

CUSP Selects CASY as Consumer Staples Sector Choice

By David Roberts and Jack Wolfgram

Casey's General Store (CASY) has become a prominent innovator within the filling station and convenience store industry. The two-pronged business model creates resilience in times of economic distress and prosperity during economic tailwinds. The former, filling stations, brings consumers to the pump and in the door. Following the fill-up, customers experience a disruptive convenience store setting presented by a household name with high-quality food and drink products. Casey's pizza often exceeds expectations, earning recognition as the 5th largest pizza chain in the United States. Groceries and other merchandise join prepared foods as vital components of ongoing operations, diversifying the firm's offerings. The company's menu has attracted a following among two different types of customers: locals and travelers. We believe superior brand reputation and effective merchandising will position Casey's to sustain its clientele and allow the firm to acquire and build locations to continue its growth in sales, earnings and cash flows. The CUSP managers believe that Casey's General Store can excel in the fragmented convenient store environment.

Casey's is the 4th largest convenience store chain, but it still has room for growth into different regions. The firm has over 2,250 locations across 17 states in the Midwest. The firm has used its robust cash flows to purchase underutilized smaller chains in bulk, converting them to the Casey's brand. Additionally, the opening of a new distribution center in Joplin, Missouri, will alleviate potential supply chain expenses for 400 to 600 stores. The center is located near 10,000 cities with no existing Casey's stores that match the firm's demographic preferences. Casey's balance sheet exhibits relatively low debt, and the firm has sufficient liquidity and cash flow to pursue these expansion opportunities.

Over 60% of the convenience store industry is dominated by individual owners of 1-10 stores. These operations typically cannot keep pace with the consistent product quality and store upkeep on display at Casey's locations. Deterioration in these operations leads to facility turnover. The firm has expanded by intelligently acquiring such competitors and converting them into Casey's General Stores.

The firm is also innovating by experimenting with the installation of electric vehicle charging stations, which could play a meaningful role in the future growth of in-store purchases. Non-gasoline goods account for 37% of revenues and a core 74% of gross profits. Food and drinks possess pricing power and flexibility, which in turn gives Casey's a competitive advantage in any economic climate. Diversification in product lines via Casey's name-brand snacks will further assist in expense reduction and profitability for the long term.

The class portfolio managers voted to add Casey's to the CUSP in March or 2022. We don't believe the firm's current price fully reflects its resiliency during inflationary periods and potential to further expand market share. We examined the firm's current valuation and decided the growth prospects mean Casey's will generate value for the portfolio over the near and longer term. Overall, the broad breadth of Casey's opportunities for expansion, the development of a superior brand reputation and successful profitable non-gasoline products solidify the attractive valuation and investment for the CUSP.