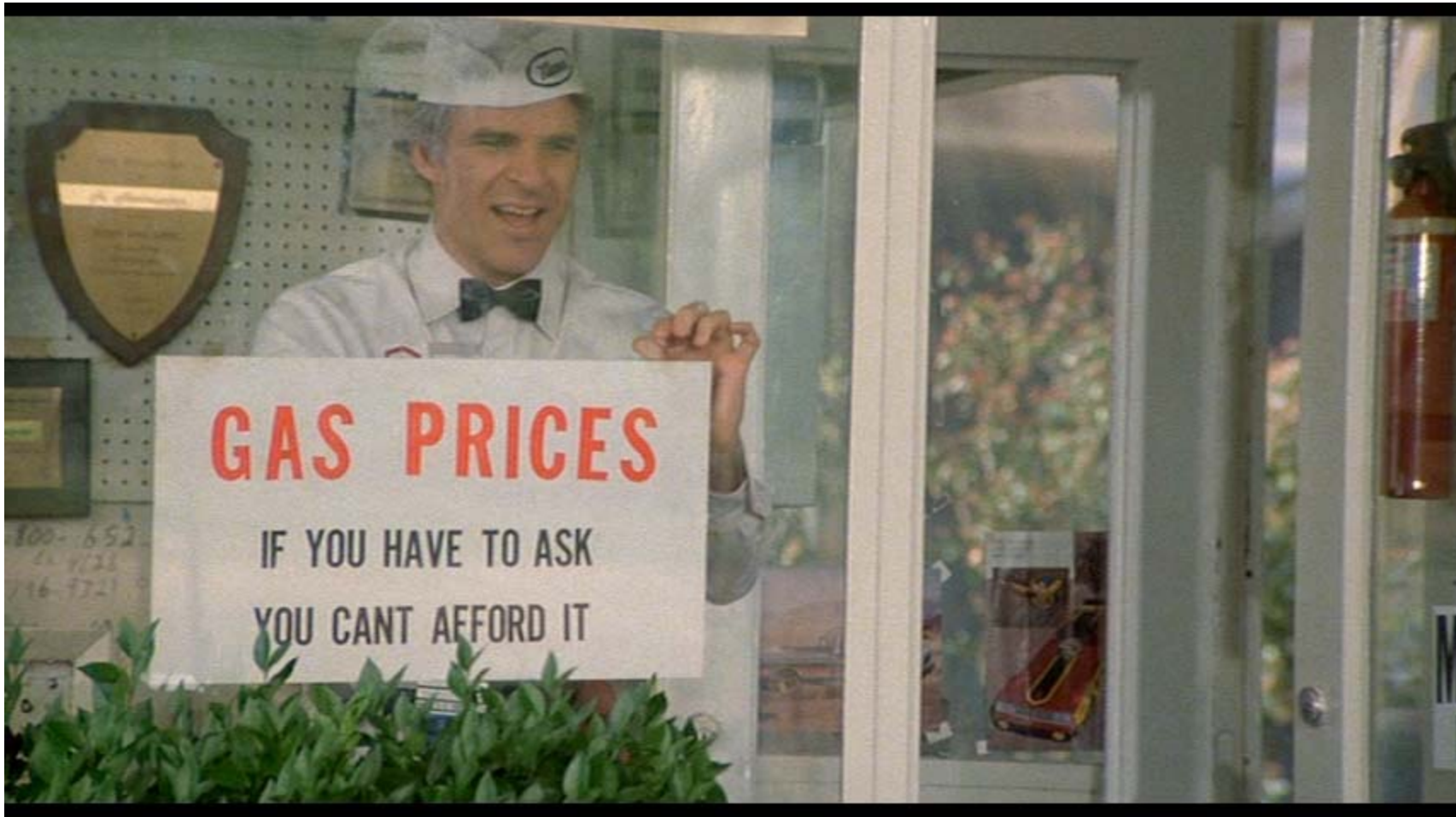




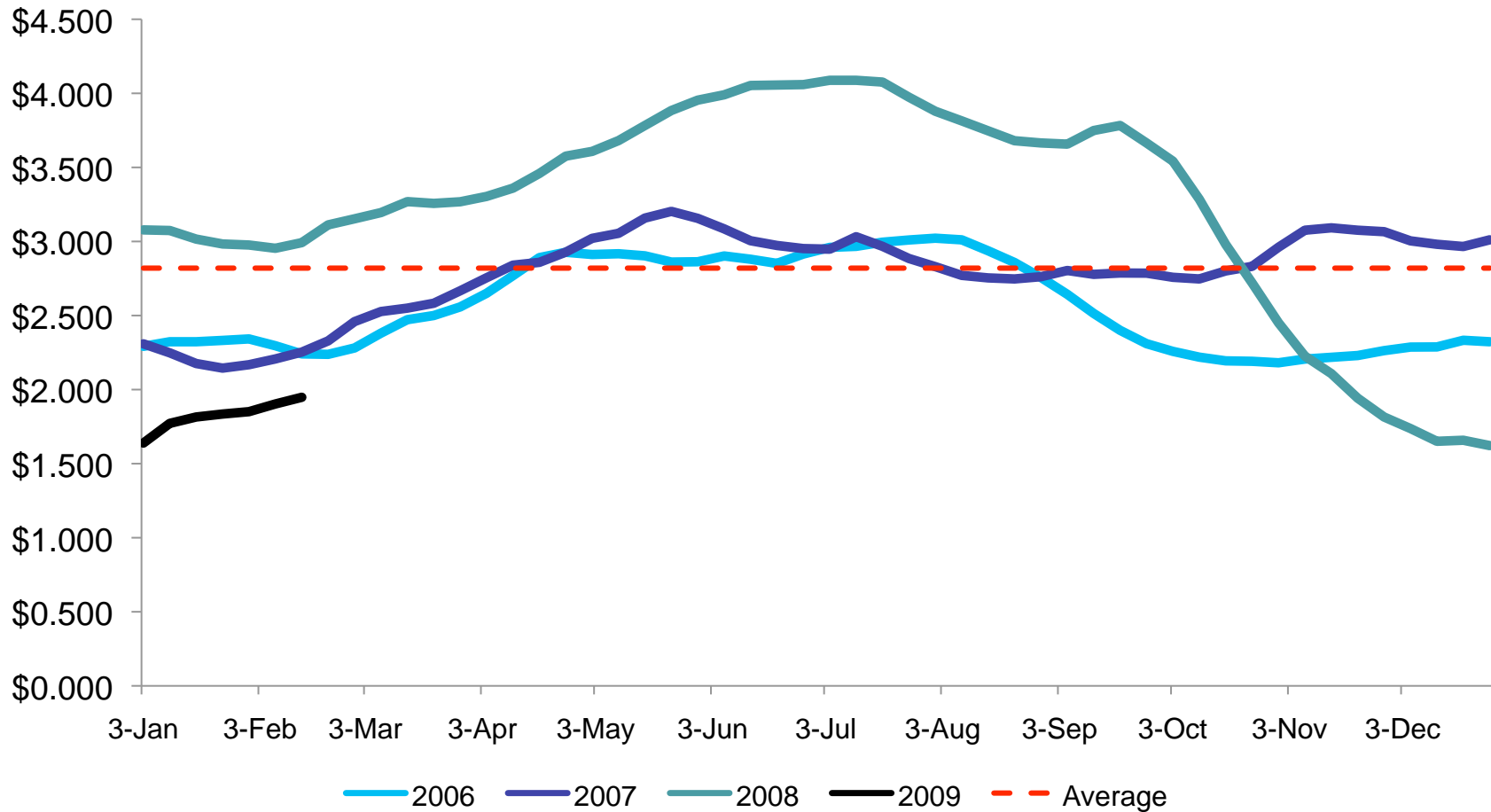
Understanding the Retail Petroleum Marketplace

The Association for Convenience & Petroleum Retailing

Why are we here?



Retail Prices



“Show Me The Money!”

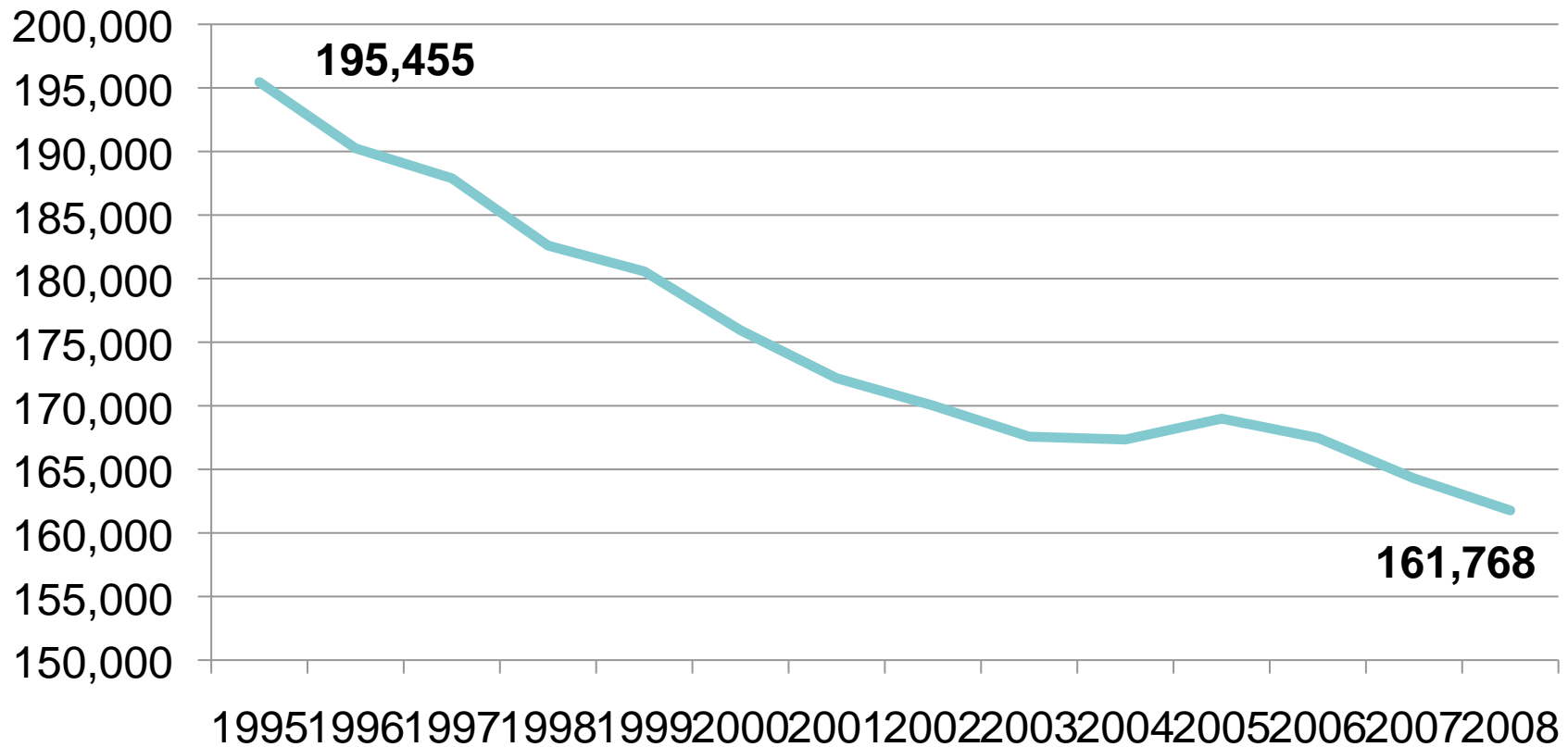


Who Owns Gasoline Retail?



Number of Stores

All Motor Fuel Retail Stations



Source: NPN

The Convenience Industry

- Sells 80% of the gasoline in the U.S
- 114,673 C-stores (79.1%) sell motor fuel
 - 64,463 (56.2%) owned by companies with 1 store
 - 6,773 (14.6%) owned by companies with 500+ stores
- Major oil pulling out of retail
 - Fewer than 2% owned/operated by major oil companies
 - Consumers think they own 63% percent of stores
 - BP, ConocoPhillips, ExxonMobil have announced intent to sell all retail holdings; Shell is almost completely out

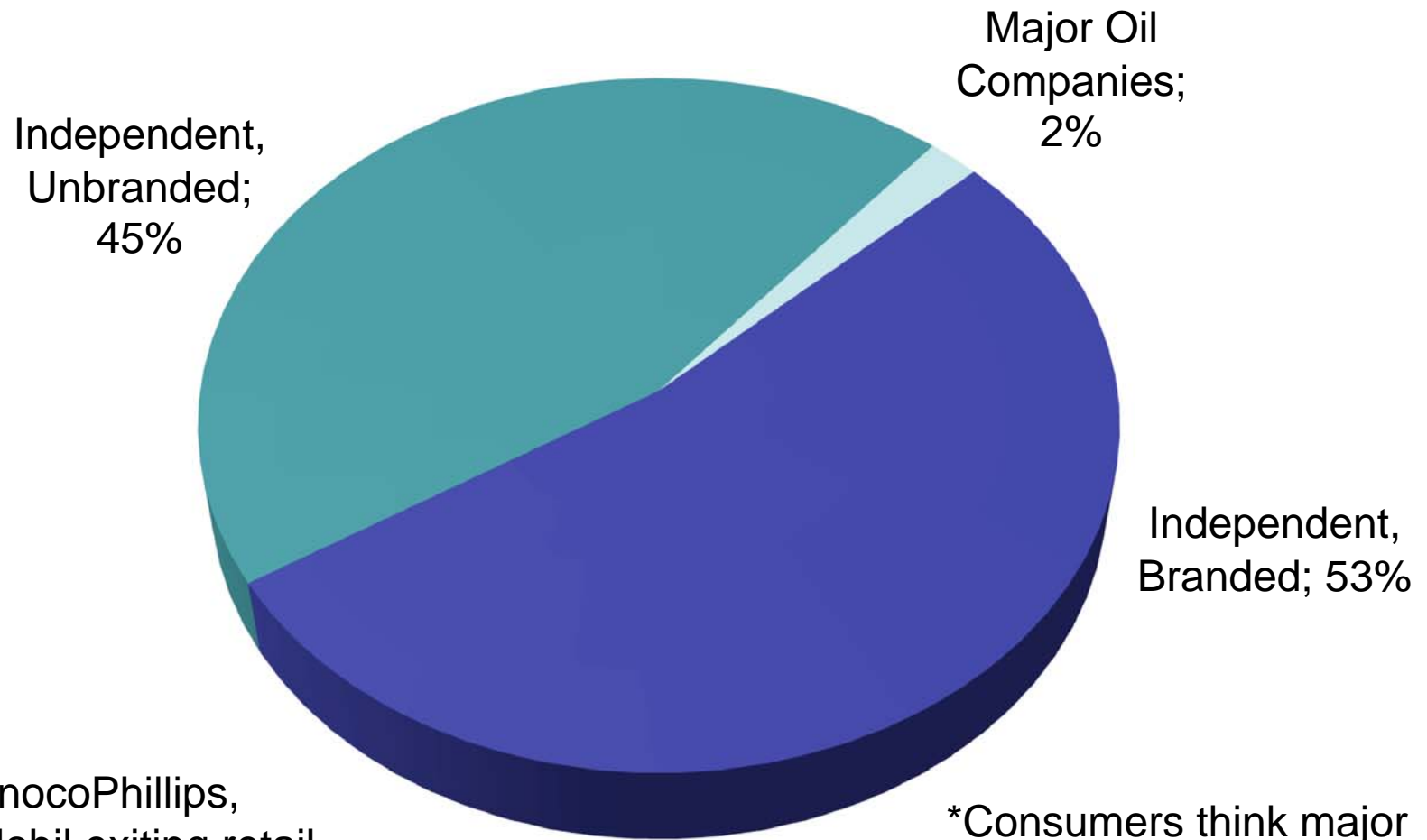
Types of Ownership

- Major Oil Owned and Operated
 - Directly supplied
 - Profit/loss included in corporate earnings
 - First priority to fuel supplies
- Branded Independent
 - Sell only brand of supplier
 - Pay premium, receive marketing assistance
 - May receive image assistance
 - Second priority to fuel supplies

Types of Ownership

- Unbranded/Private-Branded Independent
 - Buy product on open market—
 - Spot, long-term contract, futures market (hedge)
 - Establish own brand identity
 - Often pay less for fuel because no marketing premium
 - Last in line for fuel supply

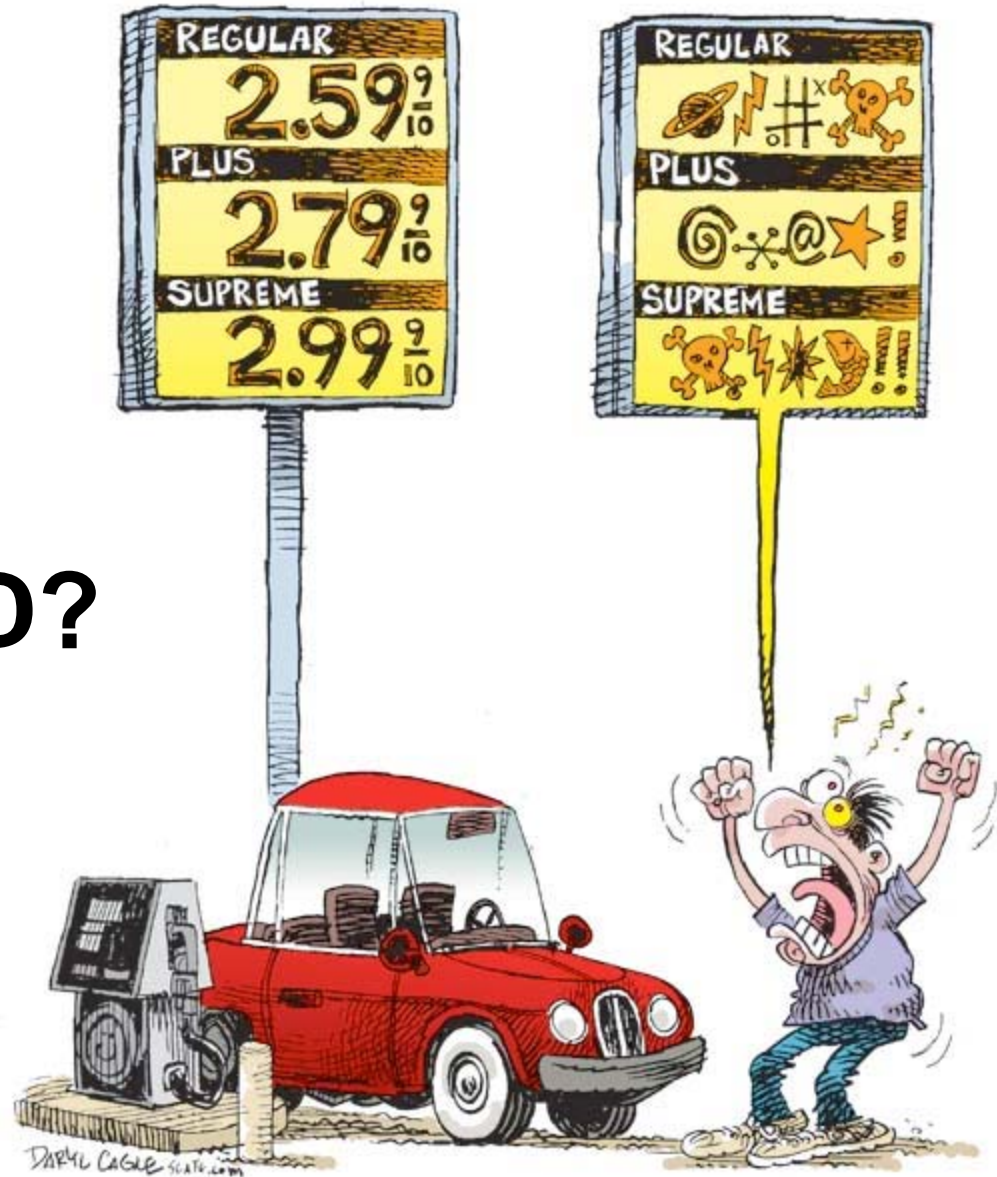
The Convenience Industry



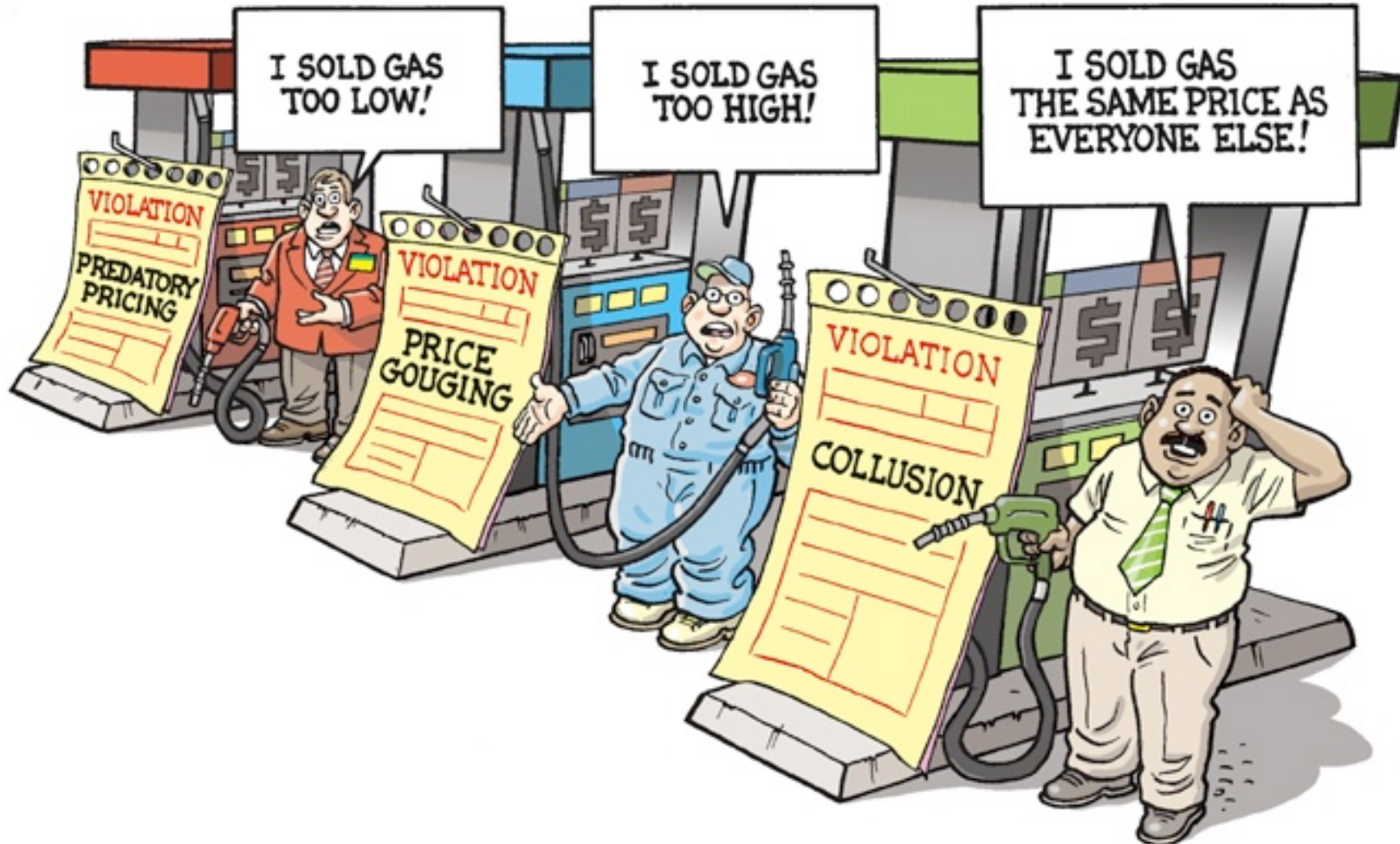
*BP, ConocoPhillips, ExxonMobil exiting retail

*Consumers think major oil owns 63% of stores

HOW ARE GASOLINE PRICES DETERMINED?

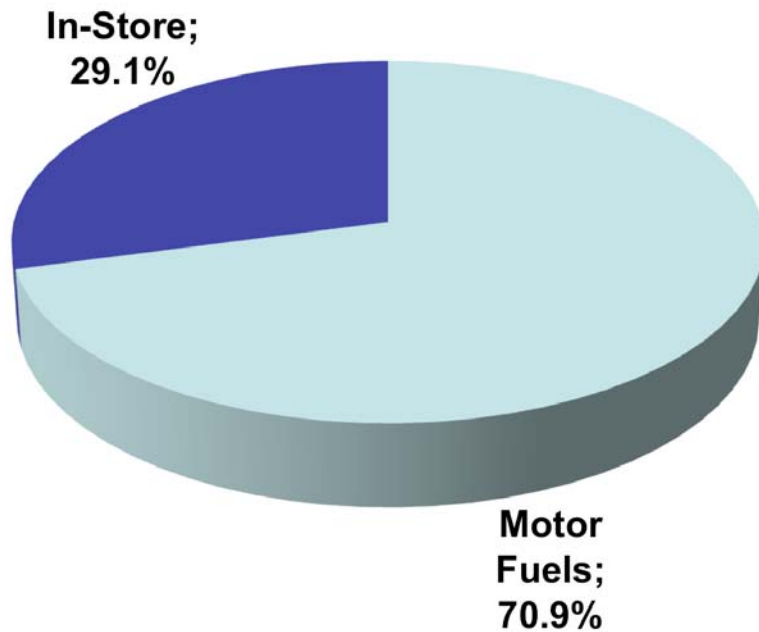


Retailers' Conundrum

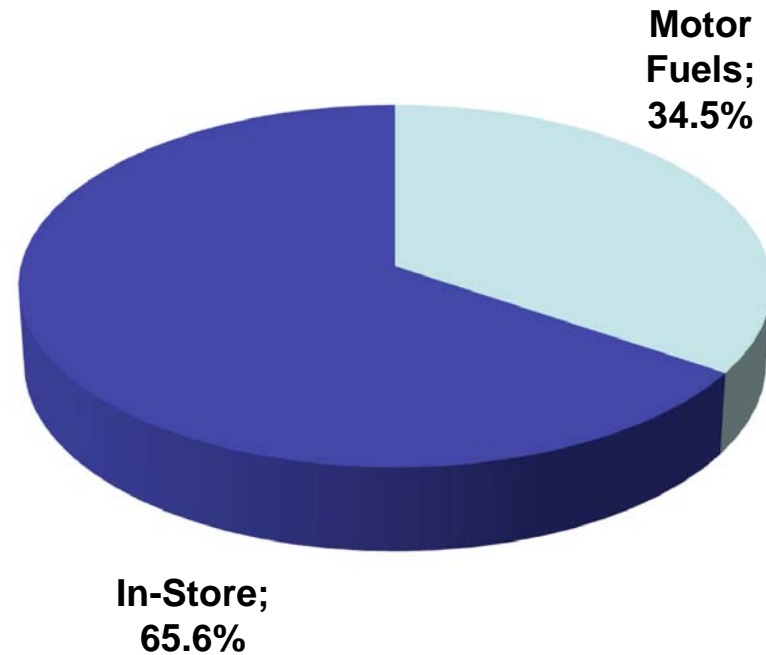


2007 C-Store Sales Mix

Sales - \$577.4 B



Pre-Tax Profit - \$3.4 B

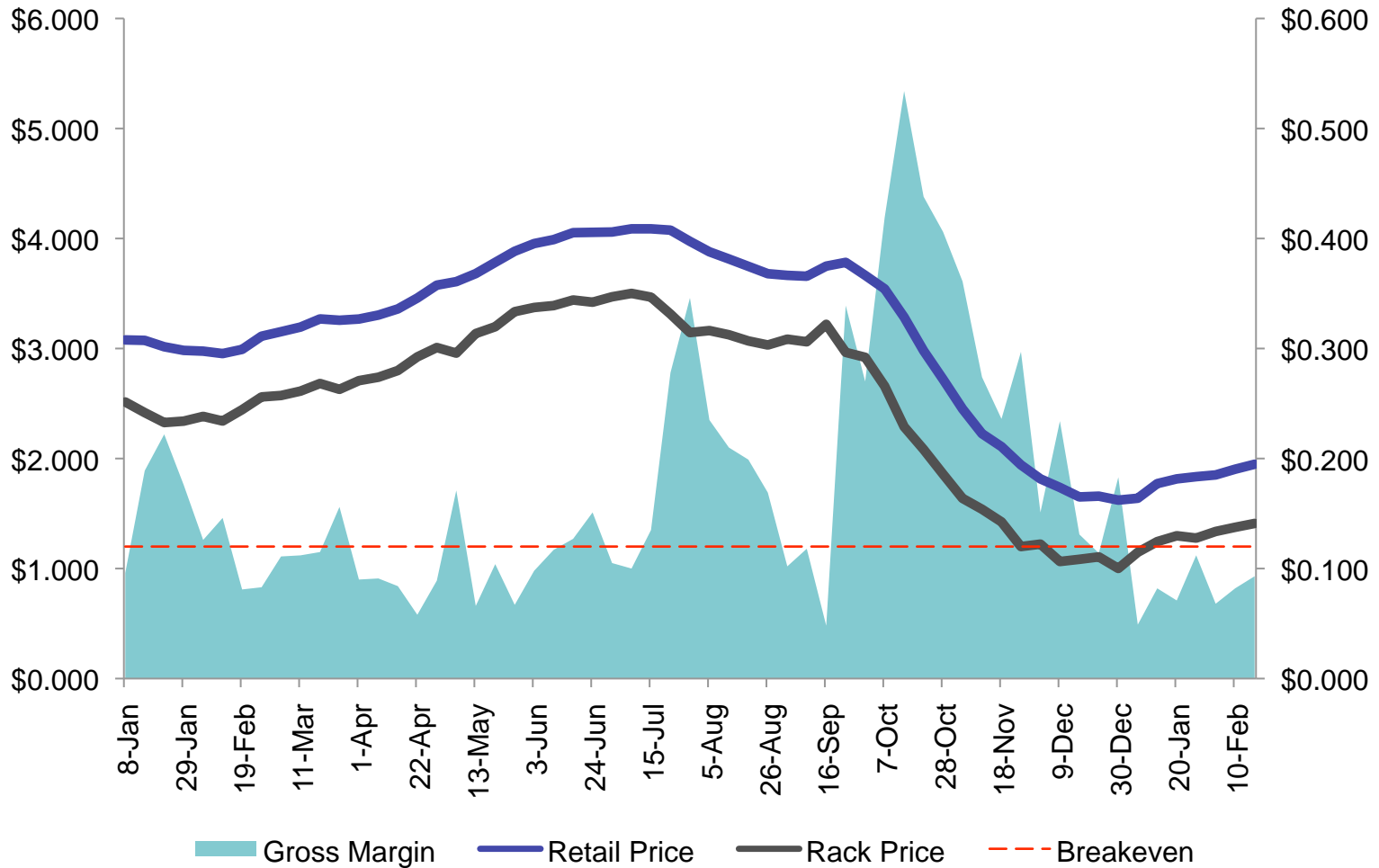


In-store sales are critical to a successful business.

How Retailers Determine Price?

- NACS 2009 Consumer Fuels Report:
 - 70% of consumers shop on the basis of price
 - 26% will turn left across a busy intersection to save 1 cent
 - 36% will drive 5 minutes out of their way to save 3 cents
- Competition for customers drives pricing decisions
- Fuel delivery schedules impact competitiveness
 - Wholesale prices can change several times in one day
 - Retailers do not receive deliveries at same time and pay different wholesale costs - affects ability to price competitively
 - When wholesale prices increase, margins decrease as retailers compete to not lose customers
 - When wholesale prices decrease, margins recover until retailers drop prices to gain customers

Retailer Profitability



NACS® 2008-2009 Retail Profitability

Month	Average Retail Price	Average Retailer Margins
January	\$3.038	\$0.171
February	\$3.009	\$0.109
March	\$3.228	\$0.117
April	\$3.425	\$0.081
May	\$3.739	\$0.102
June	\$4.022	\$0.120
July	\$4.057	\$0.215
August	\$3.780	\$0.203
September	\$3.704	\$0.175
October	\$3.132	\$0.449
November	\$2.182	\$0.292
December	\$1.697	\$0.166
January	\$1.765	\$0.079
February	\$1.901	\$0.081

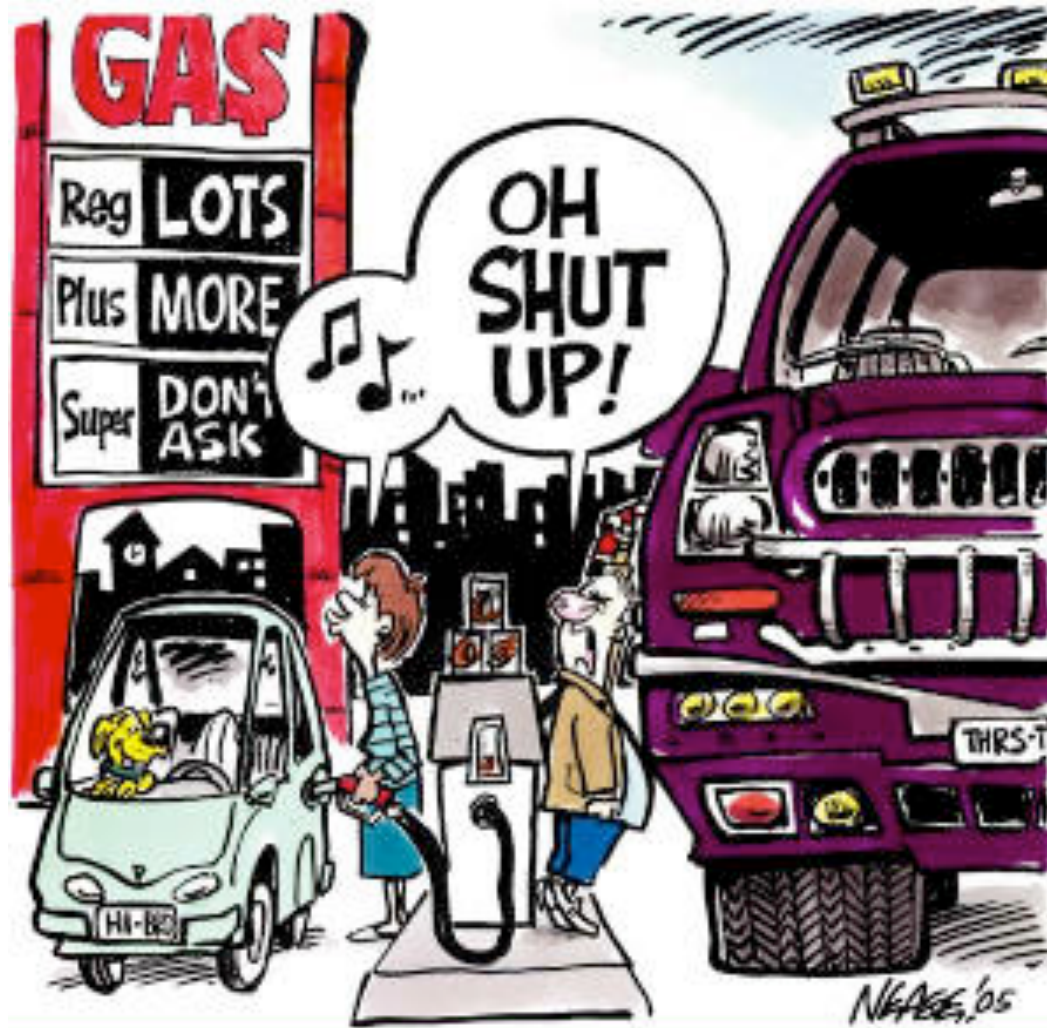


Annual Retail Profitability

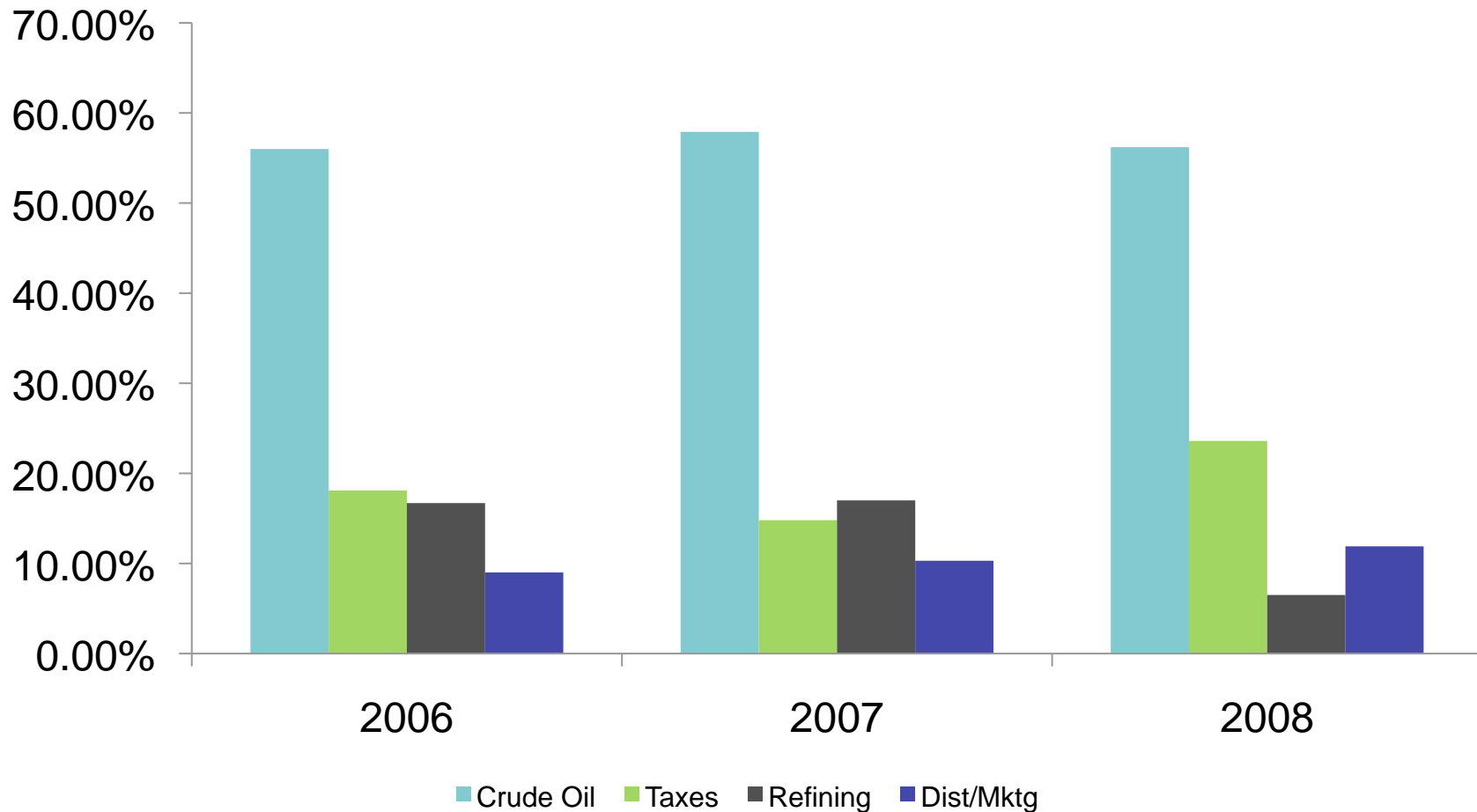
Year	Average Retail Price	Average Retailer Margins	% Margin
2006	\$2.558	\$0.138	5.39%
2007	\$2.785	\$0.138	4.96%
2008	\$3.244	\$0.179	5.52%
2009	\$1.823	\$0.080	4.39%

*Average retailer breakeven approximately 12 cents per gallon.

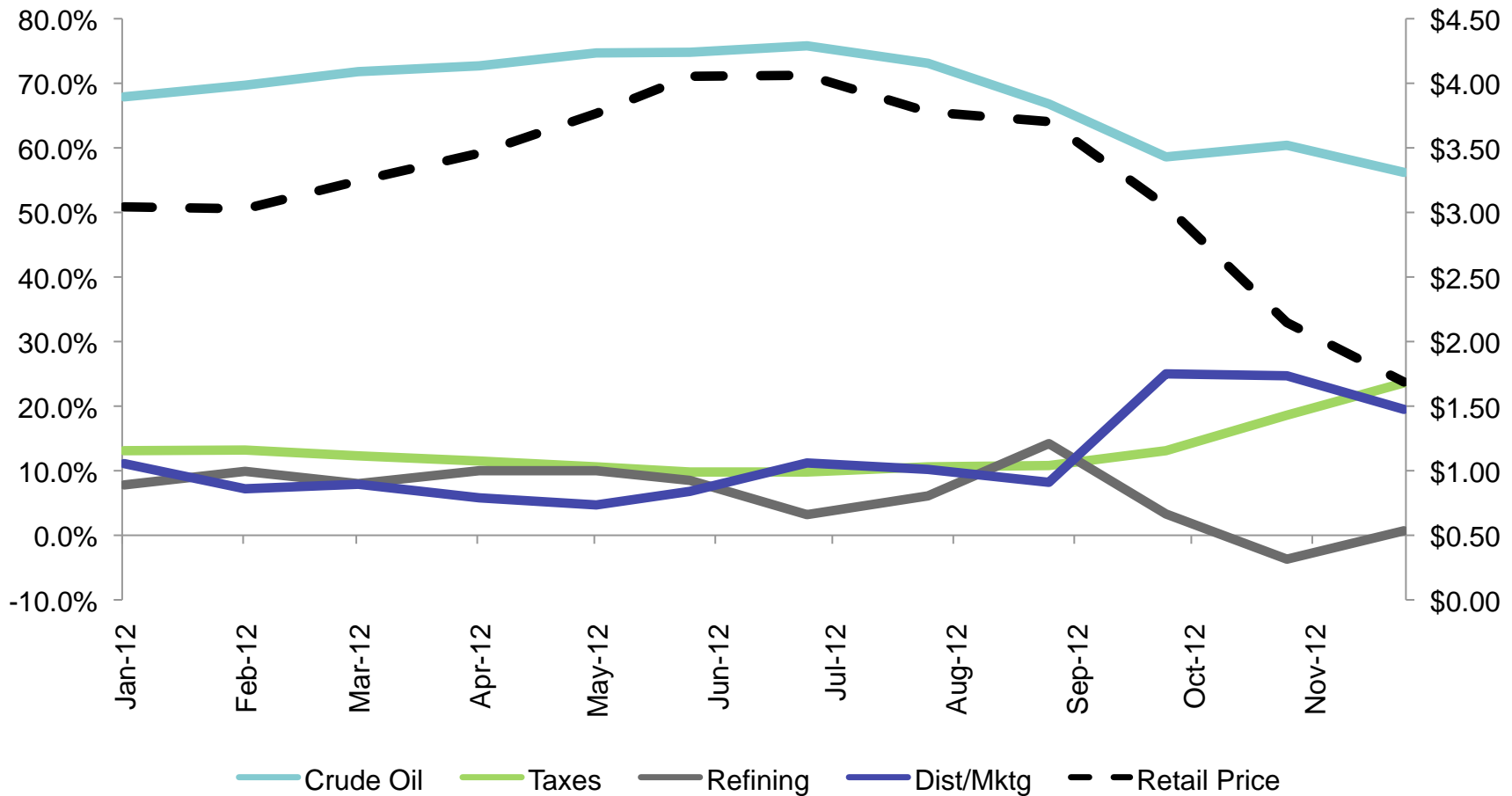
WHAT GOES INTO THE PRICE OF GAS?



Components of Retail Price



Components of Retail Price 2008



Source: U.S. Energy Information Administration

Distribution/Marketing

- Includes everything after the refinery:
 - Pipelines, terminals, distributors, retail ops/overhead
- Costs of Distribution – est. 7 cents
 - Pipelines and terminals 4 cents per gallon
 - Wholesale distribution 3 cents per gallon
- Retailer Breakeven Costs – est. 12 cents
 - Store operating expenses 4 cents per gallon
 - Amortization of equip. 3 cents per gallon
 - Inventory shrink 1 cent per gallon
 - Credit card fees* 4 cents per gallon

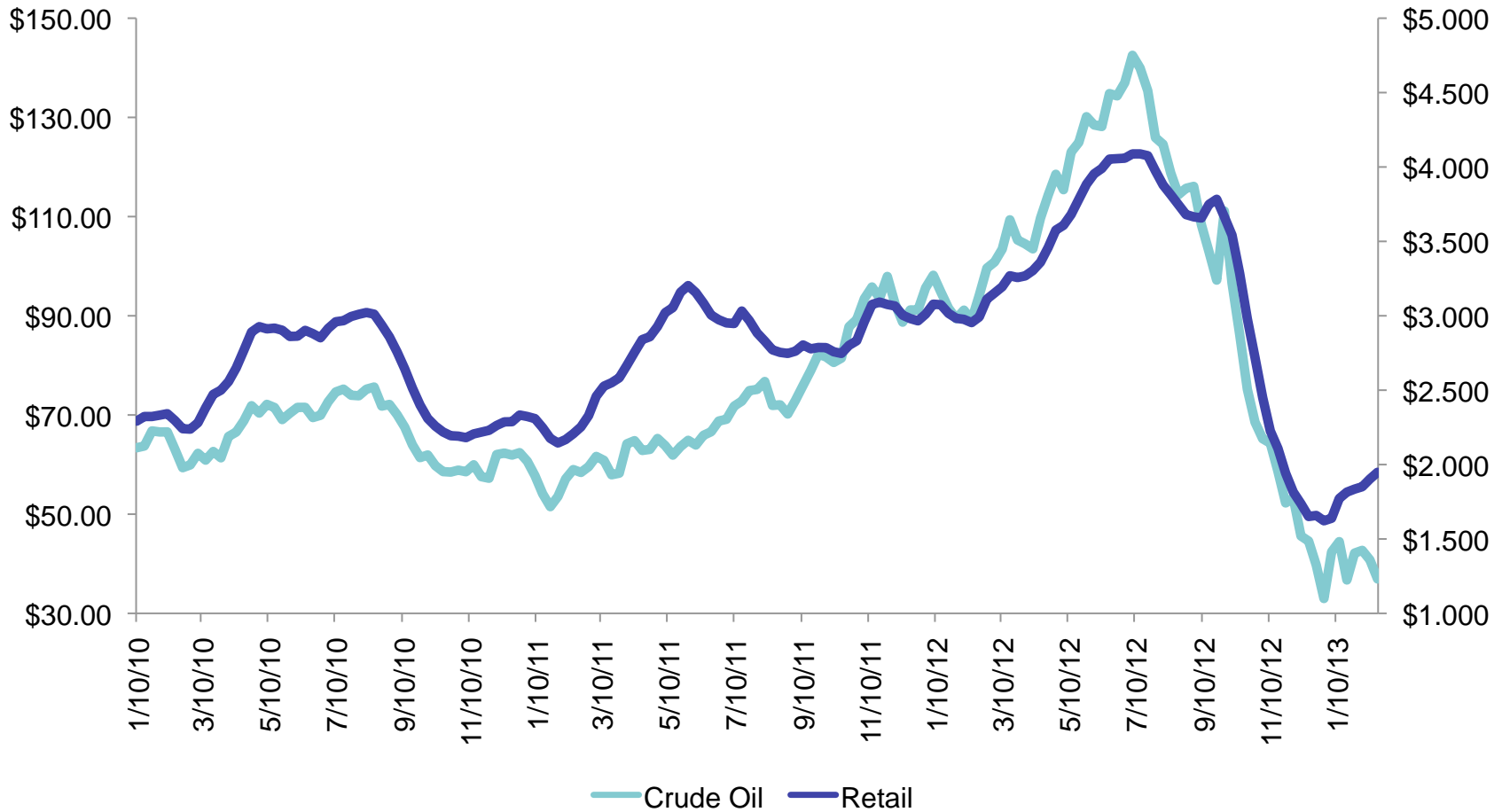
*Average cost of all motor fuel transactions, including cash, for operating year 2007

CRUDE OIL AND RETAIL

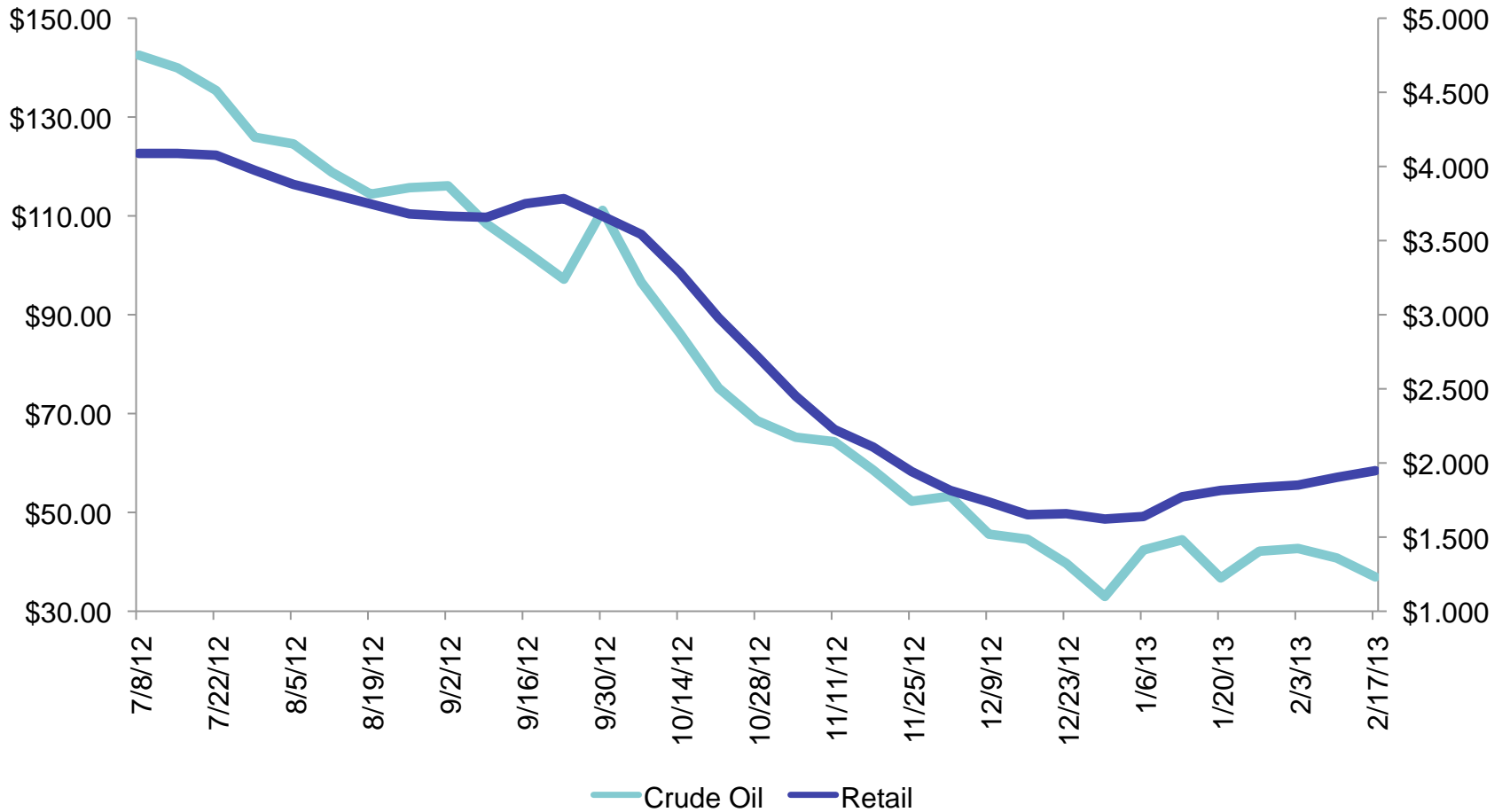
THE "REFINEMENT" PROCESS.



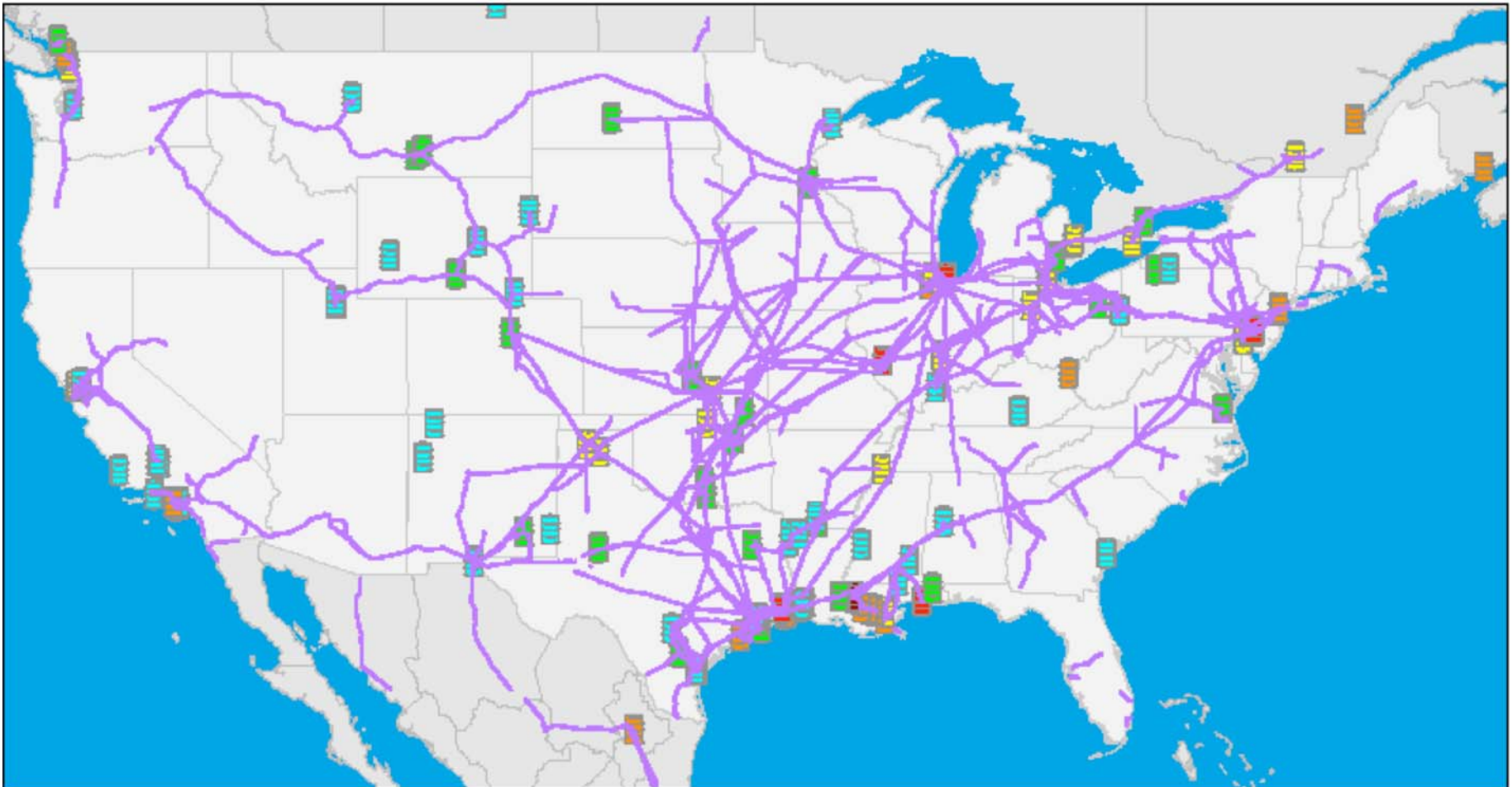
Crude Oil vs Retail Prices



Crude Oil vs Retail Prices



Refining and Pipeline System

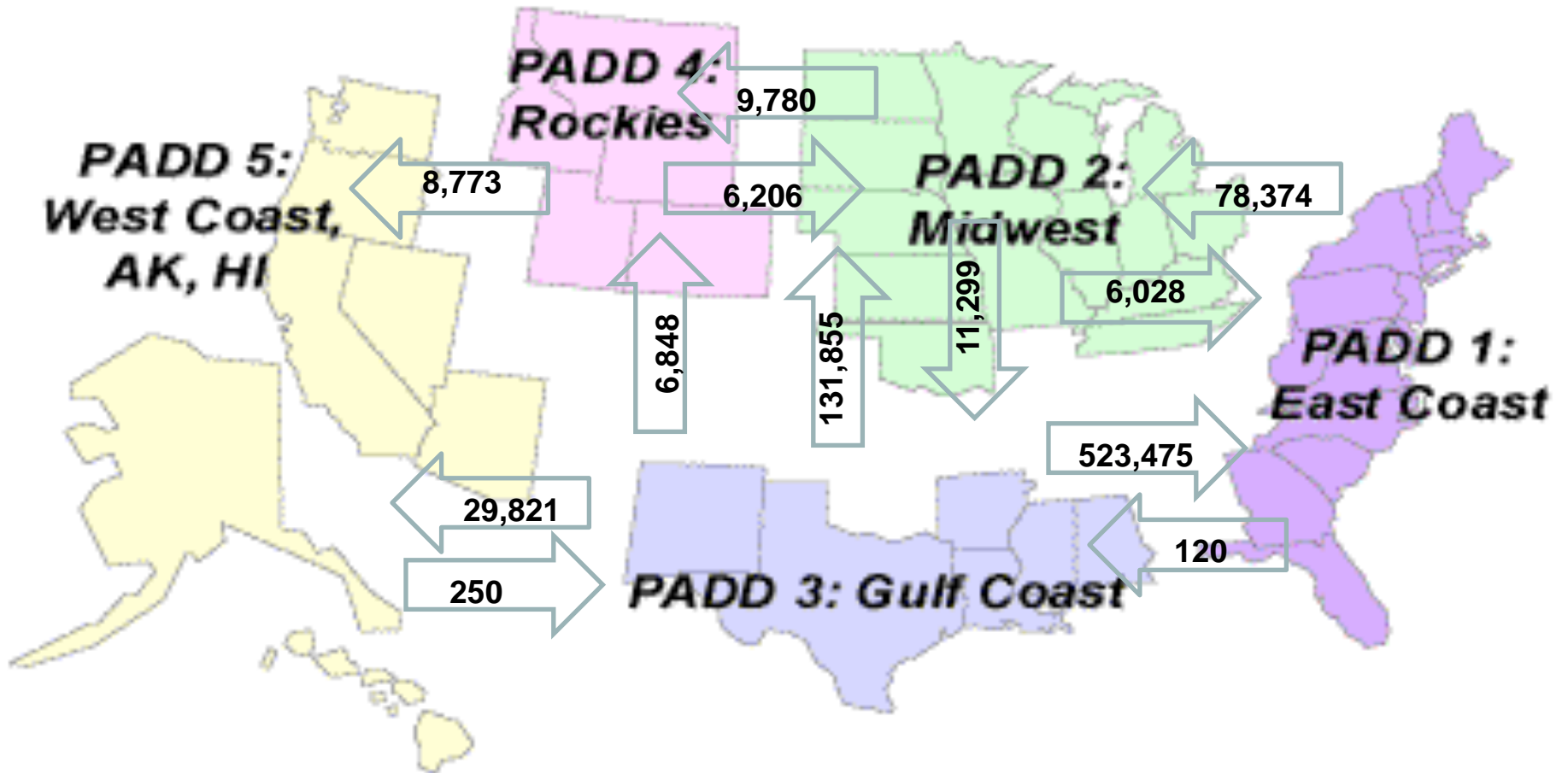




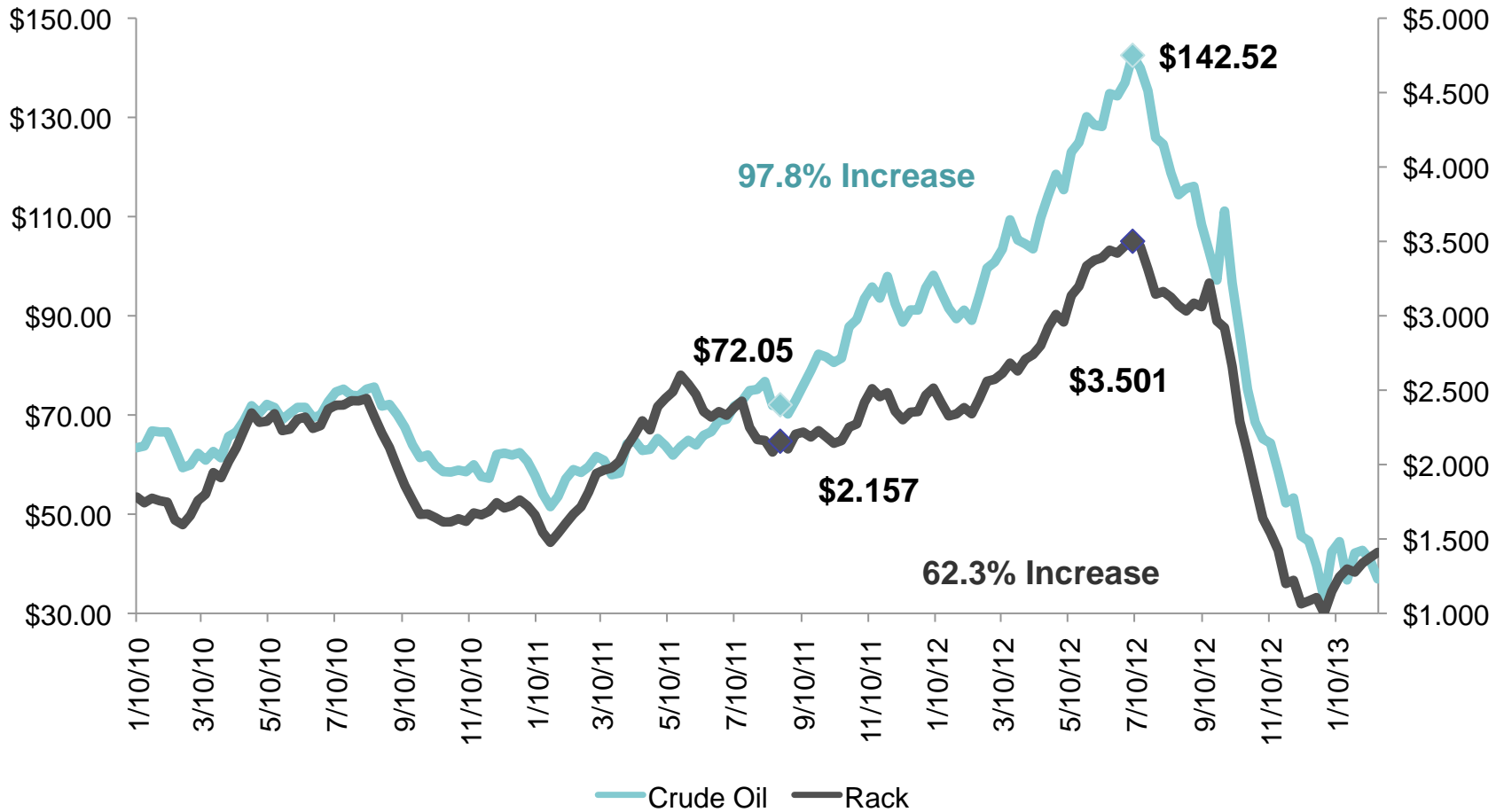
Finished Gasoline Movements 2007

(1,000 bbls/year)

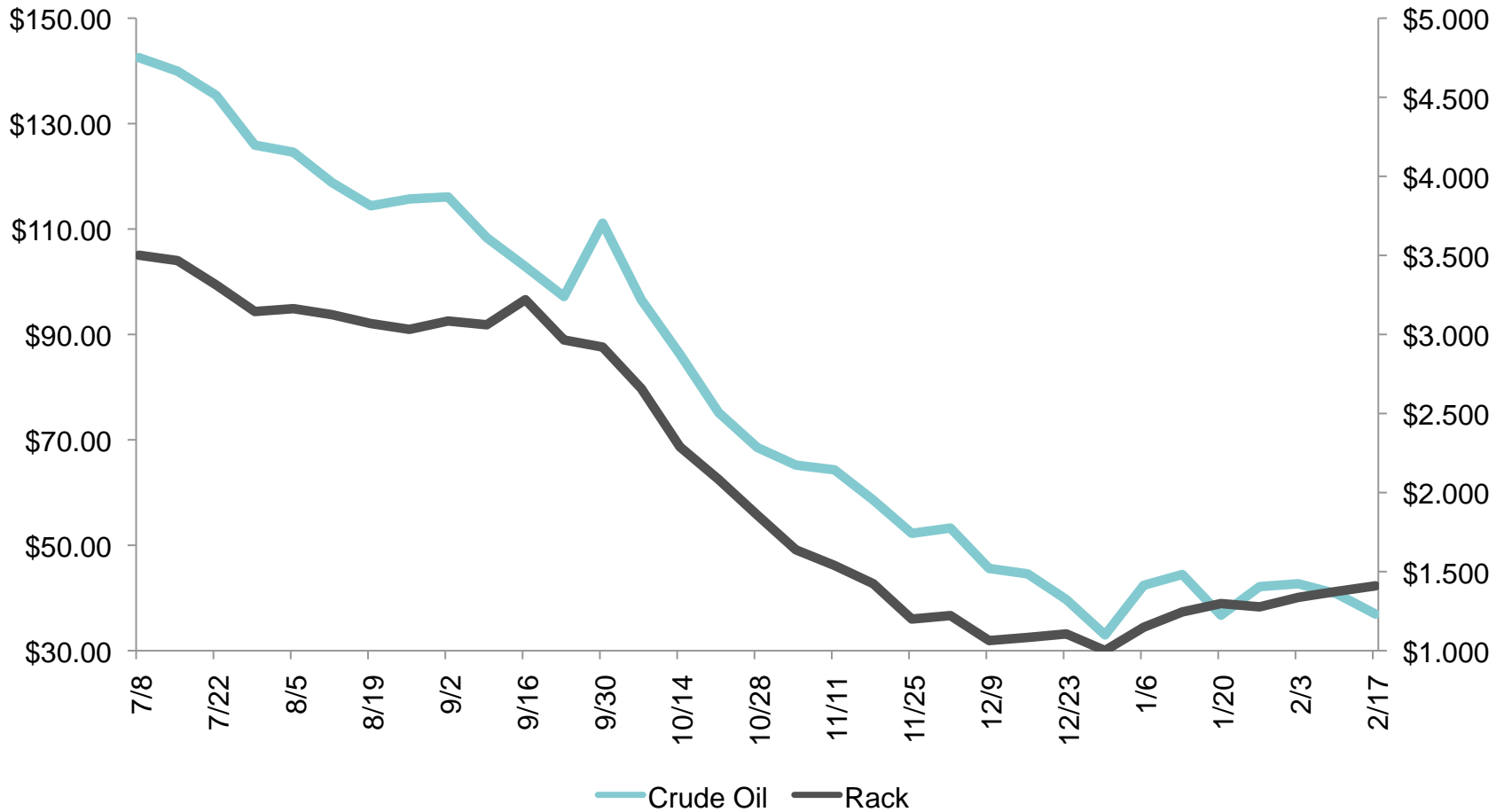
Petroleum Administration for Defense Districts



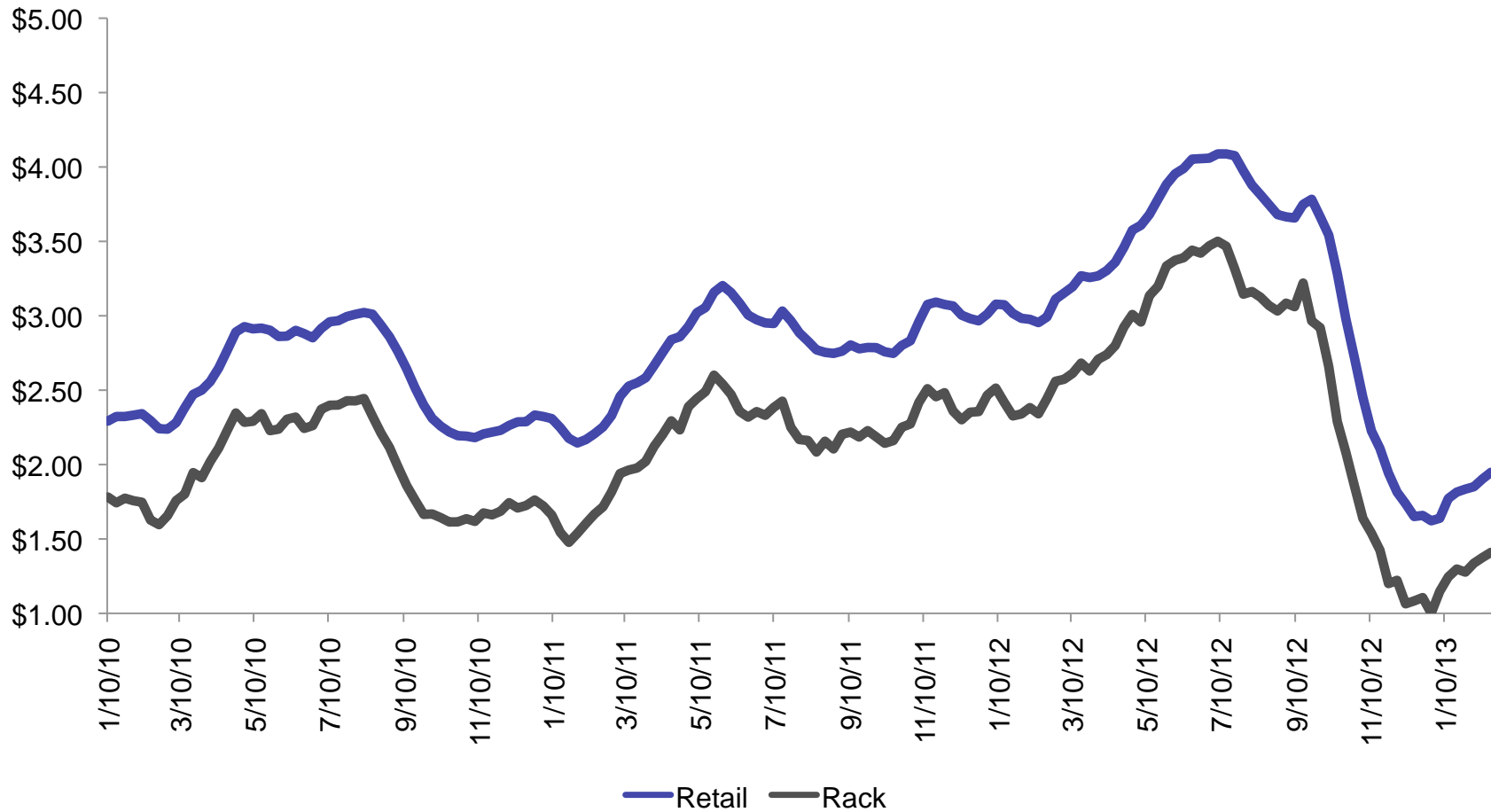
Crude Oil vs Wholesale Prices



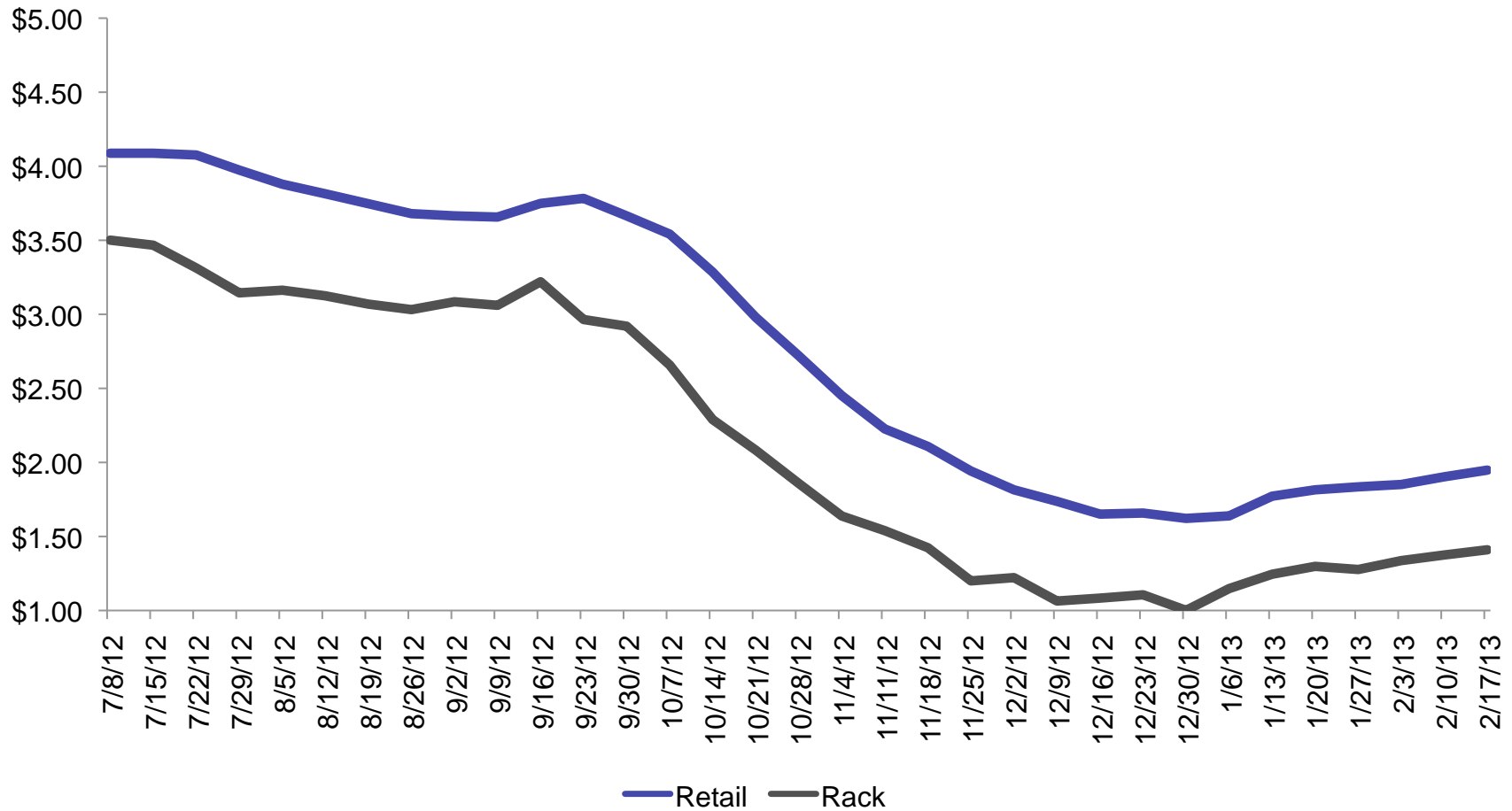
Crude Oil vs Wholesale Prices



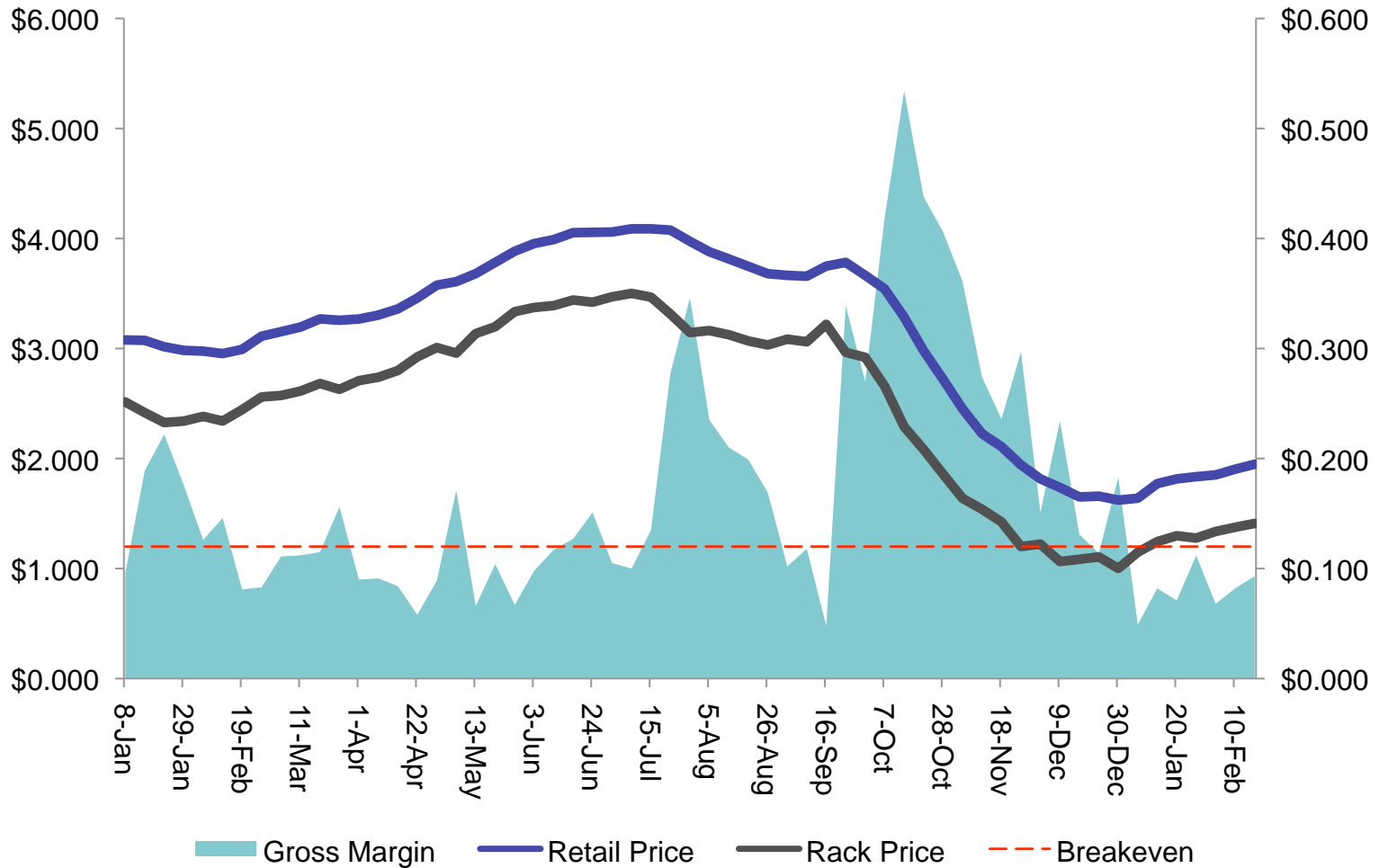
Wholesale vs Retail



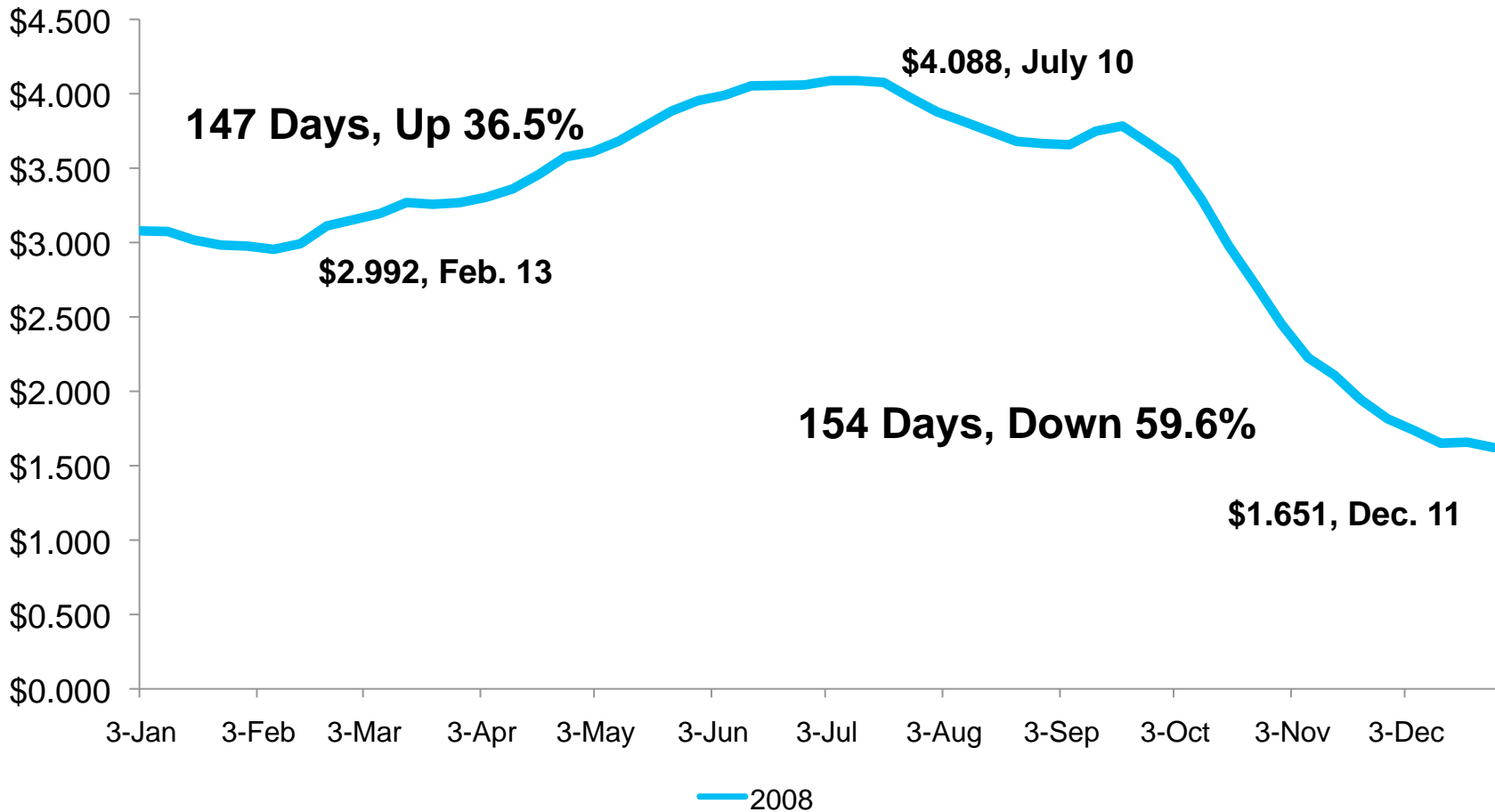
Wholesale vs Retail



Retailer Profitability



Up Like a Rocket, Down Like a Feather?





BANKS PROFIT MORE THAN FUEL RETAILERS

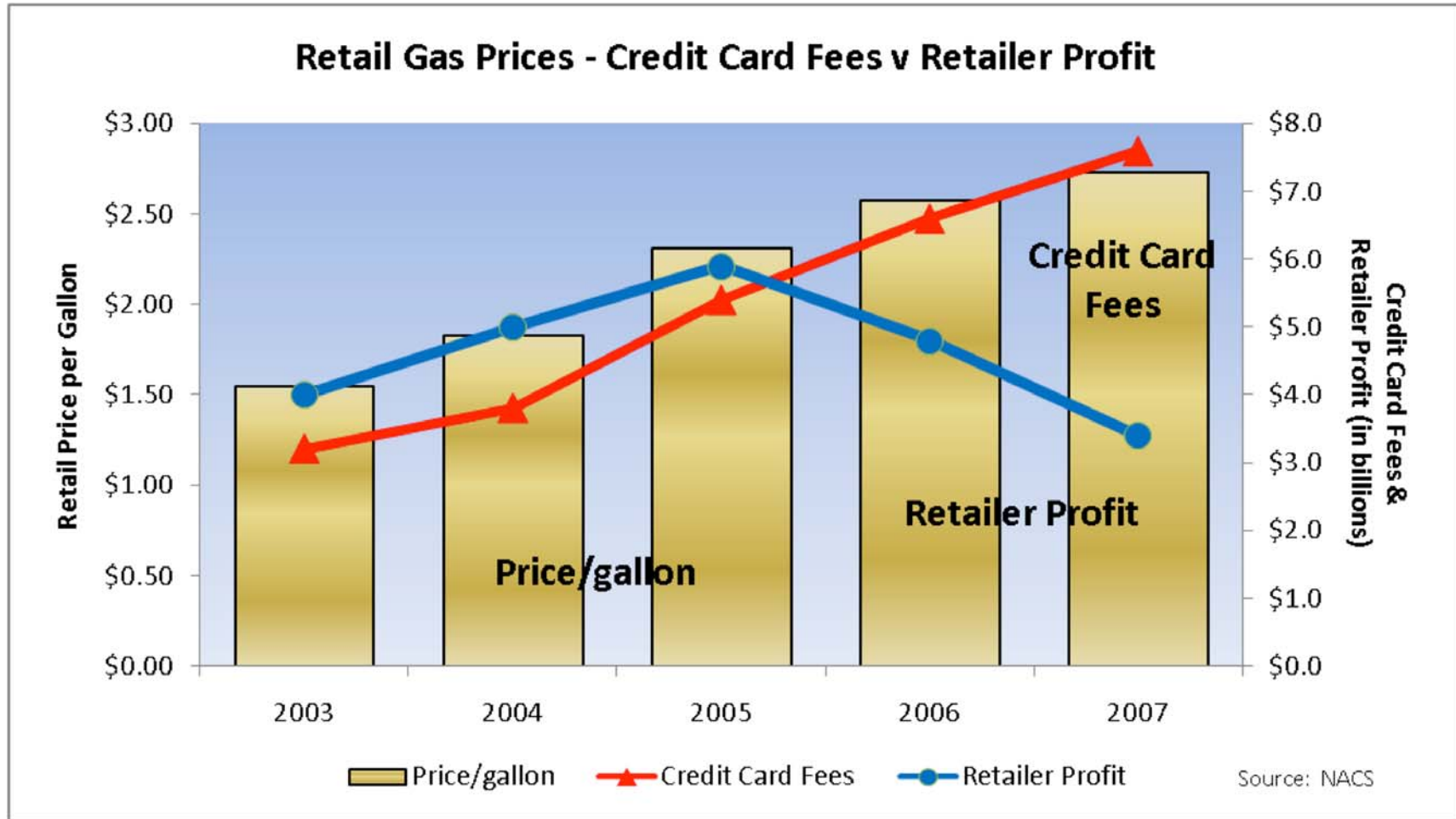


The Association for Convenience & Petroleum Retailing

Credit Cards and Gasoline

- Cards cost retailers about 2.5% of transaction
- 64% of consumers buy gas with plastic
- 49% are more likely to use plastic when prices go up
- Higher prices yield higher fees paid by retailer
- In 2007, credit card fees paid by convenience industry doubled industry profit

Credit Card Fees Exceed Profits





Fees Eclipse Margins

Month	Average Retail Price	Average Gross Retailer Margins	Average Credit Card Fee	Net Margin After Fees
January	\$3.038	\$0.171	\$0.076	\$0.095
February	\$3.009	\$0.109	\$0.075	\$0.034
March	\$3.228	\$0.117	\$0.081	\$0.036
April	\$3.425	\$0.081	\$0.086	(\$0.005)
May	\$3.739	\$0.102	\$0.094	\$0.008
June	\$4.022	\$0.120	\$0.101	\$0.019
July	\$4.057	\$0.215	\$0.101	\$0.114
August	\$3.780	\$0.203	\$0.095	\$0.108
September	\$3.704	\$0.175	\$0.093	\$0.082
October	\$3.132	\$0.449	\$0.078	\$0.371
November	\$2.182	\$0.292	\$0.055	\$0.237
December	\$1.697	\$0.166	\$0.042	\$0.124
January	\$1.765	\$0.079	\$0.044	\$0.035
February	\$1.901	\$0.081	\$0.048	\$0.033

Conclusion

- The petroleum retail market is dominated by small companies—not Big Oil
- Retailers lose margin when prices increase—recover margin when they decline
- Prices are driven by competition, need to sell in-store goods
- Retail profitability is very volatile...must assess over a period of time not a single reference
- Credit card fees are a significant problem for retailers, especially when fuel prices rise

Resources

- U.S. Energy Information Administration
 - This Week in Petroleum (<http://tonto.eia.doe.gov/oog/info/twip/twip.asp>)
 - Gasoline and Diesel Fuel Update (<http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp>)
 - Petroleum Statistics
 - Anything you want to know about sales, production, refining, etc.
(http://www.eia.doe.gov/oil_gas/petroleum/info_glance/petroleum.html)

Resources

- Oil Price Information Service
 - Retail Fuel Watch
 - Weekly data for 360 markets
 - Annual subscription approx. \$2,000
 - www.opisnet.org
- NACS
 - Annual State of the Industry
 - Annual Gas Price Kit (www.nacsonline.com/gaspricekit)
 - Jeff Lenard (703) 518-4272, jlenard@nacsonline.com



Questions?

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