

INVESTOR'S EDGE

Convenience store company offers investors a solid return

Casey's General Stores has more than 2,500 locations in 17 states and is growing.

"Buy stocks like you buy your groceries, not like you buy your perfume"
— Warren Buffett



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Guest columnist

So far, 2023 has been a good year for stocks, as I correctly forecasted in this column back in January.

But it's been a stellar year if you had exposure to the well-known "Magnificent Seven" mega-cap technology stocks that have driven the majority of the returns on the S&P 500 Index – Apple, Microsoft, Tesla, etc.

Look, I'll take investment gains wherever I can, and the popular large-cap companies have been the big winners recently. But I can tell you from experience, it pays to keep your eyes open for smaller-growth companies, real gems that can generate durable investment gains.

A few years ago, I visited friends in Arkansas. Surrounded by the pretty countryside, I noticed a whole bunch of gas stations/convenience shops with bright signs reading "Casey's General Store." When stopping for gas, I also noticed robust foot traffic from their customers.

As a money manager, I knew to check out if this company was publicly traded.

It is. Casey's General Stores (symbol: CASY) is a unique growth company that offers a solid risk/reward opportunity for the long-term, risk-adverse investor.

By way of background, Casey's is the third largest operator of convenience stores in the United States, with more than 2,500 locations across 17 states, concentrated primarily in the Midwest. While this may surprise some readers who have not heard of Casey's, even more interesting is that Casey's is the nation's fourth largest liquor store and fifth largest pizza chain.

A key differentiating factor in Casey's story is the fact that more than 50% of the company's stores are in rural towns with 5,000 people or less. This means that in addition to selling fuel and other traditional convenience store items, Casey's plays a major role in rural communities by providing groceries, prepared foods, and general merchandise.

In fact, while fuel represents 65% of the company's revenue, it makes up only 34% of their gross profit. Prepared food, grocery and general merchandise actually makes up the bulk of Casey's profits. The upside is that Casey's has higher and more stable margins than their competitors, along with a very loyal customer base. Casey's business model is focused on clean stores that are a convenient, one-stop shop for its customers.

In short, Casey's gets their customers to fill up their gas tanks, then makes real cash selling soft drinks, pizza, health and beauty aids, pet supplies and the like.

Casey's profitable business model is showing no signs of slowing down. Earlier this year the company rolled out a three-year strategic plan focused on expansion of 9% over the last decade. They also have a \$400 million share repurchase plan in place. Casey's has been a very good stock, generating a 15% annual rate of return over the last 10 years, well ahead of the S&P 500 index.

To accelerate its already successful food business, Casey's has increased its own

private label offerings of prepared foods, snacks, and beverages to more than 300 options. As the fifth largest pizza chain in the United States, Casey's remains committed to its signature fresh pizza that is the "crown jewel" of its food portfolio.

Sounds yummy. And despite operating in small communities, Casey's recently started a reward membership program that already has an admirable 6.5 million members.

Casey's has seen impressive earnings growth of almost 19% per annum over the last three years and generates over a billion dollars of free cash flow. While they currently sport only a 0.6% dividend yield, they have delivered 24 years of consecutive dividend growth, at an average rate of 9% over the last decade. They also have a \$400 million share repurchase plan in place.

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to date, it is selling at a very reasonable 22 times forward earnings. I think that's cheap for an almost 20% earnings grower.

Although Casey's is a lesser-known company, I do not view it as a speculative stock. The main risks are rising costs and despite operating in small communities, Casey's recently started a reward membership program that already has an admirable 6.5 million members. Casey's has seen impressive earnings growth of almost 19% per annum over the last three years and generates over a billion dollars of free cash flow. While they currently sport only a 0.6% dividend yield, they have delivered 24 years of consecutive dividend growth, at an average rate of 9% over the last decade. They also have a \$400 million share repurchase plan in place.

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