Motor Fuel Group

New Issue Assessment

LARA:	High Risk	**Moody's:**	B2 (Stable)
Credit Bias:	Stable	**S&P:**	B (Stable)
ESG:		**Fitch:**	Not Rated

Trade Recommendation: We view price talk in the 8.75% area as fair value for the new bonds

Lead Analyst: Tanvi Arora **April 05, 2024**

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Executive Summary

Motor Fuel Group (MFG) is in the market with a GBP 400 mn five-year secured notes offering. Proceeds from the offering, along with other financing, will be used to acquire Morrisons' petrol forecourts. Following the acquisition, MFG will be the leading forecourt operator in the UK in terms of fuel volumes and sites. The company's forecourt offering comprises fuel-refuelling, EV charging, retail, food-to-go and ancillary services.

We have a constructive view on the sector, on account of the EV revolution as well as customers' increasing need for convenience retail and food-to-go (FTG) offerings. We expect road travel in the UK to remain structurally positive, which should bode well for demand trends in the medium to long term. We project that consolidation activity will remain high.

MFG has a leading market position in the UK, backed by its extensive network of sites, scale and comprehensive service offerings. The company mainly operates through a COFO (company-owned, franchise-operated) model, and enjoys partnerships with well-known brands and retailers, which we view positively. It has relied on acquisitions to grow rapidly, a strategy that we believe will continue. We view the recent acquisition of Morrisons' Petrol Forecourts (MPFS) as supportive of the company's ongoing strategy. That said, MFG lacks geographical diversification, and remains reliant on traditional fuel-refuelling.

While revenue growth should largely be a function of oil prices, we expect the gross margin to remain fairly stable, with EBITDA supported by merger synergies. Cash generation will likely stay decent, which would enable the company to reduce its very high leverage.

The structure is uncomplicated and guarantee cover is strong. We note the somewhat generous multiple for the Morrisons transaction, perhaps due to Clayton, Dubilier & Rice's (CD&R) cross-ownership of MFG and Morrisons. While the transaction is well-balanced between equity and debt, the fresh cash equity component is limited to the preference shares, with the rest forming an implied equity cushion. We hence believe that the loosely crafted terms of the notes will allow CD&R to take advantage of the large implied cushion and re-leverage the business. The Restricted Payments clause is slightly more restrictive, which offers some comfort. The Transactions with Affiliates clause is also generous. The capital structure is broadly balanced, with an equity cushion of c. 5.2x on a 10x valuation. While the presence of a syndicate of shareholders and the layering of equity and debt might seem quite attractive for both equity and fixed-income investors, we would advise caution given the limited cash equity component.

We view price talk in the 8.75% area as fair value for the new bonds.

Company Description

MFG is a leading mobility retailer in the UK, with a network of more than 1,200 petrol stations and convenience shops, along with over 600 charge points. Through its network, the company offers a comprehensive range of services including charging and refuelling infrastructure, convenience retail, FTG offerings, EV charging points, car valet and other ancillary services.

Industry Summary

MFG is the largest private forecourt operator in the UK, following the acquisition of Morrisons' petrol forecourts. There were 8,350 petrol forecourts in the UK as of December 2023, according to an OC&C report. The industry is large, and has seen ongoing consolidation since 2015. The main market participants are supermarkets (e.g. Tesco, Morrisons, Sainsbury's and ASDA), oil majors (e.g. Shell, BP and Esso), large independent operators (Tier 1 independent operators; e.g. MFG, Euro Garages and Rontec), other medium independent operators (e.g. Applegreen, SGN and Harvest Retail), as well as small chain stores that own and operate one or a few sites.

Petrol station forecourts generate revenues from four segments: traditional fuel (i.e. petrol or diesel), convenience retail, FTG and ancillary services (e.g. valet and car wash, dropboxes, ATMs and coffee vending machines). In addition, petrol station forecourts are increasingly investing in EV charge points, as the car parc is evolving from combustion charge engines to electric vehicles. This is in line with the growth seen in the EV charging market.

Market Landscape

Supermarkets take in c. 45% of fuel volumes but account for only c. 20% of sites. Most supermarket forecourts are co-located with the supermarkets. These players typically charge lower fuel prices to attract customers to their grocery sections, but attachment rates have reduced with thinning margins across both fuel and grocery (due to the emergence of discounters).

Oil majors account for c. 16% of volumes, but have significantly divested out of this business since 2005 (which led to the emergence of the Tier 1 independent players). Oil majors still run some of the higher volume/traffic sites themselves.

Independent operators (Tier 1 and 2, as well as smaller niche operators) own c. 66% of the sites and contribute 39% of volumes. The three largest players (MFG, EuroGarages and Rontec) account for c. 18% of sites.

Operating Models

There are three operating models:

- **COCO (company-owned and company-operated):** The site is owned and operated directly by an established company (e.g. oil company, supermarket or larger independent operator).

- **COAG or COFO (company-owned, franchise-operated):** In most cases, fuel is controlled by the company, with retail operations and employees managed by the agent pursuant to company guidelines.

- **DODO (dealer-owned and dealer-operated):** The site is owned and operated by a dealer (smaller scale independent operator), which purchases fuel from a wholesale supplier and owns that fuel inventory. The site fuel volumes are often too small for direct supply from oil majors.

The COCO model is widely prevalent, especially among supermarkets and Tier 1 independent players. That said, players such as MFG operate through all three models as the situation requires.

We discuss below the industry landscape for each of the segments:

Fuel Retail

In terms of fuel volumes, the UK retail fuel market was stable between 2008 and 2019, as greater distances travelled were offset by vehicles' increased fuel efficiency. While the COVID-19 pandemic disrupted this trend, causing volumes to plummet by c. 20% due to the lack of travel, this reversed handsomely in 2021 and 2022 (the 2022 figures reached c. 94% of the 2019 levels). Looking ahead, volumes are expected to develop at a negative CAGR between 2023 and 2030, as growth in the vehicle parc will likely be offset by increased efficiencies and greater penetration of EVs.

Fuel margins have increased at a fast pace since 2019, driven by structural factors including: [1] the pass-through of cost inflation for overheads (salaries, electricity, rent and rates); [2] the higher fuel margin required to offset decreased volumes; [3] efficient competition focused on ROCE; and [4] the EV transition. This pace will likely continue going forward, thanks to the limited rollout of new greenfield sites, the exit of small independent operators from the market, strong investments into site quality and an improving overall customer proposition supported by non-fuel offerings. Additionally, growth could be sustained on the back of consolidation within the forecourt market.

Industry Blended Gross Margins (ppl; 12-month Rolling Average) 1 January 2008 - 31 October 2023

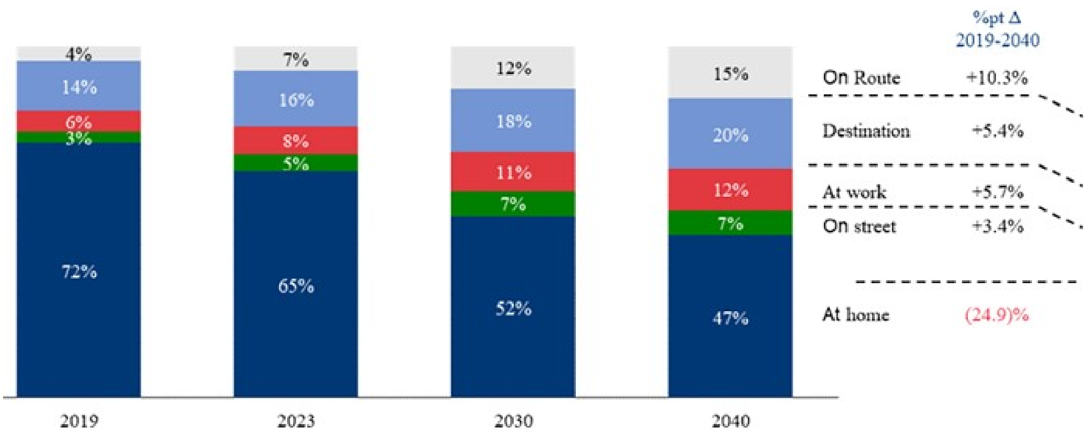
Source: Company

EV Dynamics

The EV charging market in the UK has experienced rapid growth, according to the 2023 OC&C report, with EV penetration estimated to reach 4% of the UK car parc and account for 18% of new vehicle sales in 2024 (vs. 2% in 2019). EV charging demand is projected to grow at a CAGR of 34% between 2023 and 2030. This growth is driven by the government's zero-emission vehicle (ZEV) mandate, which sets out the percentage of new zero emission cars and vans required to be produced p.a. up to 2030. According to the government's website, 80% of new cars and 70% of new vans sold in the UK would be zero emission by 2030, with the figures to rise to 100% by 2035.

Of the 437 k chargers in the UK, 400 k are private and 37 k are in public places. The amount of private chargers is expected to decline over time, given the number of households that do not have access to off-street parking as well as the gradual decrease in subsidies for installation in private dwellings, and as public charging infrastructure expands. Destination chargers (i.e. those available in forecourts/supermarkets) currently account for c. 17% of public chargers. The four tracked speeds of EV charging are defined as slow (3-7 kilowatts (kW)), fast (8-49 kW), rapid (50-149 kW) and ultra-rapid (150 kW and above). There is no dominant charging provider in the UK. The Top 10 networks in terms of volume of charging points are primarily focused on the non-ultra-rapid space. Charge point operators focusing on rapid and ultra-rapid technology (e.g. Tesla, MFG and InstaVolt) account for a disproportionate share of kWh charge, with MFG owning the second-largest ultra-rapid charging network in the UK (behind Tesla).

EV Charging Demand by Segment (% of Charge)



Source: Company

Convenience Retail

The UK convenience market was worth an estimated GBP 24 bn in 2022, representing c. 16% of total offline grocery spend, according to the 2023 OC&C report. The broader convenience market is expected to grow at a CAGR of c. 4.8% between 2022 and 2027. Of this, the forecourt convenience segment accounts for c. 19% of the convenience market. The UK forecourt market registered a steady CAGR of 2.1% between 2017 and 2022.

Convenience models deployed in forecourts broadly fall into three categories: [1] kiosk (small retail outlets with the narrowest product offering); [2] limited convenience offering (retail stores focused on food-for-now, sandwiches, baked goods, confectioneries, drinks, tobacco and alcohol); and [3] full convenience (modelled to compete with regular convenience stores). Convenience propositions are present in c. 80% of UK forecourts, according to the 2023 OC&C report, with forecourt operators partnering with Tier 1 retailer brands.

FTG

The UK FTG market experienced a period of strong growth in recent years, according to the 2023 OC&C report, expanding by an average of 6% p.a. between 2014 and 2019. This was driven by greater in-store hot food and coffee offerings. The post-pandemic rebound has been spectacular, with 2022 market value surpassing the pre-COVID-19 levels. The segment is expected to expand at a 4% CAGR up to 2027. The UK FTG market is split into four categories: [1] quick service restaurants (e.g. Burger King and KFC); [2] FTG specialists (e.g. Greggs, Subway and Pret A Manger); [3] full-service coffee outlets (e.g. Starbucks and Costa); and [4] coffee vending machines (e.g. Costa Express and Starbucks). In recent years, the forecourt industry has invested in developing FTG services, with an estimated less than one in four forecourts in the UK presently having a full-service FTG offer.

Key growth/demand drivers are: [1] the number of vehicles on the road; [2] expanding offerings to become a one-stop convenience shop for customers; [3] an increasing trend towards consumption away from home; [4] rising disposable income; [5] limited competition from online retailers; and [6] the rising popularity of EVs, which take time to charge (albeit many competing charging points may be available, especially in urban areas). However, there would be benefits to having fast chargers and locations offering amenities/services while cars are being charged, especially along highways.

Key success factors include broad product offerings, fast chargers for EVs, scale, attractive locations with high traffic, attractive convenience offerings with good quality and customer service, as well as strong relationships with retailers/brands.

Key risks are lower fuel consumption due to increasing vehicle efficiency and EV charging at home, competition from traditional retailers, sector vulnerability to macro developments, changes in fuel price regulations, as well as changing consumer tastes and preferences.

Company Highlights & Strategy

MFG is a leading mobility retailer in the UK, with a network of more than 1,200 petrol stations and convenience shops, along with over 600 charge points. Through its network, the company offers a comprehensive range of services including charging and refuelling infrastructure, convenience retail, FTG offerings, EV charging points, car valet and other ancillary services.

We provide an overview of MFG's offerings below:

Fuel and EV charging: This comprises traditional fuels (i.e. petrol and diesel) and EV charging. The company partners with top fuel brands in the UK, operating sites under their brands (e.g. Esso, BP, Shell and Morrisons). MFG has also developed its own brand, EV Power, for EV offerings. In FY 2023, the company had 5 mn litres of fuel volume per site. MFG's standalone network consists of 871 petrol filling station sites, of which 24% are located in London and the UK's southeast. Currently, 133 of the company's sites have EV charging facilities.

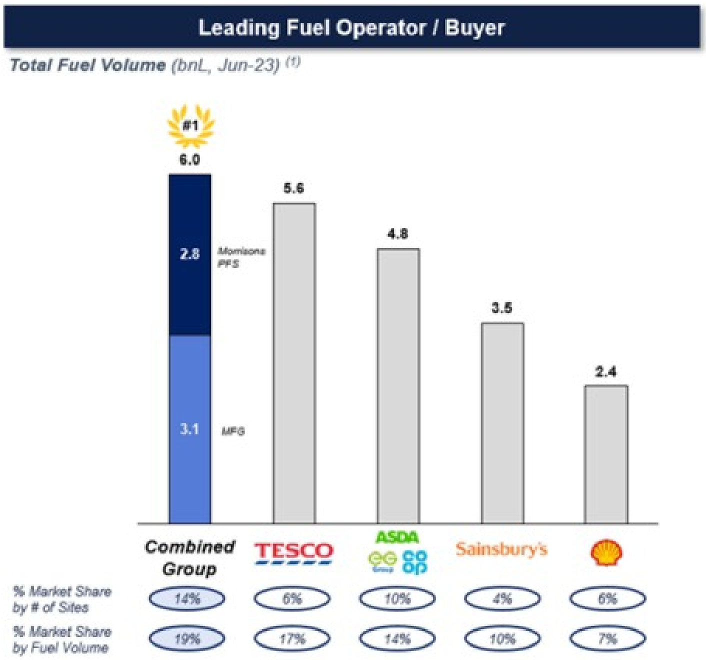
Retail and FTG: This offering consists of a nationwide network of convenience stores and a growing number of FTG sites. All of MFG's sites have retail offerings, while 213 provide FTG. It partners with nationally recognised retail brands to provide a strong customer offering, with an extensive product range and customised offerings based on local demand and traffic. MFG has partnered with quick-service restaurants, FTG and coffee brands such as Greggs, Pret A Manger, Subway, Burger King and Costa. Additionally, MFG is rolling out its own FTG offering.

Ancillary services: These mainly consist of valet (e.g. jet wash, auto wash), dropbox, delivery and other services. Some sites feature certain concessions (e.g. ATM and lottery). This offering leverages MFG's dense site network, with the aim of providing customers with holistic travel retail services. In this context, the company is rolling out valet and other services (e.g. FTG and retail delivery through partnerships with Deliveroo, UberEats and Just Eat).

The company was started by founders William Bannister, Thomas Biggart and Jeremy Clarke in December 2011, with the acquisition of 48 sites through a management buyout. MFG has since grown organically and through acquisitions. The company was acquired by funds managed by CD&R in 2015 for GBP 500 mn, when it was operating 371 petrol station sites. MFG then acquired MRH in 2018, which was the UK's largest petrol station and convenience retail operator with 491 sites. In 2023, MFG had to dispose of 87 sites following a CMA review. Since 2015, the company has focused on expanding its convenience retail offerings, as well as rolling out FTG, valet and ancillary services. MFG started investing in EV chargers in 2021.

In January 2024, the company announced the acquisition of Morrisons' 337 forecourts (including fuel, convenience retail kiosk and ancillary services) and over 400 sites at Morrisons' carparks, with the aim of expanding its ultra-rapid EV charging offering. These forecourt sites boast high volumes of fuel sold and are typically in highly accessible areas with good traffic. The acquired sites sold 2.7 bn litres of fuel and generated GBP 176 mn in kiosk sales for LTM ended 29 October 2023, with the average kiosk sales per site at c. GBP 520 K. The acquired sites will continue to operate under the Morrisons brand for both fuel and non-fuel offerings, leveraging customers' loyalty to the brand. MFG has also entered into various service and transition agreements with Morrisons.

Following the transaction with Morrisons, MFG will have a c. 14% market share by number of sites and 19% market share by fuel volume. The company will have a total of 1,210 forecourts, the most among its competitors.



Source: OM

MFG's brand partners for fuel include Esso, BP, Shell and Texaco; for retail, its partners include Londis and Budgen; and for FTG, the company works with Subway, Pret A Manger and Greggs. Following the acquisition, Morrisons-branded sites will continue to operate under the Morrisons Daily name for fuel and retail.

The MFG network sites are located in high-traffic and convenient locations. The sites are largely owned by the company, with 89% being freehold/long leasehold, 11% short leasehold and the remaining 1% freehold/part leasehold. MFG's own-site real estate portfolio is valued at c. GBP 4 bn, according to a third-party valuation. The average area per site is c. 0.7 acre, enabling the company to offer customers a comprehensive shopping and retail experience.

The majority of MFG's sites (c. 80%) are operated under the COFO model, with low maintenance and capex while allowing for flexibility. For COFO sites, the company owns the real estate and operates the fuel sales and EV charging business, while the franchisee operates and manages the onsite retail business. Only 31 sites are operated under the COCO model currently, with these mainly being larger convenience retail sites. MFG's 183 DODO sites operate under the Murco brand. Through subsidiary St Albans Operating Company, MFG supplies fuel to sites that it does not own or operate.

An overview of the various types of sites is shown below:

	As of December 31,			
	2021	2022	2023 (actual)	2023 (*pro forma* for the Acquisition)
COFO sites	899	900	842	1,178
COCO sites	27	30	31	32
Total MFG sites	**926**	**930**	**873**	**1,210**
DODO sites	174	176	183	183
Total MFG and DODO sites	**1,100**	**1,106**	**1,056**	**1,393**

Source: OM

Management and Ownership

The experienced management team has led consolidation initiatives in the industry, realised synergies following acquisitions and successfully executed MFG's growth strategy.

Co-founder Mr Bannister has been CEO since 2011. He has over 20 years of investment experience in the fuel sector. Mr Bannister was also a founding director of the Scottish Capital Group, a property investment, corporate recovery and asset management business. Prior to this role, he had been a land and development director at Delyn.

Simon Lane was appointed CFO in 2015. He had previously been CFO at Partnerships In Care Ltd, Dreams Plc, William Hill and Centre Parcs, and held senior financial roles at Safeway and Mars Confectionery.

Mr Clarke, another founding member of MFG, is COO. He has more than 30 years of forecourt retailing experience.

Chief Investment Officer Adam Wadlow was appointed last year. Mr Wadlow has over 15 years of experience as a consultant advising the forecourt sector.

MFG is held by funds managed by CD&R (65%), management (15%) and 20% by Morrisons (which is indirectly held by CD&R). CD&R is a PE firm with interests in sectors including industrial, healthcare, consumer, technology and financial services.

Strategy

MFG believes it can bolster the acquired Morrisons sites' performance by using its operational expertise and resources. MFG notes the acquired business' current good ranking in terms of fuel and location, but sees potential to improve its ranking in non-fuel offerings.

Given the massive c. 70% difference in retail sales (on a fuel-adjusted basis) between the acquired Morrisons sites and MFG's estate, MFG intends to improve retail sales at the acquired sites. It is planning an extensive retail expansion programme to change the retail and services performance of these sites. MFG also aims to develop the sites into a holistic travel retail destination offering, including a modern convenience retail box, FTG, valet services and EV charging. The average area per site will be c. 0.7 acres, presenting opportunities to develop a full hub model.

The following chart compares the average site size, retail shop sales per site and retail shop sales of the Morrisons sites and MFG's as of 31 December 2023:

Source: OM

The company aims to achieve GBP 40 mn in EBITDA synergies less than two years following the Morrisons transaction. These synergies will be realised via: [1] the alignment of fuel purchasing terms and reduction in logistics cost; [2] retail and FTG on the back of better buying terms, increased penetration of certain forecourt categories (and by converting some existing MFG sites into Morrisons Daily sites); [3] the introduction of more services at the Morrisons petrol forecourts; and [4] lower costs, driven by stronger purchasing power thanks to the business' larger scale.

MFG also sees significant opportunities to continue driving profitable growth and build on its high-quality offering. Last year, the company completed 47 development projects (including four new-to-industry sites) and rolled out 333 ultra-rapid charging bays across 80 sites. It will continue to assess potential growth opportunities through acquisitions.

MFG aims to expand its EV charger offering, with the company to invest c. GBP 400 mn on the installation of more than 2,000 150 kW of ultra-rapid EV chargers across 350 sites by 2027. Capex on the EV infrastructure in each of 2022 and 2023 stood at c. GBP 45 mn. The average payback period per site is c. 5 years, with the average return on capital at 15%. The company believe it has attractive locations and is well-positioned to develop the EV charging infrastructure further to serve increasing demand.

Financial Summary

In GBP (mn)

YE December	FY 2020A	FY 2021A	FY 2022A	FY 2023A	*Change 23/22*	MPFS 2023A[4]	PF FY[3] 2023A
Revenue	**3,307.8**	**4,116.3**	**5,620.1**	**5,121.4**	***-8.9%***	**3,647.0**	**8,768.4**
Growth %		*24.4%*	*36.5%*	*-8.9%*		*-12.1%*	
Cost of sales	(2,912.2)	(3,651.0)	(5,061.8)	(4,525.4)		(3,484.0)	(8,009.4)
As % of sales	*88.0%*	*88.7%*	*90.1%*	*88.4%*		*95.5%*	*91.3%*
Gross profit	**395.6**	**465.3**	**558.3**	**596.0**	***6.8%***	**163.0**	**759.0**
As % of sales	*12.0%*	*11.3%*	*9.9%*	*11.6%*		*4.5%*	*8.7%*
Operating expenses	(146.4)	(161.3)	(203.7)	(296.6)		-	(296.6)
As % of sales	*4.4%*	*3.9%*	*3.6%*	*5.8%*		*NM*	*3.4%*
Exeptional operating expenses	-	(14.6)	(2.4)	74.8		12.0	86.8
Operating profit	**249.2**	**289.4**	**352.2**	**374.2**		**175.0**	**549.2**
Margin %	*7.5%*	*7.0%*	*6.3%*	*7.3%*		*4.8%*	*6.3%*
Adjusted EBITDA[1]	**309.2**	**353.0**	**422.0**	**442.0**	***4.7%***	**218.0**	
Margin %	*9.3%*	*8.6%*	*7.5%*	*8.6%*		*6.0%*	
Change %		*14.2%*	*19.5%*	*4.7%*			
Adjusted PF EBITDA[2]	**309.2**	**353.0**	**381.0**	**433.0**		**218.0**	**633.0**
Margin %	*9.3%*	*8.6%*	*6.8%*	*8.5%*		*6.0%*	*7.2%*
Synergies							40.0
PF adjusted EBITDA							**673.0**
Adjusted EBITDA	**309.2**	**353.0**	**381.0**	**433.0**		**218.0**	**633.0**
Cash taxes	(36.4)	(24.7)	(25.0)	(12.0)		-	(12.0)
Others	(8.7)	(10.8)	35.7	(74.2)		(272.0)	(346.2)
FFO before cash interest	**264.1**	**317.5**	**391.7**	**346.8**		**(54.0)**	**292.8**
Cash Interest	(93.5)	(90.7)	(107.2)	(166.1)		(5.0)	(171.1)
% interest	5.1%	4.4%	5.1%	8.7%			4.8%
FFO	**170.6**	**226.8**	**284.5**	**180.7**		**(59.0)**	**121.7**
Change in net working capital	(21.8)	65.8	54.9	(16.3)		-	(16.3)
Operating cash flow	**148.8**	**292.6**	**339.4**	**164.4**	***-51.6%***	**(59.0)**	**105.4**
Capex	(49.2)	(96.2)	(149.6)	(221.8)		(45.0)	(266.8)
Free operating cash flow	**99.6**	**196.4**	**189.8**	**(57.4)**		**(104.0)**	**(161.4)**
Lease payments	(10.0)	(9.7)	(10.3)	(9.1)		(3.0)	(12.1)
Free operating cash flow after leases	**89.6**	**186.7**	**179.5**	**(66.5)**		**(107.0)**	**(173.5)**
Acquisitions	(16.8)	(33.0)	-	(9.6)		-	(9.6)
Disposals	0.3	-	0.9	244.2		22.0	266.2
Dividends paid	-	(367.0)	(38.9)	(23.4)		85.0	61.6
Free cash flow	**73.1**	**(213.3)**	**141.5**	**144.7**	***2.3%***	**-**	**144.7**
Debt Profile							
RCF	65.0	50.0	-	33.0			33.0
Term loans	1,701.3	1,953.4	2,015.5	1,796.0			2,995.0
Notes	-	-	-	-			400.0
Senior secured indebtedness	**1,766.3**	**2,003.4**	**2,015.5**	**1,829.0**			**3,428.0**
Leases	78.0	78.1	88.3	75.6			156.6
Total indebtedness	**1,844.3**	**2,081.5**	**2,103.8**	**1,904.6**			**3,584.6**
Cash	(155.7)	(219.1)	(286.6)	(163.7)			(192.0)
Total net debt	**1,688.6**	**1,862.4**	**1,817.2**	**1,740.9**			**3,392.6**
Total Debt/Adj. EBITDA	**6.0x**	**5.9x**	**5.5x**	**4.4x**			**5.7x**
Net Secured Debt/Adj. EBITDA	**5.2x**	**5.1x**	**4.5x**	**3.8x**			**5.1x**
Net Secured Debt/Adj. PF EBITDA							**4.8x**
Net Debt/Adj. EBITDA	**5.5x**	**5.3x**	**4.8x**	**4.0x**			**5.4x**
FFO Before Cash Interest/Cash Interest	**2.8x**	**3.5x**	**3.7x**	**2.1x**			**1.7x**
EBITDA/Cash Interest	**3.3x**	**3.9x**	**3.6x**	**2.6x**			**3.7x**
FFO/Net Debt	**10.1%**	**12.2%**	**15.7%**	**10.4%**			**3.6%**

[1] Lucror estimate

[2] Pro forma for CMA-mandated disposals

[3] Pro forma for Morrisons PFS acquisition

[4] For financial year ending 29 October 2023

Financial Analysis

Accounting Policies

MFG's financial statements are prepared in accordance with IFRS. According to the auditors, the accounts for FY 2021-2023 were true and fair.

MPFS is audited by PriceWaterhouseCoopers, with an unqualified opinion provided for the FY 2022-23 statements.

The financial year ends in December for MFG and in October for MPFS. The OM includes audited statements for FY ended October 2023 as well as unaudited numbers for the 13 weeks ended 28 January 2024. The reporting currency for both companies is GBP. While the two companies operate solely in the UK, 56% of debt as of FYE 2023 was denominated in non-GBP currencies. There is some FX exposure, which the company hedges as appropriate.

Revenues and Gross Profit

MFG only has one reportable segment: fuel and electricity forecourt retailing. This includes revenues made from the sale of fuel (petrol and diesel) and EV charging, from retail and FTG, as well as from ancillary services (e.g. valeting, bunkering, delivery, others).

MFG's revenues expanded at a 19.3% CAGR between FY 2020 and FY 2022, but dropped 8.9% y-o-y in FY 2023. However, revenues are typically not considered a useful KPI in the industry, due to the impact of volatile fuel prices on reported fuel revenues. We also note that trends over the period were likely distorted by the impact of the COVID-19 pandemic, with drastically reduced economic activity especially in 2020, when UK fuel volumes declined 20%.

Gross profit rose at a 10.8% CAGR over the past four years to GBP 596 mn. Fuel gross profit amounted to GBP 358 mn in FY 2023, up from GBP 281 mn in FY 2021 and rising 7% y-o-y, with a c. 13% CAGR over the three-year period. The increase compared to FY 2021 was supported by a rise in the fuel gross margin (12.3 GBp/litre vs. 10.4 GBp/litre), although the latter was stable compared to FY 2022. Fuel volumes expanded at a 4% CAGR over the three-year period, while the number of sites fell to 873 from 926. Compared to FY 2022, revenues benefited from higher EV charging and ancillary profits.

Retail shop sales amounted to GBP 659 mn in FY 2023 (pro forma for the CMA divestment), with gross profit of GBP 118 mn (5.0% CAGR over the past three years). The gross margin improved to 17.9% in FY 2023 from 16.3% in FY 2021. Meanwhile, services and ancillaries generated GBP 56 mn gross profit, up from GBP 42 mn in FY 2021 and GBP 51 mn in FY 2022.

	As of or for the year ended December 31,			
	2021	2022	2023	
(in £ million, except as indicated)			(actual)	(as adjusted for certain disposed sites)[1]
Fuel gross profit[2]	281	350	358	351
Fuel gross margin (pence per liter)[3]	10.4	12.3	12.3	12.3
Retail shop sales[4]	626	651	659	646
Retail gross profit[5]	102	110	118	116
Retail gross profit as percentage of retail shop sales (%)	16%	17%	18%	18%
Services and ancillaries gross profit[6]	42	51	56	55
COCO sites gross profit[7]	13	15	17	17
EV Charging EBITDA[8]	—	2	7	7
Gross profit per management accounts[9]	438	528	556	546
Site Opex[10]	(58)	(75)	(81)	(80)
Central costs[11]	(27)	(31)	(33)	(33)
Margin per EV charge (£)[12]	n/a	3.74	8.10	8.10
Adjusted EBITDA[13]	353	422	442	433
Non-cash working capital[14]	(351)	(354)	(381)	(381)
Operating Cash Flow[15]	341	350	285	n/a
Operating Cash Flow Conversion (% of Adjusted EBITDA)[16]	97%	83%	64%	n/a
Capital expenditure[17]	78	127	141	n/a
of which maintenance capital expenditure	*16*	*16*	*19*	n/a
of which development capital expenditure (incl. CRM and excl. EV)[18]	*39*	*66*	*78*	n/a
of which EV capital expenditure	*23*	*45*	*44*	n/a
Acquisition capital expenditure[19]	51	23	91	n/a
Net debt[20]	1,863	1,754	1,665	1,665
Net debt to Adjusted EBITDA ratio	5.28x	4.16x	3.77x	3.85x

Source: OM

Costs

The largest cost position by far is the cost of fuel. However, price fluctuations are passed on to customers, hence gross margins tend to be fairly stable, as discussed above. Cost of Sales/Revenues ranged from 88.0% to 90.1% over the past four years. Operating expenses include site opex (e.g. labour, rent, utilities, maintenance and other costs) as well as central costs. Opex ranged from 3.6% of revenues in FY 2022 to 5.8% in FY 2023. The company tries to manage the cost base, given the ongoing inflation mainly with regard to energy prices and electricity.

Adjusted EBITDA and Operating Profit

Adjusted EBITDA expanded at a 7.8% CAGR over the past three years, while the margin dropped from 8.6% in FY 2021 to 7.5% in FY 2022, before rebounding to 8.6% in FY 2023 to GBP 442 mn. Pro forma for the site sale, EBITDA would have stood at EUR 433 mn. We note that MFG shows EBITDA on a pre-IFRS 16 lease basis. In its OM, the company provides pro-forma combined EBITDA figures for the MPFS acquisition based on LTM ended January 2024. The deal is priced off GBP 673 mn pro-forma EBITDA, which includes a GBP 40 mn adjustment for expected synergies. These synergies are expected to be derived from improved fuel, retail and FTG purchasing terms, increased penetration of certain retail product categories as well as from offering new services and better logistics. Management stated that it has a strong track record in extracting synergies and highlighted the MRH acquisition in 2018, which has been very successful.

Operating profit has also been trending up, jumping from GBP 289 mn in FY 2021 to GBP 374 mn in FY 2023. The margin dipped from 7.0% in FY 2021 to 6.3% in FY 2022, before improving to 7.3% in FY 2023.

We note that MPFS has significantly lower margins, with an operating margin of just 4.8% in FY 2023.

Cash Flow

FFO (before cash interest) was GBP 264 mn-392 mn p.a. between FY 2020 and FY 2023, with the low recorded in FY 2020 and the peak in FY 2022. Cash taxes ranged from GBP 12 mn to GBP 36 mn, with a declining trend. Cash interest varied from GBP 91 mn to GBP 166 mn, with increases since FY 2021 and a peak in FY 2023, owing to higher interest rates and the refinancing completed in 2023. There was a GBP 55-66 mn net inflow in FY 2021 and 2022, partly thanks to volume pick-up amid the post-pandemic recovery, although there were also smaller outflows in FY 2020 and FY 2023. OCF ranged from GBP 149 mn and GBP 339 mn over the four years, with a peak in FY 2022. Cash generation weakened y-o-y in FY 2023 due to higher cash interest, negative working-capital movement as well as a one-off GBP 69 mn management bonus.

Capex rose significantly over the past four years, jumping from GBP 49 mn in FY 2020 to GBP 222 mn in FY 2023, or 12.4-37.2% of gross profit. The company splits capex into development and maintenance, and has commented that the latter typically is not high for its business at c. 6-6.5% of revenues.

Given that MFG owns most of its real estate, lease payments have been moderate at just GBP 9-10 mn p.a. With the exception of FY 2023, the company has generated positive FOCF after leases over the four-year period, ranging from GBP 90 mn in FY 2020 to GBP 187 mn in FY 2021. Acquisitions have been relatively moderate, with GBP 33 mn spent in FY 2022 and just GBP 10 mn in FY 2023. This was far outstripped by the GBP 244 mn of asset sales proceeds related to the sale of the 87 sites. Shareholder remuneration has been relatively modest except in FY 2021, when the company paid GBP 367 mn of dividends, with GBP 23 mn paid in FY 2023, GBP 39 mn in FY 2022 and no payments in FY 2020.

Net Leverage

MFG's net debt has been relatively stable over the past four years, with net debt increasing from GBP 1.7 bn in FY 2020 to GBP 1.9 bn in FY 2021 following the dividend payment, before falling back to GBP 1.7 bn again in FY 2023 thanks to the asset sale. Prior to the MPFS acquisition, debt mainly consisted of term loans with small RCF drawings. Leases were moderate at GBP 76-88 mn. The cash balance ranged from GBP 156 mn in FY 2020 to GBP 287 mn in FY 2022, but moderated to GBP 164 mn in FY 2023. Leverage has historically been high, coming in at 5.5x for FY 2020 (including leases) but subsequently dropping to 4.0x in FY 2023. Reported leverage is slightly lower (3.8x in FY 2023), as it excludes leases.

The MPFS acquisition will be financed by debt and equity, resulting in just a one-turn increase for reported leverage (excluding leases) to 4.8x from 3.8x.

Pro forma for the bond offering, liquidity would consist of GBP 192 mn cash as well as GBP 661 mn of undrawn amounts under the two revolving facilities. A small portion (GBP 12 mn) of the TLB will mature in June 2025, with a further GBP 1.8 bn coming due in June 2028. The remainder of the debt will mature in 2029.

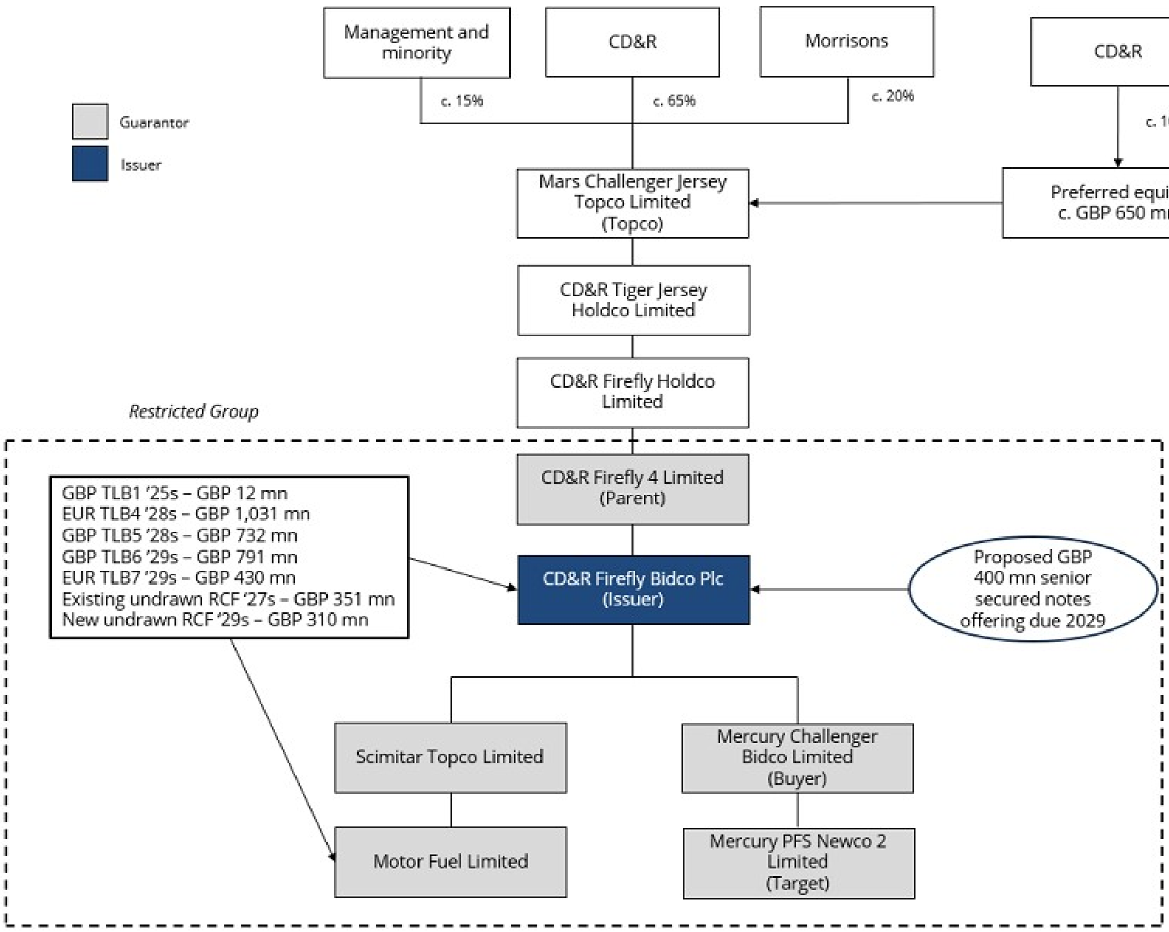
Financial Targets and Guidance

The combined entity will have retail fuel volumes of c. 5.5 bnL. Management has commented that revenues should be in the EUR 8-9 bn range, depending on fuel price. MFG guided for GBP 140 mn of capex in FY 2024 and a similar level in FY 2025. Around GBP 40 mn of this would be maintenance capex, with GBP 50-60 mn allocated to EV hubs and refits, and a further GBP 40 mn on other developments. Management stated that capex is modular and can easily be adjusted to the company's circumstances. It forecasts GBP 80-100 mn of FCF in FY 2024, depending on capex. There are no plans to pay dividends in the near term, and the focus will be on deleveraging.

MFG is not planning to raise any further debt, with the GBP 400 mn bond completing the acquisition financing.

Corporate and Transaction Structure

CDR Firefly Bidco Plc plans to issue GBP 400 mn of senior secured notes due 2029. According to the structure chart, CD&R are the indirect owners of the issuer, along with management and guarantMorrisons. Members of the management own c. 15% of Mars Challenger Jersey Topco's shares (topco), with CD&R holding a c. 65% stake. Following the acquisition of 337 Morrisons forecourt stores, Morrisons' owners have agreed to swop part of their consideration for shares of the expanded MFG group. Hence, Morrisons will hold a c. 20% stake in the topco upon completion of the acquisition.



Source: Company, Lucror Analytics

CD&R Firefly Bidco Plc has created a new subsidiary, Mercury Challenger Bidco Limited, which will be the designated buyer of the Morrisons forecourt stores. The forecourt stores will be spun off into a target entity (Mercury PFS Newco 2 Limited), and later merged into the buyer. MFG's existing business has already been designated as a restricted subsidiary. Guarantees are provided by both subsidiaries and parent CD&R Firefly 4 Limited, and represent c. 98% of assets and c. 96% of pro-forma EBITDA as of FY 2023. The notes are ranked pari passu with the loan facilities, but will be subordinated to debt at non-guarantor subsidiaries. While there will be no debt as of the issuance date at non-guarantor subsidiaries, the documentation will allow for a significant amount of non-guarantor debt to be raised.

Transaction

The acquisition has been valued at c. GBP 2.65 bn, including the purchase of minority interests, and will be funded by a combination of debt and equity. The payment will be partly in cash (c. GBP 1.95 bn), with the remainder in the form of a rollover of Morrisons' stake in the target business into MFG. This will lead to Morrisons owning c. 20% of the combined business. The acquisition is scheduled to be completed by 29 April 2024.

The cash portion of the purchase price, along with minority share buyback, transaction expenses and the rollover of one of the existing facilities, will be funded by: [1] term loans amounting to GBP 1.22 bn (split between GBP and EUR tranches); [2] GBP 400 mn of notes proceeds; and [3] GBP 650 mn of preference shares, issued to CD&R in exchange for a cash contribution for the same amount. At the end of the transaction, there will be an additional GBP 28 mn of cash on the balance sheet.

Sources of Funds	in GBP (mn)
Proposed senior secured notes	400
Term loan facilities	1,220
Preference shares	650
Morrisons equity rollover	550
Total Sources	**2,820**

Uses of Funds	in GBP (mn)
Payments in connection with the acquisition	2,500
Minority share buyback	156
Transaction-related costs and expenses	115
Rollover of existing GBP Term Loan B1 stub due 2025	21
Cash on balance sheet	28
Total Uses	**2,820**

Source: Company, Lucror Analytics

The shares of the holdco held by CD&R and management will be flipped into the topco, with the latter acquiring all the interests of CD&R and of the minority shareholders/management. The topco's shares will be offered in exchange to the respective parties. The cash component of the minority buyback will amount to GBP 156 mn, which will be funded by the notes, loans and preferred equity.

Shareholders' Agreement and Preference Share Terms

The parties providing for customary rights and obligations have entered into a shareholders' agreement. These include standard tag and drag rights in respect of the shares of management and Morrisons, in the event of transfers of 50% or more of the equity interests in MFG to a new third party.

The terms of the preference-share issuance include the following:

- They will rank junior to all topco debt, and senior to the ordinary shares and each other class of equity of the topco with respect to liquidation, dividends and redemption.

- They have no voting rights, and will be subject to mandatory redemption at a redemption price, payable in cash, equal to their issuance price, plus all accrued and unpaid dividends, upon the occurrence of certain events including the liquidation, a CoC, sale or an IPO of the topco. Notwithstanding this, the topco will have the right to redeem the preference shares at will.

in GBP (mn)	As of 31 December 2023	
	Actual	Pro forma for the transactions
	(unaudited)	
Cash and cash equivalents	**(164)**	**(258)**
Debt		
GBP 350 mn senior secured multi-currency RCF maturing in December 2027	33	33
Proposed GBP 400 mn senior secured notes	-	400
Existing senior indebtedness	1,770	1,758
Term loan facilities	-	1,220
Total Debt	**1,803**	**3,411**
Total Equity	**76**	**1,120**
Total Capitalisation	**1,879**	**4,531**

Source: Company, Lucror Analytics

Other Debt

Existing Senior Facilities Agreement

The senior facilities agreement was originally signed in 2018, and has undergone several amendments, most recently this year alongside the Morrisons transaction. The last major amendment was in April 2023, which provided for: [1] Facility B1 (which is a c. GBP 249.4 mn tranche); [2] Facility B2 (EUR 198.65 mn tranche); [3] Facility B3 (EUR 55 mn tranche); [4] Facility B4 (EUR 1.17 bn tranche); [5] Facility B5 (GBP 732.3 mn tranche); [6] the original LC Facility (nil); [7] an LC Facility 2 (principal amount of GBP 55 mn); [8] the original RCF (for GBP 9.5 mn); and [9] an RCF 2 (GBP 350.5 mn). Each of Facilities B1, B2, B3, B4 and B5 was utilised in full.

As of the current transaction's completion date (29 April 2024 or any date until October 29th, which is the longstop date), the amount outstanding under each facility is expected to be as follows: [1] GBP 12 mn for Facility B1; [2] nil for Facility B2; [3] nil for Facility B3; [4] EUR 1.17 bn for Facility B4; [5] GBP 732.3 mn for Facility B5; [6] nil for the original LC Facility; [7] GBP 55 mn for LC Facility 2; [8] nil for the original RCF; and [9] GBP 350.5 mn for RCF 2.

As part of this transaction, the issuer is entering into incremental facilities as follows: [1] Facility B6, for up to c. GBP 790.7 mn; [2] Facility B7, for up to EUR 500 mn; [3] RCF 3, for up to GBP 295 mn; [4] RCF 4 for up to GBP 15 mn; [5] LC Facility 3, for up to GBP 65 mn; and [6] an additional LC Facility for up to GBP 30 mn, to be entered at or around the transaction completion date. Facilities B6 and B7 are expected to be fully drawn as of the completion date, with the proceeds of such utilisations to be applied (directly or indirect) in or towards financing the acquisition.

The original RCF and RCF 2 can be used for permitted M&A, capex, working-capital financing or such other general corporate purposes. The RCF 3 and 4 can additionally be used to fund the current transaction, if required, but currently remain undrawn. In addition, the group has access to: [1] uncommitted facilities for up to greater of GBP 230 mn and 100% of consolidated EBITDA; plus [2] an additional amount, if after giving effect to the incurrence of such additional amount the consolidated senior secured leverage ratio (as defined in the senior facilities agreement) will not exceed 5.3x; plus [3] an amount equal to all voluntary prepayments of the term loans (as defined in the senior facilities agreement), which may become committed in accordance with the terms of the senior facilities agreement.

The table below lists the senior facilities (excluding LC Facilities). While there are options for voluntary prepayments against the facilities, there are certain mandatory prepayment requirements as well, including:

- Prepayments from the net cash proceeds of certain insurance claims, to the extent not applied towards a permitted purpose.
- In case of a listing, from listing proceeds, as per the net senior secured leverage ratchet.
- Prepayments from certain asset disposals to the extent not utilised for a permitted purpose.
- Unless agreed otherwise with any senior lenders, prepayments from excess cash flows, subject to a net senior secured leverage ratchet.

If a CoC is triggered, all outstanding amounts will come due immediately. According to the definitions provided, prior to listing, the CoC will be triggered if a 50% stake is transferred away from permitted holders. Following a listing, this percentage will drop to 30%.

Facility	Maturity	Amount Outstanding as of Notes Issuance Date
Facility B1	Jul-25	GBP 12 mn
Facility B2	Jul-25	NIL
Facility B3	Jul-25	NIL
Facility B4	Jun-28	EUR 1.17 bn
Facility B5	Jun-28	GBP 732.3 mn
Facility B6	Apr-29	GBP 790.7 mn
Facility B7	Apr-29	EUR 500 mn
Original RCF	Jun-24	NIL
RCF 2	Dec-27	GBP 350.5 mn
RCF 3*	Feb-29	NIL
RCF 4*	Feb-29	NIL

*Aggregate availability under RCF 3 and 4 is GBP 320 mn. If an aggregate GBP 400 mn or higher is outstanding under Facilities B4 & B5 as of December 2027, the maturity date for RCF 3 and 4 will revert to December 2027 from February 2029.

Source: Company, Lucror Analytics

The guarantor coverage test requires all subsidiaries that are borrowers to provide guarantee, with a minimum 75% EBITDA coverage always required. The security package includes but is not limited to: [1] a share charge in respect of shares held by each such chargor; [2] fixed security over intra-group receivables or structural loans owed to each such chargor by any member of the group; [3] fixed security over each such chargor's bank accounts; and [4] a floating charge over all of each such chargor's assets (other than customarily excluded assets). Each obligor will also be granted English law mortgages in respect of real property located in England and Wales held by the obligor (mortgages) and Scottish law standard security in respect of real property located in Scotland held by the obligor.

Key Covenants

Aside from the usual incurrence covenants and reporting requirements, there are a few maintenance covenants in the senior facilities documentation. Principally, the RCF requires that as long as at least 40% of the RCF commitments are drawn, consolidated senior secured leverage should not exceed 8.25x. While there is an equity cure provision allowing for the injection of equity to remedy the situation, this cannot be exercised more than five times during the lifetime of the senior facilities. Moreover, the equity cure may not be exercised in respect of two financial quarters in any four consecutive financial quarters.

Release of Covenants

Additionally, certain agreed covenants and other provisions of the senior facilities agreement will be suspended upon the satisfaction of certain release conditions, including: [1] a listing which does not constitute a CoC event, and the consolidated senior secured leverage ratio for the relevant period is equal to or less than 4x; or [2] when the long-term corporate credit rating of the group is at least BBB-, Baa3 (or equivalent) or better by at least two of the three rating agencies.

Events of Default

The senior facilities agreement provides for certain Events of Default, subject to customary materiality qualifications and grace periods, including: [1] a non-payment of principal or interest; [2] (for the benefit of RCF lenders only) a breach of the Financial Covenant; [3] a breach of other covenants; [4] inaccuracy of a representation or statement when made; [5] a cross-acceleration and non-payment cross default to other indebtedness of the group in excess of GBP 20 mn; [6] insolvency or insolvency proceedings in place; [7] repudiation of the financing documentation; [8] illegality with respect to performance of material obligations under the financing documents; [9] expropariation of material assets; [10] any event of circumstance which would reasonably be expected to have a material adverse effect; [11] an auditor’s qualification; and [12] material failure to comply with the Intercreditor Agreement.

Governing law is English law.

Environmental, Social and Corporate Governance

While MFG published its first sustainability report in 2022, limited environmental, social and governance information has been provided, and there is scope for improvement. Nevertheless, we note positively that the company achieved gender parity in 2022. The private entity has two independent members on its eight-strong Board of Directors. MFG has established audit, remuneration and ESG committees.

Key Terms of New Notes

Issuer: CD&R Firefly Bidco Plc.

Size/Maturity: GBP 400 mn senior secured notes due 2029.

Ranking: Senior obligations of the issuer. Ranks pari passu with other senior indebtedness including the term loan, RCF and certain priority hedging obligations, senior to preference shares and any future subordinated indebtedness characterised as such, and junior to any non-guarantor current and future indebtedness.

Collateral: On or prior to the completion date, the notes will be secured with first-ranking English law security granted by the parent and issuer, which will include: (i) in the case of the parent, security over the issuer's entire issued share capital; (ii) security over the intercompany receivables owed to each of the parent and issuer; (iii) security over bank accounts of the parent and issuer located in England and Wales; and (iv) fixed and floating charges over all assets of the parent and issuer (other than customarily excluded assets).

Within 30 days of the completion date, the notes will also be secured by (subject to the agreed security principles): (i) in the case of Mercury Bidco, security over the target's entire issued share capital; (ii) security over the intercompany receivables owed to each of Mercury Bidco and the target; (iii) security over the bank accounts of Mercury Bidco and the target located in England and Wales; and (iv) fixed and floating charges over all of the assets (other than customarily excluded assets) of Mercury Bidco and the target.

Within 90 days of the completion date, the notes will also be secured by (subject to the agreed security principles): (i) in the case of the additional guarantors (other than Mercury Bidco and the target), security over the entire issued share capital of any of their respective subsidiaries which are also additional guarantors; (ii) security over the intercompany receivables owed to each of the additional guarantors (other than Mercury Bidco and the target); (iii) security over the bank accounts located in England and Wales of each of the additional guarantors (besides Mercury Bidco and the target); and (iv) fixed and floating charges over all of the assets (other than customarily excluded assets) of each of the additional guarantors (excluding Mercury Bidco and the target).

Mandatory redemption: Exists, if the transaction is not completed before the longstop date of 29 October 2024. Proceeds from the notes and other debt funding the transaction will remain in escrow.

Optional redemption: Make whole prior to 2026 at par plus applicable premium. There is an equity clawback prior to 2026 for up to 40% of the notes' principal value, as long as at least 50% of the notes remain outstanding. There is also a soft call provision for up to 10% p.a. at 103. Redemption post 2026 will be via the standard redemption price of half and quarter coupon over par, and will drop to par from 2028.

Change of Control: Under the clause, at least 50% of holders need to be permitted holders for CoC to not be triggered. CD&R, Morrisons and management have been designated as permitted holders.

Covenant suspension: If the issuer or company has achieved IG status, or if at/following completion of a public offering with respect to the parent or any parent entity thereof that does not constitute a COC event: (a) consolidated senior secured leverage is less than 4.0x (pro forma for the completion of such a public offering and the application of related proceeds); and (b) no default has occurred and is continuing under the Indenture.

During any period in which the foregoing covenants have been suspended, the Board of Directors may not designate any of its subsidiaries as unrestricted subsidiaries, unless this would comply with the Restricted Payments covenant as if such a clause was in effect during the period.

The covenants can be reinstated if the ratings are brought back to sub-IG, or if the consolidated senior secured leverage covenant has been breached (i.e. at or above 4.0x).

Limitation on Indebtedness: No debt is permitted to be incurred unless the fixed coverage test of 2.0x is satisfied. The following, among others, are classified as permitted debt:

- Debt under credit facilities for up to a sum of: (i) c. GBP 3.24 bn plus EUR 500 mn; and (ii) any other amount without double counting plus any refinancing indebtedness.

- Any debt between the parent and restricted subsidiaries, except in the case of inter-company liabilities related to cash management operations, limited to GBP 50 mn.

- Purchase money obligations and any refinancing debt for up to the greater of GBP 204 mn and 20% of LTM EBIDA.

- Guarantees incurred in the normal course of business.

- Debt of any SPV, as long as it is not recourse to the parent or its restricted subsidiaries.

- Acquisition debt, as long as the incurrence test is met and consolidated senior secured leverage remains flat compared to the pre-transaction level. This clause allows for covenant calculations to be completed at the time of a definitive agreement, notwithstanding if any of the ratios' components change between such an agreement and the actual transaction completion.

- There is a separate carve-out basket for up to the greater of GBP 204 mn and 30% of LTM EBITDA, which can be incurred as debt to pay as consideration for any acquisition by the parent or a restricted subsidiary. We believe this is an additional permitted payment above the incurrence clause.

- Local lines of credit for up to greater of GBP 204 mn and 30% of LTM EBITDA.

- General basket of up to greater of GBP 340 mn and 50% of LTM EBITDA.

- Debt to the extent allowed under the RP basket, provided that once this is incurred the RP amount stands nullified.

- Permitted fuel financing, which means indebtedness raised for working capital purposes (including the acquisition of fuel inventory) in an aggregate principal amount that does not exceed GBP 100 mn at any time, with a creditor being party to the Intercreditor or an Other Intercreditor.

- No limit on debt, as long as consolidated leverage is 6.5x or lower.

Non-guarantor debt can be incurred up to the greater of GBP 340 mn and c. 50% of LTM EBITDA. Classification and re-classification of debt baskets is expressly allowed, and the issuer has the right to declare if a particular debt is to be incurred/classified under the incurrence test or as part of the permitted payments basket.

The EBITDA definition includes any cost savings expected to be realised within 18 months of a transaction or operational adjustment.

Limitation on Restricted Payments: No restricted payments are allowed, and no restricted investments are allowed to be made if a EoD has occurred or if it exceeds the aggregate of the builder basket. Permitted payments include, among others:

- Any purchase of treasury stock or a capital contribution to the parent and, other than excluded contributions, contribution amounts or any acquisition equity contribution, provided that net cash proceeds from such issuances, sales or capital contributions will be excluded in subsequent calculations of the builder basket.

- Any refinancing of subordinated debt with similar newly issued debt.

- Any dividend paid within 60 days of declaration, as long as the declaration itself complies with the covenant.

- The following may be used towards restricted payments, subject to certain calculations: [1] any restricted payment made from excluded contributions; or [2] if such excluded contributions were used for M&A or asset acquisitions post completion of the Morrisons transaction, any proceeds from the disposal of such assets.

- The sum of the following: (i) restricted payments in the form of payments to management investors for the purpose of acquiring stock from them, not exceeding the greater of GBP 45 mn and 6.5% of LTM EBITDA; (ii) GBP 15 mn multiplied by the number of calendar years since 21 June 2018; (iii) net cash proceeds received by the parent or any restricted subsidiary since 21 June 2018 (including through receipt of proceeds from the issuance, sale of its capital stock to a parent entity or management investor or the incurrence of any management proceeds funding); and (iv) as a capital contribution (other than through the acquisition equity contribution) from the issuance or sale of such stock.

- Payment of dividends following a public listing, up to the greater of: (i) 7% of aggregate gross cash proceeds received by the parent (whether directly or indirectly through a contribution to common equity capital) in or from such a public offering; and (ii) 7% of market capitalisation.

- General basket of up to greater of GBP 170 mn and 25% of LTM EBITDA.

- Dividends on preferred stock as long as the incurrence covenant was met.

- Investments in unrestricted subsidiaries for up to greater of GBP 170 mn and 25% of LTM EBITDA.
- Restricted payments to the extent of declined excess proceeds (proceeds available after noteholders decline to tender the bonds).
- No limits on restricted payments as long as pro-forma consolidated leverage is 4.5x or lower.
- Any restricted payments pursuant to or in connection with the transactions.
- Restricted payments from the proceeds of a sale of land pursuant to a ground rent transaction, provided that consolidated senior secured leverage (calculated on a pro-forma basis to include expected total ground rent service and such distributions) is equal to or less than 4.25x.

Limitation on Use of Asset Sales Proceeds: No asset disposition is allowed over a de-minimis level of the greater of GBP 58 mn and 8.5% of LTM EBITDA, unless: (a) it is a fair arm's length disposition; (b) at least 75% of the proceeds are received in the form of cash or equivalents; and (c) an amount equal to 100% of net available cash is applied by the parent or its restricted subsidiary as follows:

- Firstly, to prepay any senior, pari passu or non-guarantor debt to the extent the parent elects or as is required by the indenture, or to use the proceeds for acquisition of additional assets or to make payment under the notes, each within 730 days of the later of asset disposition and receipt of proceeds.
- Secondly, any excess proceeds (exceeding GBP 75 mn) is to be used to repay notes or any pari passu debt as elected by the issuer.
- Thirdly, any declined excess proceeds may be used towards general corporate purposes, including for any restricted payments or payments of subordinated debt.

Any loan amounts repaid should be accompanied by pro-rata cancellation of commitments. If pro-forma senior secured leverage is less than or equal to 4.75x, only 50% of the proceeds may be required to be utilised for acquisition or debt repayment, with the remainder available for restricted payments purposes. If pro-forma senior secured leverage is below 4.25x, the entire proceeds can be used for general corporate purposes or restricted payments purposes.

Any disposition wherein the proceeds are the greater of GBP 136 mn and 20% of LTM EBITDA are considered cash proceeds, even if they are non-cash in nature.

Limitation on Transactions with Affiliates: The de-minimis level is the greater of GBP 58 mn and 8.5% of LTM EBITDA. Any transaction with an affiliate with a value exceeding the de-minimis level will need to be carried out on an arm's length basis. The terms of an affiliate transaction with a value exceeding the greater of GBP 85 mn and 12.5% of LTM EBITDA will need to be approved by a majority of the Board of Directors. That said, any transaction that is approved by a majority of disinterested directors, or in the absence of disinterested directors receives a fairness opinion from an external party, can be categorised as an affiliate transaction.

Exceptions include: (i) a restricted payment transaction; (ii) a collective bargaining agreement; and (iii) a transaction between the parent, any restricted subsidiary or a SPV.

Limitation on Liens is in place. Permitted collateral liens are possible, as long as creditors for any transaction exceeding GBP 75 mn are brought within the legal structure of the existing Intercreditor. Permitted existing liens are allowed, and include the standard security by Safeway Stores plc in favour of: (i) UA Group plc; (ii) Hamilton's Auction Mart Public Limited Company; (iii) British Railways Board; and (iv) National Carriers Limited, dated 4 May 1999 and recorded in the General Register of Sasines for the county of Inverness on 6 May 1999.

Financial Calculations for Limited Condition Acquisitions: Included.

Reporting requirements: Standard, at 120 days for filing of annual reports from FY 2024 and 60 days for quarterly reports (including the first report for the period ended 30 June 2024). A material subsidiary is defined as one accounting for at least 20% of LTM EBITDA.

Events of Default: The default must continue for 30 days and be attested to by at least 30% of noteholders or their trustees. The cross-default and cross-acceleration threshold is GBP 75 mn.

Lucror View

Industry Assessment

We have a constructive view on the sector, on account of the EV revolution as well as customers' increasing need for convenience retail and FTG offerings. We expect road travel in the UK to remain structurally positive, which should bode well for demand trends in the medium to long term. We project that consolidation activity will remain high.

- Over the medium term, the sector should continue to benefit from factors such as the increasing number of cars on the road (EV), growing consumer disposable incomes, as well as the trend towards convenience in retail and food consumption.

- We also believe that the increased usage of EV should support demand for convenience retail and FTG offerings, as such vehicles require time to recharge, providing drivers with more time to shop.

- The sector is expected to experience a mid-single-digit percentage increase in the medium term, led by growth in non-fuel categories (EV, retail and FTG). The demand for fuel retail should stay largely flat or decline slightly at most, as road travel in the UK is expected to remain structurally positive.

- The sector remains highly fragmented, providing ample opportunity for consolidation. That said, the retail and FTG sectors face significant competition from various food and non-food retailers that offer more competitive pricing.

- While the fuel margins in the UK have improved since 2019 and stayed high, the negative trends in volumes along with the need to continually invest in infrastructure have led to oil majors and supermarkets divesting out of forecourt operations.

- In our view, macro factors will influence consumer demand and traffic, given the discretionary nature of the sector's offerings.

Business Assessment

MFG has a leading market position in the UK, backed by its extensive network of sites, scale and comprehensive service offerings. The company mainly operates through a COFO model, and enjoys partnerships with well-known brands and retailers, which we view positively. It has relied on acquisitions to grow rapidly, a strategy that we believe will continue. We view the recent acquisition of MPFS as supportive of the company's ongoing strategy. That said, MFG lacks geographical diversification, and remains reliant on traditional fuel-refuelling.

We like MFG’s market position in the UK as a leading forecourt operator. The company enjoys 14% market share by number of sites and c. 19% market share by fuel volume.

We view positively the company’s diversified and comprehensive service offerings, entailing traditional fuel-refuelling, EV charging, retail, FTG and related consumer services. MFG enjoys partnerships with well-known brands in the fuel, retail and FTG segments, making it an attractive refuelling and shopping destination for customers. However, a significant portion of the earnings is derived from fuel offerings, which experiences high fluctuations.

Since 2011, the company has grown via a mix of acquisitions and organic growth efforts. That said, we note its good track record with regard to acquisitions and extracting synergies. However, MFG’s history of operations has been short.

We support the rationale for the MPFS acquisition, as the company has gained an attractive network of sites and increased scale (allowing for better negotiations with suppliers). In addition, the acquisition has allowed MFG to expand its retail and FTG offering, as well as EV charging infrastructure.

The company has been incurring capex over the past few years, with a focus on expanding its EV charging infrastructure. While this is in line with the company’s sustainability efforts, it is unclear if this will lead to significant profits. Typically, EV recharging requires more time, providing consumers with more time to explore the company’s retail and FTG offerings.

The company’s management team is led by its founding members. While we note positively that they have the requisite experience to run the business, we foresee key man risk.

We like that the company runs on a COFO model. This allows for higher flexibility and predictable revenues. Currently, over 86% of the site network is company owned. The sites have been valued at c. GBP 4 bn, which we believe will offer protection in a downside scenario.

Financial Assessment

While revenue growth should largely be a function of oil prices, we expect the gross margin to remain fairly stable, with EBITDA supported by merger synergies. Cash generation will likely stay decent, and this should enable the company to reduce its currently very high leverage.

- We expect UK fuel consumption to continue falling moderately, due to the growing share of EVs. That said, the decline should be quite gradual and compensated by higher EV charging revenues. Revenues will likely continue fluctuating with oil prices, but we expect gross margins to stay relatively stable (with price increases passed on to customers). We note that fuel margins are under regulatory scrutiny, though MFG has so far been able to keep margins stable (or even increase them).

- Margins in the sector are very low, though retail and foodservice offers enjoy better profitability. MFG should benefit from improved margin trends in the near to medium term thanks to merger synergies, though this would also lead to a temporary increase in costs. Fixed costs are low, allowing operators to adjust to changes in demand, as evident in the resilient margin trends amid the pandemic.

- MFG’s cash generation has been healthy over the recent years, supported by moderate capex needs and low lease expenses. We view positively management’s commitment to not pay dividends in the medium term, but note that the interest burden would rise following the transaction. There will also be a need to continue investing in EV charging facilities, as well as in non-fuel offers. However, capex is largely discretionary, and could be scaled down if needed. We expect interest coverage to remain manageable at c. 1.8x in FY 2024.

- We view post-transaction as high but manageable. The company should be able to gradually reduce leverage in the absence of large-scale M&A or shareholder-friendly actions, thanks to its decent cash-generation potential. Liquidity is decent on the back of operational cash generation, further supported by availability under the RCF.

Structural and Legal Assessment

The structure is uncomplicated and guarantee cover is strong. We note the somewhat generous multiple for the Morrisons transaction, perhaps due to CD&R's cross-ownership of MFG and Morrisons. While the transaction is well-balanced between equity and debt, the fresh cash equity component is limited to the preference shares, with the rest forming an implied equity cushion.

We hence believe that the loosely crafted terms of the notes will allow CD&R to take advantage of the large implied cushion and re-leverage the business. This would enable the sponsor to steer value away from bondholders gradually. The Restricted Payments clause is slightly more restrictive, which offers some comfort. The Transactions with Affiliates clause is also generous.

The capital structure is broadly balanced given the mix of debt and equity for the transaction, with an equity cushion of c. 5.2x on a 10x valuation. While the presence of a syndicate of shareholders and the layering of equity and debt might seem quite attractive for both equity and fixed-income investors, we would advise caution given the limited cash equity component (c. 20% of total equity and mostly comprising preference shares). CD&R, which acquired MFG in 2015, also owns Morrisons, making it an indirect beneficial owner of Morrisons' 20% post-transaction stake in MFG.

All subsidiaries are restricted, providing almost full guarantor coverage. We note positively that the loans and bonds are pari passu with each other, both upon enforcement and otherwise. On an ongoing basis, however, the senior facilities still benefit from maintenance covenants, solid security/charges and minimum guarantor coverage, with potential for prepayment using excess proceeds as well.

- We are comforted by the presence of a mandatory redemption clause, given the uncertainty on whether the Morrisons transaction will be concluded successfully. The optional redemption clause is quite standard, with a soft-call provision giving investors some relief in the non-call period.

- The CoC clause is standard, and would be triggered if permitted holders relinquish over 50% of control. The definition of permitted holders includes all current shareholders, including management.

- There is a clause for the suspension of covenants if the business becomes listed or is rated IG by at least two of the three agencies. This is also standard, with the categorisation of restricted subsidiaries into unrestricted subsidiaries not allowed during the suspension, unless doing so does not result in a breach of covenants in place before the suspension.

- The Limitation on Indebtedness clause does not have a leverage-based incurrence test, which has become standard in past years. We note that it is very issuer-friendly, with the issuer having significant flexibility to classify/re-classify any debt, including those under the senior facilities, across the various clauses under permitted payments. Additionally, the issuer can indicate that a particular transaction be tested under the incurrence test provision, thereby leaving the permitted debt carve-out clause intact. The overall permitted debt carve-out basket size is also large at over c. GBP 4.5 bn (on an absolute basis), of which only c. GBP 3.3 bn has been incurred so far, implying over c. 25% capacity headroom on an absolute basis. Moreover, the covenant also allows for any amount of debt to be incurred if consolidated net leverage is 6.5x or lower (currently c. 4.8x as reported).

- The Limitation on Restricted Payments clause is issuer-friendly, albeit it is more reasonable compared to the Limitation on Indebtedness clause. While there is a provision for unlimited dividends, this is applicable only if pro-forma net senior secured leverage is 4.5x (modestly below the current reported levels). The total size (in absolute terms) of the carve-out baskets is not too onerous. Although preferred dividends are payable on the preferred shares, this can be done only if the incurrence test is met, hence offering some cushion.

- The Limitation on Asset Sales clause is mixed in our view. While the period for the application of proceeds is double the usual duration (two years vs. the standard one year), the excess-proceeds threshold is set at less than 2.5% of current gross debt, which is a positive. Moreover, the threshold for designation of non-cash disposal as cash disposal is low at less than c. 5% of current gross debt. Proceeds must be used either for capex or debt repayment, including the notes (although MFG can pick which debt to redeem if it is at least pari passu indebtedness).

- The reporting requirement is tighter than usual, especially for the immediate quarter following the transaction. This is a positive for noteholders.

- The Limitation on Transactions with Affiliates clause is somewhat issuer-friendly as well, with the de-minimis level (no authorisation needed) being higher than usual.

- While general limitations on liens exist, we note that the permitted collateral liens clause is slightly more generous than usual. Atypically for this clause, a senior secured net leverage threshold provision is missing. Moreover, the list of permitted liens is substantial. Lastly, the de-minimis threshold for permitting collateral liens is low.

- We are also cautious on the Limited Condition Acquisition clause and related calculations. While these have become common in the documentation of recent bond issuances, they are typically quite issuer-friendly and expose investors to higher leverage as transactions could be executed despite weaker-than-acceptable credit metrics, given issuers' ability to calculate incurrence ratios as they see fit (e.g. between the announcement and closing of a transaction).

- The Events of Default clause is fairly standard, as are the jurisdictions for enforceability of the Intercreditor, security documents and indenture/guarantees.

Pricing

For pricing purposes, we use EG Group as a peer. MFG (B2 (stable) / B (stable)) and EG (B3 (negative) / B- (positive)) are both forecourt operators. While MFG has higher margins and lower leverage, EG has greater scale and its product offering is more discretionary. In addition, EG has better geographical diversification. That said, EG's financial policies have been more aggressive, with a material debt burden (following a series of acquisitions) in comparison to MFG. EG is addressing its debt burden by divesting assets, and it appears that EG's acquisition in Australia in 2018 has not evolved as envisioned. Moreover, MFG has better asset coverage than EG.

Overall, we expect the MFG notes to be priced tighter than EG's EUR 2028 notes, which are trading at yields of c. 9.5%. Adjusting for a tighter spread and EUR/GBP swap, we view price talk on MFG's proposed GBP 5Y notes offering in the 8.75% area as fair value.

Overall Risk Assessment

We view MFG as "**High Risk**" on the LARA scale. The company's credit profile is supported by its extensive site network, broad product offering and high share of company-owned sites. Medium-term industry growth prospects appear decent, with increasing need for convenience and a shift towards EVs. We are concerned about the group's lack of geographical diversity, with it operations being solely in the UK market. MFG remains very reliant on traditional fuel refilling, though its strategy entails diversifying the revenue mix towards non-fuel and EV infrastructure offerings. Credit stats are stretched, though we see potential for slight deleveraging through synergy realisation, EBITDA growth and modest FCF generation. That said, deleveraging could be hampered by the acquisitive growth strategy. The bond documentation is issuer-friendly, with significant debt capacity.

Our fundamental Credit Bias is "**Stable**". We expect MFG to keep net leverage at c. 5x following the acquisition of Morrisons' forecourts. Despite the higher cash-outs for interest, we expect MFG to churn modest positive FCF in FY 2024.

Peer Comparison

Name Currency Year Ending	Motor Fuel Group^ GBP PF LTM 31-Dec-23	EG Group* GBP PF LTM 30-Jun-23	Tesco^^ GBP LTM 26-Aug-23
S&P/Moody's/Fitch Rating	B/B2/NR	B-/B3/B	BBB-/Baa3/BBB-
S&P/Moody's/Fitch Outlook	Stable/Stable/NR	Positive/Negative/Stable	Stable/Stable/Stable
Share Price 52 Weeks Current/High/Low	NM	NM	GBp 292.3/303.6/244.3
	Financial Comparison (millions)		
Key data (based on last FY)			
Nature of business	Motor Fuel Group is a leading mobility retailer in the UK, with a network of more than 1,200 petrol stations and convenience shops, along with over 600 charge points. It is the largest private forecourt operator in the UK, following the acquisition of Morrisons' petrol forecourts.	EG Group is the third-largest convenience store (c-store) operator globally, with 5,937 sites across Europe, the US and Australia. It is the second-largest player in Continental Europe and Australia, and the fifth-largest in the US. The company's sites offer petrol alongside grocery, retail merchandise and food services through proprietary as well as third-party brands.	British grocery retailer, with 4,859 stores in five markets: the UK, the Republic of Ireland (ROI), the Czech Republic, Slovakia and Hungary.
Segmental split based by revenues	Fuel and electricity forecourt retailing	Fuel (48% of gross profit for LTM ended June 2023), Grocery & Merchandise (31%), Foodservice (15%), Others (6%)	UK & ROI (81%), Central Europe (6%), Fuel (13%)
Geographical operations by revenues	The UK	Continental Europe (41% of gross profit for LTM ended June 2023), the US (48%), Australia (11%)	NA
Income Statement			
Net Sales	8,768	24,615	66,187
Reported Growth (for last FY)	NA	15.9%	7.0%
Adjusted EBITDA	633	1,284	4,232
% of Sales	7.2%	5.2%	6.4%
Adjusted EBITDAR	633	1,284	4,232
% of Sales	7.2%	5.2%	6.4%
Cash Flow Statement			
Operating Cash Flow	105	572	4,071
% of adjusted EBITDA	16.7%	44.5%	96.2%
Capex	267	416	1,231
% of Sales	3.0%	1.7%	1.9%
FCF after Capex	-161	156	2,840
% of adjusted EBITDA	-25.5%	12.2%	67.1%
Balance Sheet			
Gross Debt	3,585	9,890	
Cash & Short-term Investments	192	1,120	
Net Debt	3,393	8,770	9,888
Net Debt / Adjusted EBITDA	5.4x	6.8x	2.3x
Market Capitalisation	NM	NM	20,575
Net Debt / Market Capitalisation	NM	NM	0.5x
EV	NM	NM	30,463
EV / Adjusted EBITDA	NM	NM	7.2x

* Figures were not reported in GBP and were translated at the relevant rates

^ Pro forma for Morrisons' petrol forecourts acquisition

^^ Figures relate to Retail business, excludes Tesco Bank; FCF is Lucror-calculated; segmental split excludes Tesco Bank

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