City of Bowie
Memorandum

Thursday, August 1, 2024
Alfred D. Lott, ICMA-CM, CPM,
City Manager

STATUS REPORT

1. Vehicle Acquisition

The FY25 Budget allocates for the purchase of a new half ton pick-up truck to be purchased for use by the Park Rangers. The Recreation and Parks Division has identified a contract available for piggyback to make the purchase.

The purchase is:

Vehicle	Division	Item	Vendor	Piggyback Contract	Cost	Budget	Difference
New	Recreation & Parks	2024 Chevy Silverado 1500 Double Cab WT 4WD	Criswell Chevrolet, Inc.	Baltimore County Contract #MA-4505	$45,396	$60,000	-$14,604
TOTAL					$45,396	$60,000	-$14,604

As provided by Section 62 of the City Charter, this will serve as the required seven-day notice of intent to issue a purchase order to Criswell Chevrolet, Inc. for the amount listed above.

2. Convenience Store (C-Store) Evolution

Why we are seeing so many C-Stores? When most consumers think of convenience stores, they imagine smaller format stores averaging 2,500 square feet or less selling cigarettes, candy and bottled beverages, often combined with service centers that provided customers with oil changes, alignments, tire rotations and more. However, the reality is changing; and the shift has only intensified in recent years. The attached industry report discusses the sectors' progression to larger format contemporary stores, their enhanced product offerings and the drivers of C-Store profitability. There is also a brief overview of a number of the dominant national and regional operators that are leading the charge of the convenience store of the future, including Wawa, Sheetz, Casey's, Maverick, Quiktrip and 7-Eleven.

AGREE REALTY
RETHINK RETAIL

AGREE KNOWLEDGE BASE

Why QSRs & Coffee Shops Should Be Worried:

THE RISE OF THE LARGE FORMAT C-STORE

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Executive Summary

WHAT IS A C-STORE?

The National Association of Convenience Stores ("NACS") defines a convenience store ("c-store") as a retail business that provides the public with a convenient location to purchase a wide variety of consumable products and services[1]. Convenience stores trace their roots back to the early 20th century with the advent of internal combustion vehicles, followed by the opening of the first drive-up gas and service station in 1913[2]. Today, there are over 152,000 convenience stores in the United States that sell 80% of the fuel purchased by U.S. consumers[3]. Convenience stores offer a comprehensive value proposition: easily accessible locations with extended hours of operations, quick transactions, and often a one-stop shop for both consumable and necessity goods[4].

When most consumers think of convenience stores, they imagine smaller format stores averaging 2,500 square feet or less selling cigarettes, candy and bottled beverages, often combined with service centers that provided customers with oil changes, alignments, tire rotations and more. However, that misperception is changing; and the shift has only intensified in recent years. Modern operators have transformed themselves into an entirely new asset class; one that is taking share in higher margin categories such as food and beverage for off-premises consumption. In the following pages, we will discuss the sectors' progression to larger format contemporary stores, their enhanced product offerings, and the misperceptions around the drivers of c-store profitability. We will also provide a brief overview of a number of the dominant national and regional operators that are leading the charge of the convenience store of the future...if not already in your backyard.

Inside Sales vs. Fuel Sales & Profitability Levels

For the third consecutive year, inside sales at U.S. convenience stores hit a new high of $288B in 2023, up 4.5% year-over-year. Store count increased 1.5%[8]. In-store sales are also becoming a larger component of revenue, comprising 37.1% of total sales in 2023, up from 33.8% in the year prior[8]. Foodservice sales, which are comprised of prepared food, commissary, and hot, cold and frozen dispensed beverages, represented 26.9% of in-store sales this past year, up 130 basis points from the prior year[3].

Prepared foods represented the top category for in-store sales, and grew 12.2% year-over-year to monthly sales of $51,500 per store[3]. It's no surprise to see operators focus on these higher ticket items as margins for dispensed coffee can exceed 95%[45], while the net margin on gasoline is only ~1% for most convenience stores[9]. In 2023, fuel sales accounted for 67.3% of revenues but only 38.6% of profits for the convenience store industry[3].

IN-STORE SALES COMPRISED **37.1%** OF TOTAL REVENUE IN 2023

Large Format Shift & The Need for Speed

Many leading convenience store operators began experimenting in the early 2000s[5] with larger format stores encompassing ~4,000 square feet[1] and 50+ parking spaces to entice customers to spend on more profitable goods. Capitalizing on the captive audience as they refuel their vehicles, c-stores adapted to offer similar quality food and beverages to quick-service restaurants ("QSRs") at competitive prices with less customer friction and higher transactional velocity. The average wait time at a QSR is about seven minutes compared to the average wait time of four minutes at a c-store[6].

Large format operators are differentiating themselves from peers based on their prepared food and beverage offerings, and continue to do so by expanding retail offerings, providing consumers with a "one-stop shop". As c-stores continue to evolve, consumer perception is quickly shifting as well. Today, 59% of U.S. customers consider purchasing a meal from a c-store as opposed to fast food[7]. Larger format c-stores, which carry up to 6,000 SKU's[42] have an additional advantage in their ability to offer a broader range of items, which facilitates one-stop shopping. According to a survey of more than 1,500 U.S. consumers, over 50% purchase snacks at c-stores, while 20% buy grocery items and 16% get alcoholic beverages[7].

It's not just quick-service restaurants who should be on alert; c-stores have also begun to take share from traditional coffee shops. In a 2022 survey, 75% of consumers reported they regularly purchase coffee for off-premises consumption. Of those who reported purchasing coffee, 88% said they have purchased coffee from a convenience store, and 96% of those respondents said they would do so again[10]. In a 2024 survey, 65% of consumers said they see coffee offered at convenience stores as an option over coffee shops[11], while coffee sales grew a whopping 6.0% at c-stores in 2023[12].

Wawa

Wawa was originally founded as a foundry in 1803 until approximately a century later when the Company moved to Pennsylvania and entered the dairy business[13]. Over 50 years later, the Company launched its first “Wawa Food Market”. In the 1970s, Wawa introduced their signature coffee and now sells over 195 million cups a year[14], followed by the introduction of built-to-order hoagies (a known staple in the region), as well as other hot foods in the 1980s[13]. In the mid 1990s, Wawa began to experiment with fuel dispensaries at its convenience stores to drive additional traffic. Today, they are considered a leader in the industry with over 1,000 stores in 6 states and the District of Columbia. They are now one of the largest coffee retailers in the United States.

Wawa has continued to expand on their offerings throughout the years. In 2010, Wawa enhanced their built-to-order food and beverage offerings significantly, and in 2019 Wawa CEO Chris

Gheysens was quoted as saying he considers their stores “as a restaurant-to-go”[7].

Wawa continues to evolve with their first drive-thru location pioneered in 2020 and plans to add more as the chain grows[16]. From a technological standpoint, Wawa rolled out a touchscreen ordering system featuring prepared foods and a rewards app. It is also opening more upscale models in urban areas, complete with enhanced seating[17].

SHEETZ

Wawa's cross-state rival, Sheetz, was founded in 1952 by the Sheetz family in Altoona, Pennsylvania. Also started as a small dairy store that sold milk, eggs and other products[18], Sheetz expanded quickly and had over 100 stores by the 1970s with larger stores incorporating fresh food offerings[18].

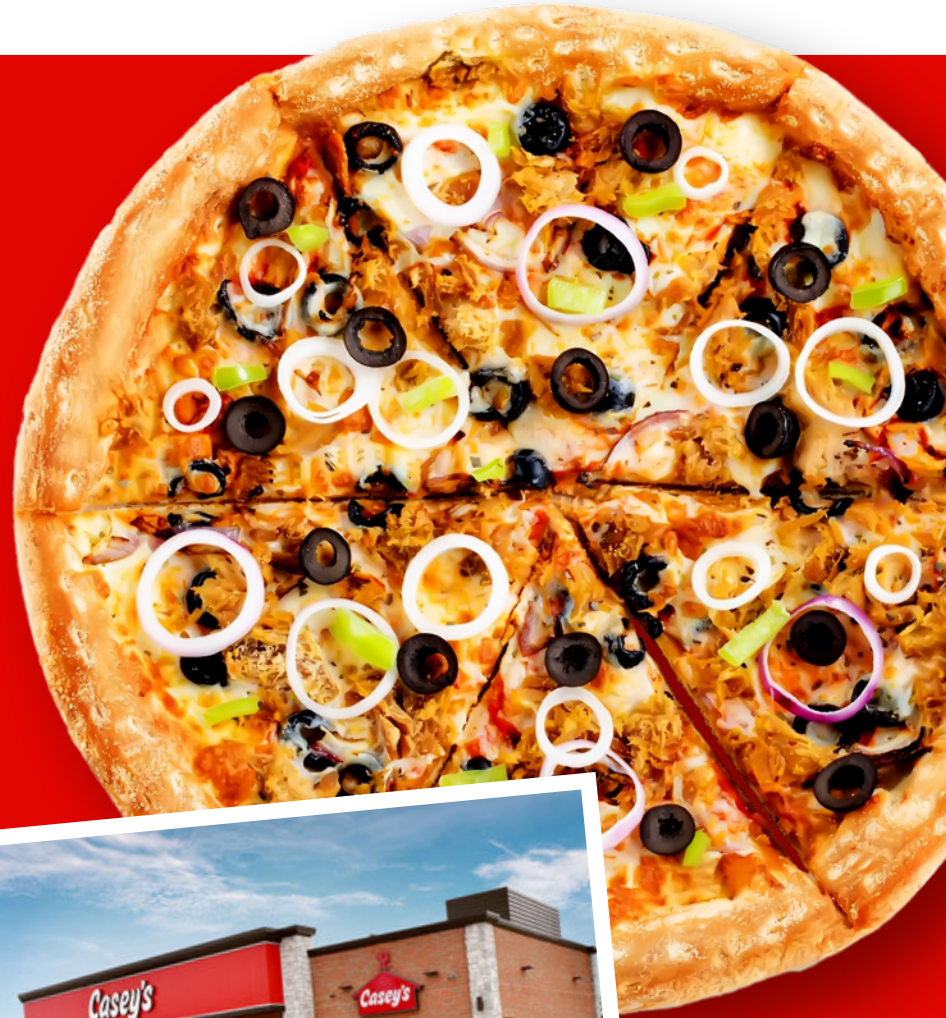
Today, Sheetz has a full-service kitchen with made-to-order breakfast, lunch, and dinner items, investing heavily in technology to enhance the consumer experience (touch screen kiosks, mobile ordering, contactless payment options)[18]. Their offerings include prepared foods more akin to certain fast-food chains, including burgers, sandwiches, salads, pizza, and more[18].

Sheetz stores are known to have an energetic atmosphere, with bright colors, music, and friendly staff[18]. Today, family-owned Sheetz has over 700 stores and is actively expanding in 6 states, soon to be 7, recently breaking ground on its first Michigan store[41]. Their current prototypical store has a drive-thru window, further enabling customers to grab their food and beverage of choice without even exiting their vehicle.

Casey's

As one of the pioneers of c-store fresh food offerings, Casey's (CASY) is ranked as the fifth-largest pizza chain in the U.S.[19] Casey's is a publicly traded company on the NASDAQ and has a market cap of approximately $13.5 billion as of July 2024. Their stores feature a pizza parlor and a bakery with donuts made from scratch[20]. In 2023, Casey's announced a three-year strategic plan focused on enhancing operational efficiency, growing their number of stores, and accelerating their food business[21]. "Prepared food is a core capability for Casey's, and as the fifth-largest pizza chain in the U.S., our fresh, handmade pizza is our crown jewel. We're focused on accelerating our food business through increased whole pie sales, unique, limited-time menu items, exclusive brand partnerships and extensions of our fan favorites," said Casey's Chief Merchandising Officer Tom Brennan[21].

Casey's also plans to further expand its private label offerings and current high-quality snack and beverage options[21]. The initiative seems to be working – inside same-store sales increased 4.1% quarter-over-quarter in Q3 FY24, with an inside margin of 41.3%[22]. "Our results were solid, especially inside the store where we continue to grow sales and expand margin," said Steve Bramlage Casey's Chief Financial Officer[22].



MAVERIK

Maverik is known for selling exclusive fresh-made products such as gourmet burritos, sandwiches, pizzas, cookies, and coffee blends from around the world[23]. In 2023, readers of USA Today voted Maverik as the top convenience store for food[24]. As with others adopting to larger formats with enhanced offerings, Maverik continues to grow and recently acquired Kum & Go from Krause Gentle, doubling its size to approximately 800 stores with plans to rebrand the stores to the Maverik concept in Idaho, Utah, Colorado, and Wyoming, as it continues to expand across the U.S.[25]

QuikTrip®

Founded in the late 1950s as a small grocery store, QuikTrip swiftly expanded to over 100 stores in the 1970s when it finally began to sell gasoline. Around this time, QuikTrip implemented a company-wide policy to stay open 24 hours a day, and introduced a fast-food module where customers can serve themselves, further differentiating themselves from competition. In 2013, QuikTrip introduced "QT Kitchens", full-service counters offering fresh, made-to-order food and premium specialty drinks[26]. This led to the reception of Convenience Store News' "Retailer Innovator of the Year" award in 2015, for its leadership in foodservice and role in shaping the future of the industry[27]. Today, QuikTrip is well-regarded as an industry leader in the c-store space and has stores in 17 states[37] with plans to enter Florida[43] and Michigan.

7-Eleven, purchased by Seven & i Holdings in 2005, is a global brand with more stores than any retailer in the world[38]. With 84,000 stores across 20 countries, 7-Eleven is known for its history of firsts including coffee to-go and 24/7 operations[38]. 7-Eleven, Inc. operates multiple banners and brands, such as Speedway, Stripes, Laredo Taco Company, and Raise the Roost Chicken & Biscuits locations throughout the United States[38].

In the 1980s, 7-Eleven introduced "Fresh to Go"[28]. While less advanced than today's fresh food offerings, this cemented 7-Eleven as a pioneer in the space and one of the leading operators to provide fresh, prepared food and beverages. A 2012 study showed that 7-Eleven was the fourth largest coffee seller in the U.S. with almost 7% market share[29]. In recent years, the Company has evolved into larger format concepts, embracing technology such as self-checkout kiosks, mobile payment options and loyalty programs[28]. 7-Eleven continues to expand on its fresh food and beverage offerings, with additional menu items announced as recently as March 2024[30].

Operators at a Glance

AS LEADING C-STORE OPERATORS CONTINUE TO ENHANCE THEIR OFFERINGS, RAPID GROWTH HAS FOLLOWED.

With over 1,000 stores currently[31], Wawa continues to grow and expand throughout the region. ADC has assisted with Wawa's expansion, bringing a true market presence to the state of Florida. In 2023, Wawa announced plans to enter the North Carolina market with 80 stores, Kentucky with 40 stores, and Ohio with 60 stores[32]. Continuing their expansion plans, in March 2024, they announced plans for their first Alabama stores and broke ground on their first Georgia stores[32].

Sheetz's continued growth includes over 700 stores in 6 states[41], and they are ranked by Forbes as one of America's Largest Private Companies[33].

With approximately 2,500 stores across 17 states[34], Casey's has announced plans to add an additional 350 stores by 2026[35].

With the acquisition of Kum & Go, Maverik now has over 800 locations across 20 states, and continues to grow[36].

QuikTrip currently has more than 1,000 stores in 17 states and has grown into a more than an $11B company[37].

7-Eleven has more than 13,000 stores in the U.S. and Canada and has completed multiple acquisitions in recent years including Marathon's Speedway chain of ~3,800 stores, as well as Stripes[38].

The continued expansion of large format c-store retailers has been enabled by their strong balance sheets, as many of the operators carry investment-grade credit ratings. This has allowed them to take share from QSRs, many of which rely on franchise operators that have struggled in recent years as evidenced by several bankruptcy filings and consolidation.

Electric Vehicle Adoption & Its Impact

Electric vehicle ("EV") sales increased 35% in 2023 and have grown more than six-fold since 2018[39]. However, EV adoption will take time and has recently slowed as concerns remain about range anxiety and the cost of electric vehicles.

Leading c-store operators have proactively prepared for this transition. For example, Wawa partnered with Tesla in 2017 to install Superchargers at select locations, and they are currently available at over 150 stores[40]. ADC has played an integral role in this adoption, working closely with Wawa to allow for the installation of Superchargers at ADC owned locations.

Operators who have adopted larger formats continue to be well-positioned for this transition. Increased dwell times based on EV charging will favor those with quality product offerings for off-premises and incremental on-premises consumption, with one analysis finding that in the 25 minutes a customer spends charging their car, they average an additional $25 on in-store purchases[44]. In addition, the removal of noxious fumes from fuel dispensers will make outdoor seating more attractive to customers that would prefer to eat on-site as they wait.

Given the relative newness of EV charging stations, reports on profit margins vary. However, with a net margin of only 1% on gasoline for most convenience stores[9] and a minority of profits coming from fuel sales[3], the ability to enhance profits will continue to be largely predicated on driving inside sales. As large format operators provide offerings that rival QSRs and coffee shops, they will continue to attract customers regardless of whether they have fuel pumps. Casey's has demonstrated that this dynamic already exists, as 70% of their inside transactions do not include fuel[46].

Conclusion

As consumers are increasingly looking for a one-stop shop, large format operators that continue to innovate will gain share from small format operators, quick-service restaurants and coffee shops. The drive to create expanded and popular fresh, prepared food and beverage offerings combined with convenience products will create larger margins, extending their competitive advantage. With the transition to EV charging expected to further increase dwell time and remove noxious fumes from the premises, large format operators will be better positioned to continue to pressure QSRs and coffee shops as a destination of choice. To that end, large format operators are pressing their advantage, with hundreds of new stores planned in the coming years to further accelerate share gains.

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About Us

Creating Opportunity by Rethinking Retail

In 1971, Richard Agree, our Executive Chairman of the Board of Directors, founded Agree Development Company, the predecessor to Agree Realty Corporation. Over its 23-year history, Agree developed over 40 community shopping centers primarily throughout the Midwestern and Southeastern United States.

With an Initial Public Offering of 2.5 million shares in 1994, Agree Realty Corporation commenced operations as a publicly traded Real Estate Investment Trust (REIT). Agree Realty is listed on the New York Stock Exchange under the ticker symbol “ADC”. Today, Agree Realty is a $8+ billion industry leader in the acquisition and development of properties net leased to the foremost retailers in the United States. As of March 31, 2024, the Company owned and operated a portfolio of 2,161 properties, located in 49 states and containing approximately 44.9 million square feet of gross leasable area.

Disciplined and Focused Investment Strategy

The Agree Team’s expertise and strategic execution seeks to maximize value for all stakeholders. Our innovative development and acquisition strategies, adaptive real estate technology, and extensive capabilities are relied upon by our industry-leading partners throughout the United States. Building upon the foundation of excellence established throughout the past half century, Agree Realty continues to be a thought leader, rethinking retail in an omni-channel world.

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