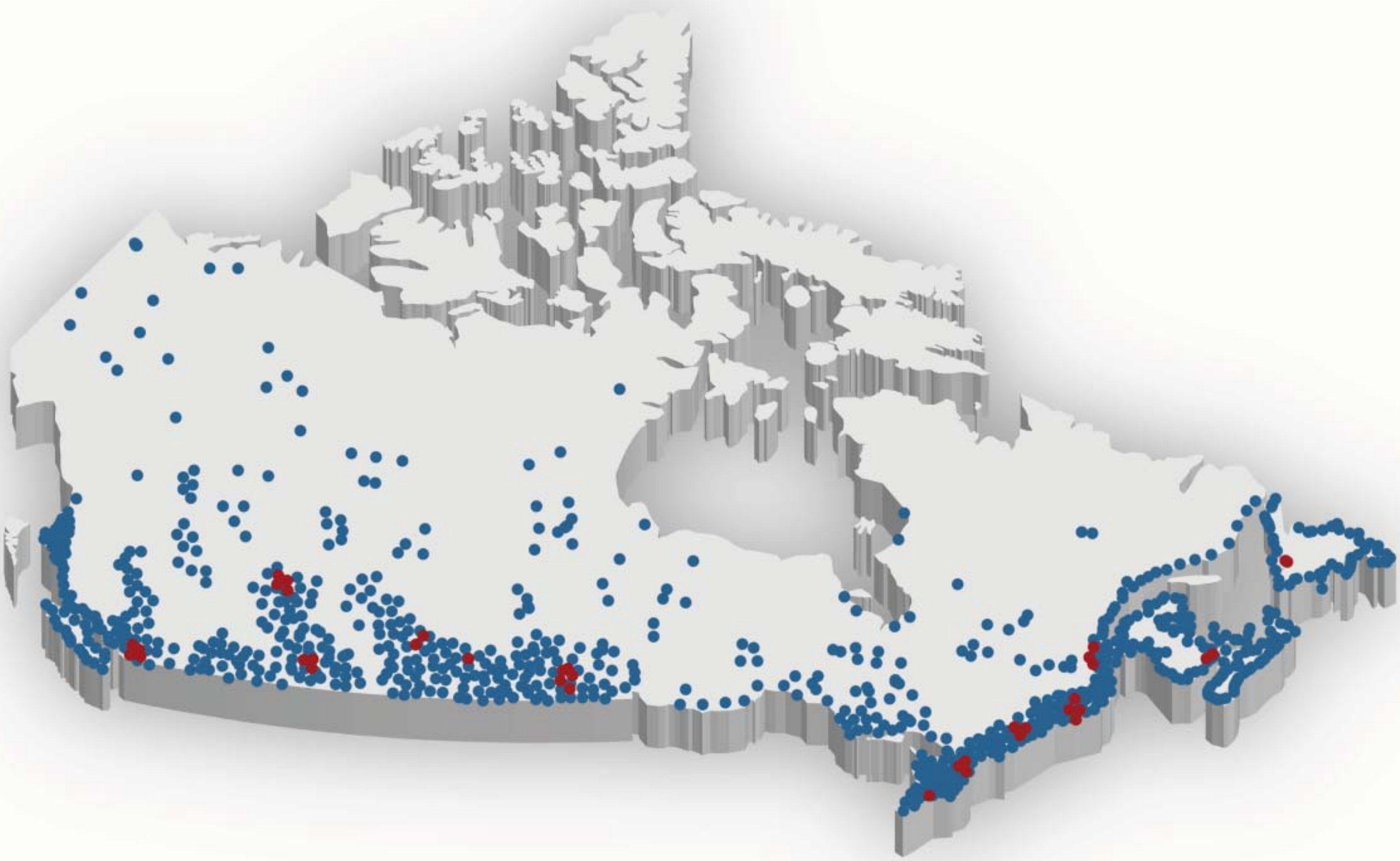


Local Presence, National Strength:
THE ASSET OF PROXIMITY

CONVENIENCE STORES IN CANADA

State of the Industry Report – Summary
2010 Edition

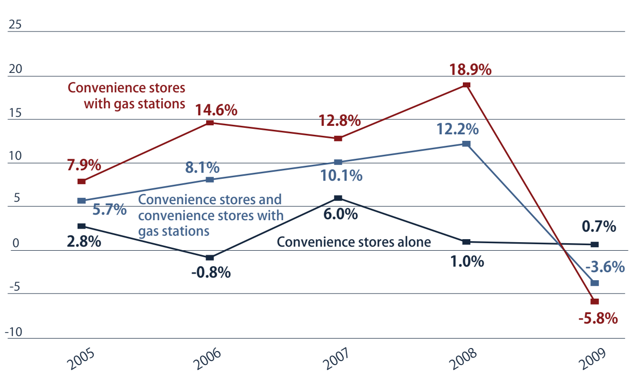
In collaboration with:
Desjardins
PricewaterhouseCoopers
HEC Montréal
cstorelife

This second edition of the State of the Industry Report on Convenience Stores in Canada gives us the opportunity to address new themes and to update the data on sales and the network. In our report, we discuss the close collaboration among convenience stores, manufacturers and wholesaler-distributors. We examine in greater detail the importance of the asset of proximity for convenience stores. Finally, we present the results of our first series of benchmarks of the performance of convenience stores in Canada.

More than 10.4 million visits are made each day to Canadian convenience stores, which means that every three minutes, a Canadian enters a convenience store. Consumers are highly loyal to their convenience store because it is close to home (less than 0.6 km) or work, it is easy to get to, it has extended opening hours, and service is fast and personalized. In 2009, Canadians purchased $31.9B worth of goods and gasoline from convenience stores. This represents a 0.6% increase in merchandise sales and a 0.3% increase in gas sales (in litres). The sharp decline in gasoline prices (17.2%) caused industry sales (in dollars) to drop by 3.6%. Without this drastic decline, it is estimated that industry growth would have been 0.6%, higher than the growth of the overall retail trade (-3.0%), but lower than the performance of businesses specifically in the food sector (+3.0%).

	2009	2008	2008-2009
Supermarkets	4.4%	4.2%	8.8%
Convenience and specialty food stores	0.2%	1.2%	1.4%
Convenience stores (with gas stations)	(5.8)%	18.9%	12.0%
Convenience stores (without gas stations)	0.7%	1.0%	1.7%
Convenience stores (with and without gas stations)	(3.6)%	12.2%	8.2%
TOTAL RETAIL SALES	**(3.0)%**	**3.4%**	**0.1%**
Price of gas (regular, unleaded)	(17.2)%	12.1%	(7.2)%
Gas sales (1,000 ml)	0.3%	(1.1)%	(0.7)%

Comparative growth of convenience stores



An Important Role For All

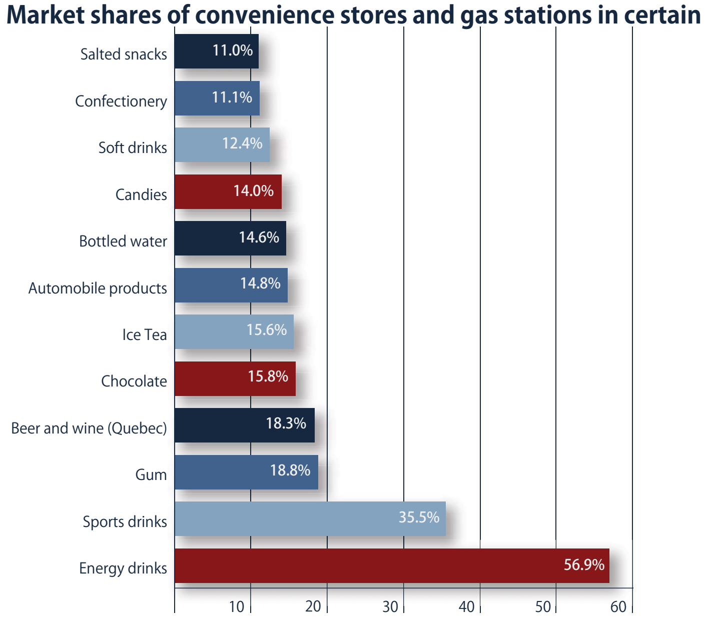
The industry continues to play an important role for its suppliers, employees and governments, and is an important client for wholesaler-distributors.

Industry Synopsis – 2009

	in $B
Convenience store sales	31.9
• sales of convenience stores alone	11.2
• sales of convenience stores with gas stations	20.7
Sales of goods and services	18.4
Purchases from suppliers (including gas)	26.6
Sales of wholesaler-distributors to convenience stores	7.5
Sales of controlled products	4.5
Tax collection for governments	11.5
Jobs	165,000
Wages and benefits	2.0
Loss of revenues due to contraband tobacco	**2.5**
Loss of profits due to contraband tobacco	**260 million**
Loss of revenues – taxes remitted to government	**1.3**

Convenience stores sell two out of every three cigarettes and three out of every four lottery tickets in Canada. They offer an important channel to manufacturers of food and convenience products, mainly in individual formats and products for immediate consumption.

Market shares of convenience stores and gas stations in certain



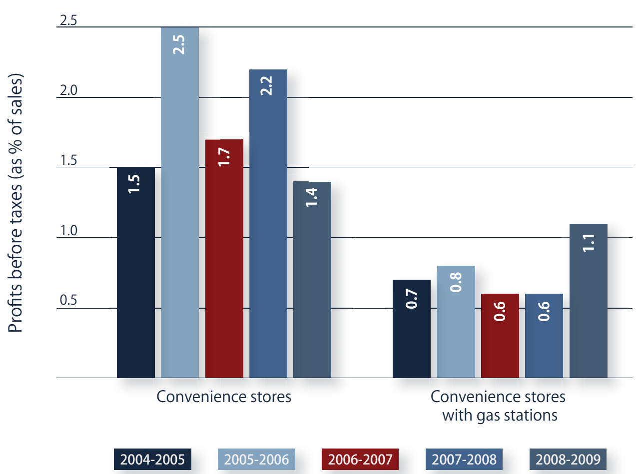
% of Market – Convenience Stores and Gas Stations

product categories in Canada in 2009[1]

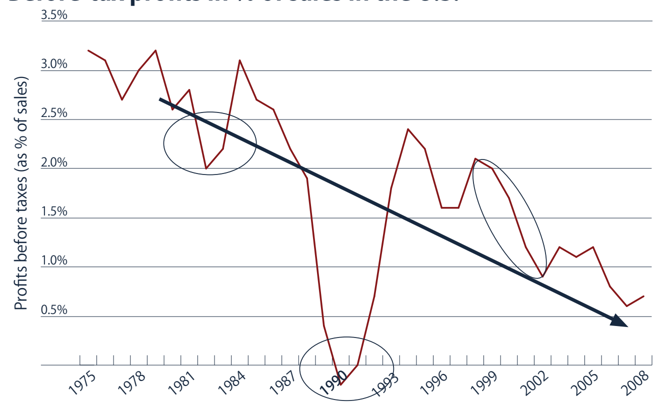
According to the annual survey by Fulcrum Publications Inc.[2], two-thirds of the snacks and three-quarters of the cold drinks purchased in convenience stores are for immediate consumption. Moreover, 80% of cold drinks are purchased with other products (primarily lottery tickets, chocolate, salted snacks, gum, newspapers and candy).

A difficult economic situation

Nevertheless, these figures hide a darker reality. In 2009, Canada saw the loss of 2,300 convenience stores, or six closures a day. Tobacco contraband continued to cause losses of more than $2.5B in sales or $260M in profits. The profitability of convenience stores is also affected by the regular increase in the minimum wage, an increase of approximately 5% on average each year, or $100M, which convenience stores absorb by gaining efficiency elsewhere in their operations. Credit card fees chopped close to $200M from net profitability. The recent fee hike eliminated $50M worth of profits in one fell swoop. The net profitability of convenience stores is barely holding at about 1% and, based on what is happening in the United States, it has been declining for several years. All of these factors in a mature industry where sales growth is slower than the combined growth of prices and population lead us to predict a tough business environment in the coming years.



Profits before taxes – convenience stores in Canada[3]
Before-tax profits in % of sales in the U.S.



And the outlook is not necessarily brighter for wholesaler-distributors, who must distribute a fast-growing number of categories of products and product listings. Competition among them and with direct distributors is also forcing them to expand their consulting role with customers, and this has a significant impact on their operating expenses. Finally, they are also feeling the consequences of their customers' weak growth and of contraband tobacco. Their profitability is only slightly greater than that of convenience stores, and their return on assets has been falling steadily for years, making it difficult to invest in equipment.

But the industry is not ready to throw in the towel. Many independent convenience retailers are joining large or small banner groups or buying groups. Couche-Tard continued its U.S. expansion, Suncor acquired Petro-Canada, and Quickie Convenience Stores purchased the 7-Eleven network in the Ottawa area. Many companies have invested in their computerized sales systems and implemented environmental and energy measures. Some convenience stores are investing in new formats or integrating high-quality food services. Wholesaler-distributors are investing in their warehouse and transportation facilities to manage orders that are becoming more and more irregular. They are opening cash-and-carry warehouses for the use of convenience stores and expanding their service offerings. So the industry is not without resources in facing these challenges.

[1] Nielsen MarketTrack, National 52 Weeks Ending August 1, 2009. Data excludes Newfoundland and Labrador.
[2] Fulcrum Publications Inc., *The Convenience Market in Canada*, prepared by Nesbitt Research Associates Inc., Summer/Fall 2008.
[3] RMA, Desjardins and Statistics Canada, *Retail Trade Survey*, special request.

Challenges Facing Our Industry

The economic and financial situation of 2009-2010 heightened the fierce competition among the different types of channels.

The growth of convenience stores shows that the market has reached maturity. The steady erosion of their profitability demands even greater efforts to control costs, but also to generate traffic and spending per visit. Their high dependence on gas and tobacco products also makes them extremely vulnerable in light of the contraband trade, increased taxes, and a shrinking demand. In addition, the impact of credit card fees cannot be overlooked. Convenience stores are thus losing a big part of their annual revenues and profits.

With the weak growth in gasoline consumption and the huge fluctuations in prices at the pump, it seems that convenience stores will have to find new traffic-generating products to compensate for the difficulties experienced with tobacco and gas. Convenience stores must also increase the weight of in-store sales to offset the wide fluctuations in gas prices. Food service, fresh produce, prepared meals, individual servings, and products for immediate consumption would gradually help this shift. It should not be forgotten, however, that this realignment of convenience store sales will have a major impact on wholesaler-distributors, who already manage a considerable number of formats and products. The links between manufacturers, distributors and convenience stores must be efficient in terms of cost/price management, orders, and the management of categories and programs.

Clientele proximity is key to the competitive strength of convenience stores, but it may no longer be sufficient. To prosper in the face of the competition, convenience stores must expand and improve their product offerings and above all, polish their image.

Conclusion

But convenience stores are mastering some of the tools needed to fuel their growth. Their operating model is sound, but some external conditions beyond their control are hindering their development. The regulatory context surrounding their sales environment and the sale of certain products by convenience stores must be improved. The impact both of contraband cigarettes on the legal tobacco market and of high credit card fees must be significantly reduced.

Convenience stores offer manufacturers access to sizable local markets. They provide governments with indispensable sources of tax revenues. They improve the quality of life of customers through their proximity and extended opening hours. But conveniences stores are faced with low profitability and limited means: individually, they lack the leverage to change their business environment. But by pooling their resources and speaking with a single voice, they can dramatically increase their influence.

	Sales ($000)		Number		Sales		
Province	Convenience Stores Sales $ (+%)	% Canada	Convenience Stores Number (+%)	% Canada	% Population Canada	Retail Sales % Canada	Population per convenience store
Newfoundland and Labrador	732,363 (3.2%)	2.3	654 (-6.3%)	2.8	1.5	1.8	778
Prince Edward Island	153,866 (-2.6%)	0.5	123 (-13.4%)	0.5	0.4	0.4	1,146
Nova Scotia	1,026,731 (13.2%)	3.2	808 (-12.8%)	3.5	2.8	2.9	1,161
New-Brunswick	1,221,011 (-11.0%)	3.8	683 (-13.1%)	2.9	2.3	2.4	1,097
Atlantic	**3,133,971 (-0.4%)**	**9.8**	**2,268 (-11.2%)**	**9.8**	**7.0**	**7.5**	**1,031**
Manitoba	1,257,065 (8.7%)	3.9	828 (12.5%)	3.6	**3.6**	**3.6**	1,476
Saskatchewan	1,428,829 (9.5%)	4.5	818 (3.8%)	3.5	**3.1**	**3.4**	1,259
Alberta	3,486,725 (2.5%)	10.9	2,120 (-7.1%)	9.1	**10.9**	**13.5**	1,739
British Columbia	3,925,309 (-6.0%)	12.3	2,404 (-9.8%)	10.3	**13.2**	**13.0**	1,853
Yukon, NWT, Nunavut	100,381 (-3.5%)	0.3	151e	0.7	**0.3**	**0.4**	724
West	**10,198,308 (0.5%)**	**31.9**	**6,321 (-4.6%)**	**27.2**	**31.1**	**33.9**	**1,662**
Quebec	**6,865,344 (-7.8%)**	**21.5**	**5,940 (-6.9%)**	**25.6**	**23.2**	**22.9**	**1,318**
Ontario	**11,737,703 (-5.3%)**	**36.8**	**8,699 (-12.5%)**	**37.5**	**38.7**	**35.7**	**1,502**
Canada	**31,935,327 (-3.6%)**		**23,228 (-8.9%)**				**1,452**

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