplier or distributor retains ownership of the fuel until it is sold and pays the retailer a commission.

Types of Branded Retailers

There are different ownership structures within the branded station industry:

- **Regional company or chain operated** - A chain of convenience stores with a common name that operates the branded locations. In many cases, a chain may sell different brands at different stores, based on the needs of the marketplace and terms of contracts that may have been carried forward from stores that were acquired from other operators. Many operations of this kind serve as distributors to themselves and maintain supply agreements with the branded oil companies.

- **Lessee dealers** - The dealer/retailer owns the business. A major or regional oil company or a distributor owns the land and building and leases it to a dealer. The dealer operates the location and pays rent to the owner, as opposed to an open dealer who owns the property. This arrangement gives the oil company or distributor a guaranteed supply outlet for its petroleum products, pursuant to a supply contract. A typical lessee dealer may operate more than one facility and does not wholesale gasoline or sell to other dealers.

- **Open dealer operated** — The independent dealer purchases fuel from the oil company or a distributor, supplies fuel to the station — and possibly others — owns the business and owns or leases the building/facility independent from any supply agreement. The dealer may contract with a manager to run the business or run it himself.

- **Company operated** — A "salary operation" where a major or regional oil company or a distributor owns the building/facility and the business. The company pays a salary to the managers/proprietors and supplies fuel to the location. This is also known as company-operated and direct operated retail.

Current Issues in the Industry

C-Stores could benefit if rules on craft beer sales end.

Sales of craft beer at convenience stores could rise if states successfully scale back industry distribution requirements. With craft beer sales dramatically outperforming sales of traditional brews in the US, states are thirsty for the tax revenue generated by the purchase of IPAs, Porters, and their liquid ilk. Yet many small brewers have limited exposure and lack distribution deals, while some states have archaic laws regulating or even prohibiting beer sales. Now some states (including California, Florida, and Illinois) and the craft beer industry are pushing to reduce the barriers slowing craft beer growth, with the intent of expanding their market shares (and generating more tax revenue). **A bill sent to the governor of Illinois in June 2015 would allow more breweries to bypass distributors and sell beer directly to retailers, according to Bloomberg.**

Current Industry Data

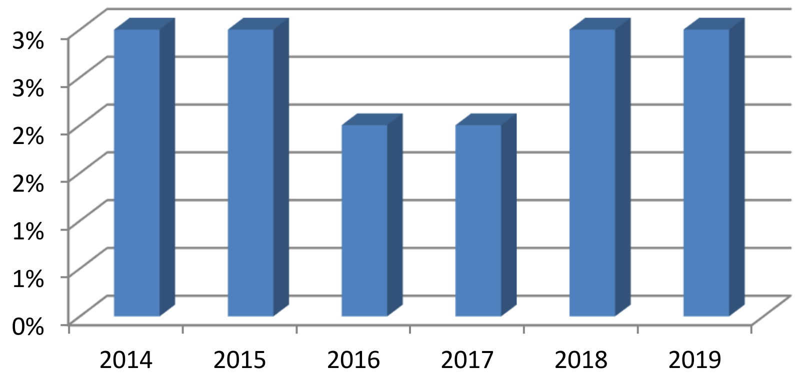
- US consumer spending on nondurable goods, an indicator of convenience store sales, fell 3 percent in June 2015 compared to the same month in 2014.

- US retail sales for gasoline stations, a potential measure of demand for convenience items, and decreased 19.7 percent in the first seven months of 2015 compared to the same period in 2014.

- US tourism spending on all tourism goods and services, an indicator of tourism spending at convenience stores, increased 1.4 percent in the first quarter of 2015 compared to the same period in 2014.

Growth

US personal consumption expenditures of food, nonalcoholic beverages, and tobacco, all major indicators for convenience stores and truck stops, are forecast to grow at an annual compounded rate of 2 percent between 2015 and 2019.



Data Published: February 2015 First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's.

5. Site Location Requirements

A convenience store site consists of three functional components: access, the forecourt, and the store envelope. A description of each component follows.

Easy access to the site is an absolute necessity for a convenience store to thrive.
All other factors being equal, the site with the most convenient access attracts the most customers. **For a convenience store in an urban setting, the industry considers 100 feet of frontage to be the minimum** amount of space necessary for access. **For a location with truck fueling, a minimum of 300 feet of frontage** and adequate space for vehicles to turn around are essential.

Entry and exit characteristics are usually identified as the permitted turning movements into and out of the site. For example, a site with full in and out access is described as "left-right in and left-right out." Limited access caused by a median may be described as "right-in, right-out," indicating that only right-hand turns into the site are permitted and only right-hand turns leaving the site are allowed.

The store envelope includes the building footprint, the drive-through lane, and parking areas. **Many local zoning ordinances are drafted from model legislation and call for a minimum of 3.3 on-site parking spaces for every 1,000 square feet of building area**. **The average convenience store site today is 52,991 square feet, a little over an acre.**
While these are ratios and requirements usually used in the industry, Site selection criteria will vary from company to company, depending on the target market and business model.

Branding Requirements

The convenience store industry is moving toward expanding their customer base by offering “on-the-go” eating and selling a wider range of food products.

Branded fast food restaurants within convenience stores are becoming more common due to the food franchises taking advantage of the leverage of an established equity, and convenience stores being able to sell diverse options at much higher margins that gas.

In addition, large fast food chains, such as McDonalds, claim that shared land can lower development and constriction cots. Based on this trend this reports applies the criteria established by McDonalds and ExxonMobil for the potential sites.

McDonald's Site Criteria

McDonald's market criteria for a co-branded facility are no different than the criteria required for a traditional restaurant. McDonald's criteria for urban and suburban sites are listed as follows:

The following are McDonald's criteria for rural sites:

- The store must be in a prime location.
- The approximate lot size should be 48,000 square feet.
- Frontage should be 223 linear feet.
- There should be a total of 40 parking spaces.
- Total drive-through stacking should be seven cars.

ExxonMobil Site Criteria

Not every site is suitable for retail fuel sales, and major oil companies such as Chevron, Shell, and ExxonMobil have established minimum criteria that must be met before sites can carry their brands.

Site selection criteria are established to help retail operators select economically viable sites. Brand identity and protecting their brand's public image are important to oil companies. When a retail store affiliated with a nationally recognized brand fails, the oil company's image is tainted and the public associates the brand with failure.

The specific site selection criteria used by ExxonMobil are listed here to provide an example of how oil companies evaluate potential sites:

- Exclusivity of trade area. A trade area's supply and demand profile is a key factor in site selection.
- High traffic counts. There should be 20,000 vehicles passing by the convenience store each day.
- More than 56,000 net usable square feet. The company will consider less square footage for stores in metropolitan markets.
- Residential density. There should be 15,000 existing or planned residences within a 1.5-mile radius.
- Excellent visibility. The site must be visible from one-third of a mile away.
- Excellent accessibility. There should be convenient ingress and egress from both primary and secondary streets.
- Signalized corner intersections. Ideally, stores should be located at four-corner sites.
- Absence of operating restrictions. A store should be open 24 hours a day, seven days a week, sell beer and wine, and have a car wash.

Below is a matrix of the proposed site in regards to the McDonald's and ExxonMobil Criteria:

Proposed Site				
		Yes	No	Unknown
McDonalds				
	Prime Location		X	
	Lot of at least 48,000 Sq Ft	X		
	Frontage of 223 linear feet	X		
	40 Parking Spaces			X
	Drive-through for 7 Car			X
Exxon Mobil				
	Exclusivity of trade area.		X	
	High traffic counts.		X	
	More than 56,000 net usable square feet.	X		
	Residential density.		X	
	Excellent visibility.	X		
	Excellent accessibility.	X		
	Signalized corner intersections.		X	
	Absence of operating restrictions.	X		

Traffic Capture Rates

Convenience store operators frequently project traffic capture rates for the locations of their stores. Traffic capture rates are a percentage measure of the number of vehicles entering the site from the passing vehicle traffic. **Retail pricing is the single most important factor that impacts traffic capture rates.** Lower-priced gasoline attracts more customers and increases traffic capture rates. However, other factors such as visibility and ease of access play an important role when pricing is held constant.

The relationship between traffic volume and traffic capture rates for a particular site is generally inverse. Higher traffic volumes usually result in lower traffic capture rates. This can be explained by several causes. Higher speeds are usually associated with higher traffic volumes. For example, traffic volumes of 50,000 to 100,000 vehicles per day are typical of freeway traffic and speeds greater than 50 miles per hour. Drivers in this type of traffic are less likely to make impulse decisions to stop at a convenience store than drivers in slower traffic. Higher traffic volumes are also associated with destination travel rather than commuter or local travel.

A study conducted by Robert Bainbridge and published in the Appraisal Journal Winter 2012 edition demonstrates that traffic capture rates can be projected when the traffic volume is known. The equation for this relationship is:

$y = 27.901\ [x^{-0.738}]$ where:

y = the traffic capture rate

x = traffic volume

The coefficient of determination ([R^2]) in this study is 53%. In this real-world study, **traffic volume alone accounted for 53% of the variability in capture rates** among the locations. The original sample used in the study included locations (data points) with many different brands as well as different retail pricing. It is to be noted that while there is positive correlation, **the coefficient of determination for the model it is low and other factors can create a high degree of uncertainty.**

According to the Texas Department of Transportation, the following traffic count was recorded on Doniphan St. less than ½ mile from the proposed location:

Station Flag	72H116A
Site ID	H 116A
AADT 2013	7,029
AADT 2012	8,300
AADT 2011	8,500
AADT 2010	8,200
AADT 2009	9,500
AADT 2008	8,600
AADT 2007	8,400

Based on AADT of 7,029 as of 2013, we can solve for traffic capture rates as follows:

$y = 27.901 \times [7{,}029^{-0.738}]$

$y = 27.901 \times 0.001449$

$y = 4.04\%$

7,029 AADT x 4.04% Capture Rate = 284 customer visits per day.

The estimated traffic capture rate is 4.04%, so the subject site can expect 284 customer visits per day. From this annual gross sales can be estimated using average consumption for customer.

According to the NACS's data from 2013, there average consumption for a segment of the population categorized as low income was $12.87 per person. This factor was used due to the majority of the population having income of less than $35,000 per household.

As of 2014, there was an increase in total expenditures of less than 1 percent so it concluded that average transaction per customer has remained at the same level as well.

Assuming the average customer transaction (motor fuel and in-store sales) is $12.87 multiplying the average customer transaction of $12.87 by the 284 projected customer visits per day equals $3,657 per day of gross sales. The annual gross sales are therefore projected at $1,334,680 ($3,657 x 365 days per year).

6. Competition

According to the various sources in the industry the retail market area can defined as 1.5 and 2 mile radius. At this time, there were two competing convenience stores with gas dispensing right on the edge of what is defined as the retail market area:

Description	Location	Distance
Circle K		
	601 S Main St Somewhere TX	2 Miles
Rio Grande Market (Ram Gas Station)		
	7240 Doniphan, Somewhere TX	2 Miles
Petro Service Station		
	601 Somewhere Rd Canutillo TX	2.5 Miles

7. Proposed Location Cost

While it is impossible to come up with a definite construction cost without plans and specs, local market information was used to estimate size of the proposed location and current data on construction cost per Sq. Ft.

Proposed Site Cost		
Building		
Proposed Sq FT		2,600
Projecte Cost / Sq Ft	$	74.68
Total Building Cost	$	194,160.24
Development		
Proposed Site Sq Ft		50,000.00
Projected Cost of Asphalt / Sq Ft	$	2.36
Total Development Cost	$	118,000.0
Additional Improvements		
Electronic Dispenser		
3 Hose x 4 ($18,300)		$73,200
Double sided ($5,450)		$10,900
Ticket Printer ($745 x 2 x 4)		$4,470
Canopy ($38.56 psf @ 3.000 sf)		$115,680
Air & Water dispenser		$745
Concrete Islands ($11.75 x 150 x 4)		$7,050
UST (20,000 gal, double walled)		$157,500
Total Additional Improvement Costs		$369,545
Total Cost	**$**	**681,705.24**

The proposed convenience store would consist of a 2,600 Sq Ft building with 2 separate double walled tanks, and 4 service stations. The site assumes that 50,000 Sq Ft will be paved and used by the convenience store, and that site will have a Canopy of 3,000 Sq Ft.

8. Financial Projections

Financial projections were estimated using the gross annual sales based on the formula above. Operating Expenses and other financial ratios were estimated using industry financial information provided by Sageworks. Sageworks is one of the leaders in the financial industry in collecting and analyzing financial data for privately held companies. The following information was collected in regards to operating expenses:

	Convenience Stores and Gas Stations As of July 2015 South US Region
Fuel Sales	80.14%
Food and Grocery Sales	9.61%
Tobacco Sales	7.55%
Alcohol Sales	2.70%
Total Revenue	100.00%
GOGS	88.25%
Gross Profit	11.75%
Payroll	3.35%
Rent	2.24%
Advertising	0.06%
Overhead SG&A	5.65%
Depreciation	0.41%
Other Operating Income	0.08%
Other Operating Expense	2.18%
Operating Profit	3.13%
Interest Expenses	0.33%
Other Income	0.04%
Other Expenses	0.46%
Net Profit Before Taxes	2.82%
Taxes	0.67%
Net Income	**2.15%**

Since most convenience stores lease their location, from either a related or third party, and in order to express the projected performance of the overall investment, rent expense was removed and was replaced by the interested and depreciation expense related to the real estate investment.

Assumptions:

- Cost of land was taken as sunk cost.
- Looking at feasibility of project as an operating entity from day one.
- Interest rate of 6%.
- Loan Amortization 20 years.
- Assumes a 2% growth for revenue and cost of goods sold for year 2 and 3.
- Assumes operations begin in January, and does not take into account construction time.
- Construction time is taken into account as interest expense for three months that it is capitalized into the overall project cost.
- Assumes that convenience store is the owner of the location and does not pay rent.
- Amortization based on 27.5 years. (15 Year amortization is available for convenience stores, but there are certain criteria that has to be met, and for purposes of this report a more conservative approach was taken)

Below are the projected startup expenses:

Convenience Store (Proposed)

Required Start-Up Funds for a New Business or Opening Balance Sheet for an Existing Business

Required Start-Up Funds	Amount	Totals
Fixed Assets		
Real Estate-Land	$ -	
Construction	312,160	
Equipment	369,545	
Furniture and Fixtures	15,000	
Capitalized Interest	11,100	
Total Fixed Assets		707,805
Operating Capital		
Pre-Opening Salaries and Wages	3,726	
Prepaid Insurance Premiums	5,000	
Inventory	20,000	
Legal and Accounting Fees	2,000	
Utility Deposits	1,000	
Supplies	3,000	
Advertising and Promotions	5,000	
Licenses	3,000	
Working Capital (Cash On Hand)	20,000	
Total Operating Capital		62,726
Total Required Funds		$ 770,531

Sources of Funding	Amount	Totals
Cash Investment	3.96%	30,531
Additional Loans or Debt		
Commercial Loan	96.04%	740,000
Commercial Mortgage	0.00%	-
Credit Card Debt	0.00%	-
Vehicle Loans	0.00%	-
Other Bank Debt	0.00%	-
Total Sources of Funding	100.00%	$ 770,531

Convenience Store (Proposed)
Projected Income Statement - Year One

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	N
Income											
Fuel Sales	84,649	86,146	85,983	86,583	88,263	90,787	92,009	93,159	89,087	91,042	91,67
Food and Grocery Sales	10,154	10,333	10,314	10,386	10,587	10,890	11,037	11,175	10,686	10,921	10,99
Tabacco Sales	7,978	8,119	8,104	8,160	8,319	8,556	8,672	8,780	8,396	8,580	8,64
Alcohol Sales	2,852	2,903	2,897	2,917	2,974	3,059	3,100	3,139	3,002	3,067	3,08
Total Income	105,633	107,500	107,297	108,047	110,143	113,293	114,817	116,252	111,171	113,610	114,39
Total Cost of Sales	93,221	94,869	94,690	95,351	97,201	99,981	101,326	102,593	98,109	100,261	100,95
Gross Margin	12,412	12,631	12,607	12,695	12,942	13,312	13,491	13,660	13,063	13,349	13,44
Total Salary and Wages	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,72
Fixed Business Expenses											
Rent	-	-	-	-	-	-	-	-	-	-	-
Advertising	67	67	67	67	67	67	67	67	67	67	6
Other Operating Income	(1,068)	(1,068)	(1,068)	(1,068)	(1,068)	(1,068)	(1,068)	(1,068)	(1,068)	(1,068)	(1,06
Other Operating Expense	2,425	2,425	2,425	2,425	2,425	2,425	2,425	2,425	2,425	2,425	2,42
Other Income	(44)	(44)	(44)	(44)	(44)	(44)	(44)	(44)	(44)	(44)	(4
Other Expenses	512	512	512	512	512	512	512	512	512	512	51
Total Fixed Business Expenses	1,891	1,891	1,891	1,891	1,891	1,891	1,891	1,891	1,891	1,891	1,89
Other Expenses											
Amortized Start-up Expenses	631	631	631	631	631	631	631	631	631	631	63
Depreciation	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,27
Interest											
Commercial Loan	3,700	3,692	3,684	3,676	3,668	3,660	3,651	3,643	3,635	3,626	3,61
Taxes	163	209	206	225	276	352	389	424	307	366	38
Total Other Expenses	6,773	6,810	6,799	6,810	6,853	6,920	6,950	6,977	6,851	6,901	6,91
Net Income	22	204	192	269	472	775	925	1,066	595	831	91

Convenience Store (Proposed)
Balance Sheet - Year One

	Base Period	End of Year One
Assets		
Current Assets		
Cash	20,000	43,074
Accounts Receivable	-	-
Inventory	18,500	18,500
Prepaid Expenses	22,726	15,151
Other Current	-	-
Total Current Assets	61,226	76,725
Fixed Assets		
Real Estate-Land	-	-
Construction	546,101	546,101
Leasehold Improvements	-	-
Equipment	249,180	249,180
Furniture and Fixtures	1,000	1,000
Vehicles	-	-
Other Fixed Assets	-	-
Total Fixed Assets	796,281	796,281
Less: Accumulated Depreciation	-	63,102
Total Assets	857,506	809,903
Liabilities and Owner's Equity		
Liabilities		
Accounts Payable	-	-
Loan Payable	771,756	751,152
Mortgage Payable	-	-
Credit Card Debt	-	-
Vehicle Loans	-	-
Other Bank Debt	-	-
Line of Credit Balance	-	-
Total Liabilities	771,756	751,152
Owner's Equity		
Common Stock	85,750	85,751
Retained Earnings	-	(26,999)
Dividends Dispersed	-	-
Total Owner's Equity	85,750	58,752
Total Liabilities and Owner's Equity	857,506	809,904

Convenience Store (Proposed)
Projected Income Statement - Year Two

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Income											
Fuel Sales	86,342	87,869	87,702	88,315	90,028	92,603	93,849	95,022	90,869	92,863	93,506
Food and Grocery Sales	10,357	10,540	10,520	10,593	10,799	11,108	11,257	11,398	10,900	11,139	11,216
Tabacco Sales	8,138	8,281	8,266	8,323	8,485	8,728	8,845	8,956	8,564	8,752	8,813
Alcohol Sales	2,909	2,961	2,955	2,976	3,033	3,120	3,162	3,202	3,062	3,129	3,151
Total Income	107,746	109,650	109,443	110,208	112,345	115,559	117,113	118,577	113,395	115,883	116,686
Total Cost of Sales	95,086	96,767	96,584	97,258	99,145	101,980	103,353	104,645	100,071	102,266	102,975
Gross Margin	12,660	12,884	12,860	12,949	13,201	13,578	13,761	13,933	13,324	13,616	13,711
Total Salary and Wages	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726
Fixed Business Expenses											
Rent	-	-	-	-	-	-	-	-	-	-	-
Advertising	68	68	68	68	68	68	68	68	68	68	68
Other Operating Income	(1,089)	(1,089)	(1,089)	(1,089)	(1,089)	(1,089)	(1,089)	(1,089)	(1,089)	(1,089)	(1,089)
Other Operating Expense	2,473	2,473	2,473	2,473	2,473	2,473	2,473	2,473	2,473	2,473	2,473
Other Income	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)
Other Expenses	522	522	522	522	522	522	522	522	522	522	522
Total Fixed Business Expenses	1,929	1,929	1,929	1,929	1,929	1,929	1,929	1,929	1,929	1,929	1,929
Other Expenses											
Amortized Start-up Expenses	631	631	631	631	631	631	631	631	631	631	631
Depreciation	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278
Interest											
Commercial Loan	3,601	3,593	3,584	3,576	3,567	3,558	3,550	3,541	3,532	3,523	3,514
Taxes	225	272	269	288	340	417	456	492	372	432	453
Total Other Expenses	6,736	6,774	6,762	6,773	6,816	6,885	6,915	6,942	6,813	6,865	6,876
Net Income	270	456	443	522	730	1,039	1,192	1,336	856	1,097	1,180

Convenience Store (Proposed)
Projected Cash Flow Statement - Year Two

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Beginning Cash Balance	42,159	43,863	45,791	46,929	48,922	51,167	52,743	55,547	58,524	59,572	62,232
Cash Inflows											
Income from Sales	107,746	109,650	109,443	110,208	112,345	115,559	117,113	118,577	113,395	115,883	116,686
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-
Total Cash Inflows	107,746	109,650	109,443	110,208	112,345	115,559	117,113	118,577	113,395	115,883	116,686
Cash Outflows											
Investing Activities											
New Fixed Assets Purchases	-	-	-	-	-	-	-	-	-	-	-
Inventory Addition to Bal. Sheet	-	-	-	-	-	-	-	-	-	-	-
Cost of Sales	95,086	96,767	96,584	97,258	99,145	101,980	103,353	104,645	100,071	102,266	102,975
Operating Activities											
Salaries and Wages	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726
Fixed Business Expenses	1,929	1,929	1,929	1,929	1,929	1,929	1,929	1,929	1,929	1,929	1,929
Taxes	-	-	766	-	-	1,046	-	-	1,319	-	-
Financing Activities											
Loan Payments	5,302	5,302	5,302	5,302	5,302	5,302	5,302	5,302	5,302	5,302	5,302
Line of Credit Interest	-	-	-	-	-	-	-	-	-	-	-
Line of Credit Repayments	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-
Total Cash Outflows	106,042	107,723	108,305	108,214	110,101	113,983	114,309	115,601	112,347	113,223	113,931
Cash Flow	1,704	1,928	1,138	1,993	2,244	1,576	2,805	2,977	1,048	2,660	2,754
Operating Cash Balance	43,863	45,791	46,929	48,922	51,167	52,743	55,547	58,524	59,572	62,232	64,987
Line of Credit Drawdowns	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	43,863	45,791	46,929	48,922	51,167	52,743	55,547	58,524	59,572	62,232	64,987

Convenience Store (Proposed)
Balance Sheet - Year Two

	End of Year One	End of Year Two
Assets		
Current Assets		
Cash	42,160	66,222
Accounts Receivable	-	-
Inventory	20,000	20,000
Prepaid Expenses	15,151	7,575
Other Current	-	-
Total Current Assets	77,311	93,798
Fixed Assets		
Real Estate-Land	-	-
Construction	312,160	312,160
Leasehold Improvements	-	-
Equipment	369,545	369,545
Furniture and Fixtures	15,000	15,000
Vehicles	-	-
Capitalized Interest	11,100	11,100
Total Fixed Assets	707,805	707,805
Less: Accumulated Depreciation	27,336	54,672
Total Assets	757,780	746,931
Liabilities and Owner's Equity		
Liabilities		
Accounts Payable	-	-
Notes Payable	720,243	699,268
Mortgage Payable	-	-
Credit Card Debt	-	-
Vehicle Loans	-	-
Other Bank Debt	-	-
Line of Credit Balance	-	-
Total Liabilities	720,243	699,268
Owner's Equity		
Common Stock	30,531	30,531
Retained Earnings	7,006	17,132
Dividends Dispersed	-	-
Total Owner's Equity	37,537	47,663
Total Liabilities and Owner's Equity	757,780	746,931

Convenience Store (Proposed)
Projected Income Statement - Year Three

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Income											
Fuel Sales	88,069	89,626	89,457	90,081	91,829	94,455	95,726	96,923	92,687	94,720	95,377
Food and Grocery Sales	10,564	10,751	10,730	10,805	11,015	11,330	11,482	11,626	11,118	11,362	11,441
Tabacco Sales	8,300	8,447	8,431	8,490	8,655	8,902	9,022	9,135	8,735	8,927	8,989
Alcohol Sales	2,967	3,020	3,014	3,035	3,094	3,182	3,225	3,266	3,123	3,191	3,214
Total Income	109,901	111,843	111,632	112,412	114,592	117,870	119,456	120,949	115,663	118,200	119,020
Total Cost of Sales	96,987	98,702	98,515	99,203	101,128	104,020	105,420	106,738	102,072	104,312	105,035
Gross Margin	12,913	13,142	13,117	13,208	13,465	13,850	14,036	14,212	13,590	13,889	13,985
Total Salary and Wages	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726
Fixed Business Expenses											
Rent	-	-	-	-	-	-	-	-	-	-	-
Advertising	69	69	69	69	69	69	69	69	69	69	69
Other Operating Income	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)
Other Operating Expense	2,523	2,523	2,523	2,523	2,523	2,523	2,523	2,523	2,523	2,523	2,523
Other Income	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
Other Expenses	532	532	532	532	532	532	532	532	532	532	532
Total Fixed Business Expenses	1,967	1,967	1,967	1,967	1,967	1,967	1,967	1,967	1,967	1,967	1,967
Other Expenses											
Amortized Start-up Expenses	631	631	631	631	631	631	631	631	631	631	631
Depreciation	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278	2,278
Interest											
Commercial Loan	3,496	3,487	3,478	3,469	3,460	3,451	3,442	3,432	3,423	3,413	3,404
Taxes	289	337	333	354	407	486	525	562	439	501	522
Total Other Expenses	6,695	6,733	6,721	6,732	6,776	6,846	6,875	6,903	6,771	6,824	6,835
Net Income	525	715	703	783	996	1,311	1,467	1,615	1,126	1,372	1,456

Convenience Store (Proposed)
Projected Cash Flow Statement - Year Three

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Beginning Cash Balance	66,221	68,140	70,287	71,450	73,663	76,133	77,742	80,783	84,000	85,070	87,964
Cash Inflows											
Income from Sales	109,901	111,843	111,632	112,412	114,592	117,870	119,456	120,949	115,663	118,200	119,020
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-
Total Cash Inflows	109,901	111,843	111,632	112,412	114,592	117,870	119,456	120,949	115,663	118,200	119,020
Cash Outflows											
Investing Activities											
New Fixed Assets Purchases	-	-	-	-	-	-	-	-	-	-	-
Inventory Addition to Bal.Sheet	-	-	-	-	-	-	-	-	-	-	-
Cost of Sales	96,987	98,702	98,515	99,203	101,128	104,020	105,420	106,738	102,072	104,312	105,035
Operating Activities											
Salaries and Wages	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726	3,726
Fixed Business Expenses	1,967	1,967	1,967	1,967	1,967	1,967	1,967	1,967	1,967	1,967	1,967
Taxes	-	-	959	-	-	1,246	-	-	1,526	-	-
Financing Activities											
Loan Payments	5,302	5,302	5,302	5,302	5,302	5,302	5,302	5,302	5,302	5,302	5,302
Line of Credit Interest	-	-	-	-	-	-	-	-	-	-	-
Line of Credit Repayments	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-
Total Cash Outflows	107,982	109,697	110,469	110,198	112,122	116,261	116,414	117,732	114,593	115,306	116,030
Cash Flow	1,919	2,147	1,163	2,214	2,470	1,609	3,041	3,217	1,070	2,894	2,990
Operating Cash Balance	68,140	70,287	71,450	73,663	76,133	77,742	80,783	84,000	85,070	87,964	90,954
Line of Credit Drawdowns	-	-	-	-	-	-	-	-	-	-	-
Ending Cash Balance	68,140	70,287	71,450	73,663	76,133	77,742	80,783	84,000	85,070	87,964	90,954

Convenience Store (Proposed)
Balance Sheet - Year Three

	End of Year Two	End of Year Three
Assets		
Current Assets		
Cash	66,222	92,214
Accounts Receivable	-	-
Inventory	20,000	20,000
Prepaid Expenses	7,575	-
Other Current	-	-
Total Current Assets	93,798	112,214
Fixed Assets		
Real Estate-Land	-	-
Construction	312,160	312,160
Leasehold Improvements	-	-
Equipment	369,545	369,545
Furniture and Fixtures	15,000	15,000
Vehicles	-	-
Capitalized Interest	11,100	11,100
Total Fixed Assets	707,805	707,805
Less: Accumulated Depreciation	54,672	82,007
Total Assets	746,931	738,011
Liabilities and Owner's Equity		
Liabilities		
Accounts Payable	-	-
Notes Payable	699,269	677,000
Mortgage Payable	-	-
Credit Card Debt	-	-
Vehicle Loans	-	-
Other Bank Debt	-	-
Line of Credit Balance	-	-
Total Liabilities	699,269	677,000
Owner's Equity		
Common Stock	30,531	30,531
Retained Earnings	17,132	30,482
Dividends Dispersed	-	-
Total Owner's Equity	47,663	61,013
Total Liabilities and Owner's Equity	746,932	738,012

Convenience Store (Proposed)
Year End Summary

	Year One	%	Year Two	%	Year Three	%
Income						
Fuel Sales	1,069,548	80%	1,090,939	80%	1,112,758	80%
Food and Grocery Sales	128,293	10%	130,859	10%	133,476	10%
Tabacco Sales	100,802	8%	102,818	8%	104,874	8%
Alcohol Sales	36,036	3%	36,757	3%	37,492	3%
Total Income	1,334,680	100.00%	1,361,374	100.00%	1,388,601	100.00%
Total Cost of Sales	1,177,855	88.25%	1,201,412	88.25%	1,225,440	88.25%
Gross Margin	156,825	11.75%	159,961	11.75%	163,161	11.75%
Total Salary and Wages	44,712	3.35%	44,712	3.28%	44,712	3.22%
Fixed Business Expenses						
Rent	-	0.00%	-	0.00%	-	0.00%
Advertising	801	0.06%	817	0.06%	833	0.06%
Other Operating Income	(12,813)	-0.96%	(13,069)	-0.96%	(13,331)	-0.98%
Other Operating Expense	29,096	2.18%	29,678	2.18%	30,272	2.22%
Other Income	(534)	-0.04%	(545)	-0.04%	(555)	-0.04%
Other Expenses	6,140	0.46%	6,262	0.46%	6,388	0.47%
Total Fixed Business Expenses	22,690	1.70%	23,143	1.70%	23,606	1.70%
Operating Income (before Other Expenses) [EBITDA]	89,424	6.70%	92,106	6.77%	94,843	6.83%
Other Expenses						
Amortized Start-up Expenses	7,575	0.57%	7,575	0.56%	7,575	0.6%
Depreciation	27,336	2.05%	27,336	2.01%	27,336	2.0%
Interest		0.00%		0.00%		0.0%
Commercial Loan	43,863	3.29%	42,644	3.13%	41,350	3.0%
Taxes	3,645	0.27%	4,425	0.33%	5,231	0.4%
Total Other Expenses	82,419	6.18%	81,980	6.02%	81,493	5.87%
Net Income	7,005	0.52%	10,126	0.74%	13,350	0.96%

Net Income of .52% differs from the average net income for the industry of 2.15%, this is due to this report contemplates the development of the real estate as a part of the project and, for demonstrative purposes, assumes the owner of the real estate and operating entity to be one and the same. If we are to take adjust the net income margin by the difference in depreciation expense, interest expense and rent expense, the result is a net income of 2.84% which is comparable with 2.15% for the industry. The Consultant does not advocate, for or against, for the operating entity to own the real estate asset. This is done so it will be more representative of the project as a whole.

Below is the projected debt service coverage for years 1 – 3:

Debt Service Coverage Proposed Convenience Stores			
	Year One	Year Two	Year Three
Net Income	7,005	10,126	13,350
Depreciation	27,336	27,336	27,336
Interest	43,863	42,644	41,350
Income Available for DS	78,203	80,106	82,036
Debt Service	63,619	63,619	63,619
Surplus after Debt Service	**14,584**	**16,487**	**18,417**
Debt Service Coverage Ratio	**1.23**	**1.26**	**1.29**

Ratios

Convenience Store (Proposed)
Financial Ratios

Ratio	Year One	Year Two	Year Three
Profitability			
Sales Growth	0.0%	2.0%	2.0%
COGS to Sales	88.3%	88.3%	88.3%
Gross Profit Margin	11.8%	11.8%	11.8%
SG&A to Sales	5.1%	5.0%	4.9%
Net Profit Margin	0.5%	0.7%	1.0%
Return on Equity	18.7%	21.2%	21.9%
Return on Assets	0.9%	1.4%	1.8%
Owner's Compensation to Sales	0.0%	0.0%	0.0%
Profitability			
Cash on Cash Return	48%	54%	60%
Cummulative	48%	102%	162%

Breakeven Analysis

Convenience Store (Proposed)
Breakeven Analysis

Breakeven Analysis		Dollars	Percent
Annual Sales Revenue	$	1,334,680	100.00%
Cost of Sales		1,177,855	88.25%
Gross Margin		156,825	11.75%
Salaries and Wages		-	
Fixed Operating Expenses		93,888	
Total Fixed Business Expenses		93,888	
Breakeven Sales Calculation		93,888	
		11.75%	
Breakeven Sales in Dollars	$	799,046	
Breakeven in number of Customers a day		**170**	
Breakeen in amount of Average Expenditure	**$**	**7.71**	

Disclaimer

The preceding report is subject to the following assumptions and limiting conditions:

· The analyses set forth in this report are subject to the following assumptions and limiting conditions, all of which, for purposes of this report, have been accepted as true and correct without verification or investigation by Talavera Consulting, which assumes no responsibility whatsoever therefore. None of the following particulars should be read to limit the generality of the foregoing qualification.

· We assume no responsibility for any conditions, not readily observable from our customary research, which might affect the analyses. We reserve the right to change the analyses if so warranted, when supplied with further information, if that information dictates.

· No conclusions are intended to be expressed regarding matters that require legal expertise or specialized investigations or knowledge beyond that customarily employed by consulting professionals.

· This report is to be used as tool in the decision making process, but not as a guarantee, neither expressed nor implied, of future performance. This report gathers a large array from various sources to exemplify what the average performance of a proposed project could be, based on past performance. Materials situations can and will change in the future.

· Neither Talavera Consulting nor any of its present or former personnel, including, without limitation, the signatories hereto, shall be required to give further consultation or testimony, or appear in court or at any public hearing with reference to the property valued, unless satisfactory prior arrangements have been made.

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· Ownership and management are assumed to be in competent and responsible hands.

· The report was prepared for the purpose stated and should not be used for any other purpose.

· All direct and indirect written information supplied by the client, its agents and assigns, concerning the properties is assumed to be true, accurate and complete; additionally, information identified as supplied or prepared by others is believed to be reliable. However, no responsibility for the accuracy of such information is assumed.

· This report is intended to be read and used as a whole and not in parts.

· Our analyses are based on currently available information, estimates and assumptions about based on information we believe to be reliable. We do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the estimated results.

· It is assumed that all necessary licenses and agreements remain in full force and effect in order to continue the operations of the properties.

· It is assumed that the zoning requirements are met by the property.

· It is assumed that there are no environmental issues with the property.

· It is assumed that the business is under competent management, and assumes operations to be that of an average business for the industry.

· Please consult your legal counsel and tax advisor for the best ownership structure.

· With respect to our analyses, our work did not include an analysis of the potential impact of any unexpected sharp rise or decline in local or general markets or economic conditions or technological changes.

· Our report is dated June 23, 2020 (the “Report Date”). We cannot be held responsible for changes in the market conditions or properties which would have a material impact on the value(s) reported herein subsequent to our Report Date.

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· Support for conclusions contained in this report is retained within a corresponding work paper file retained in our offices.

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