Engine Capital Delivers Letter to CST Brands Board of Directors

Believes CST Brands is Significantly Undervalued and That There are Opportunities Within the Board's Control to Increase Shareholder Value

Expresses Concerns Regarding CST Brands' Poor Stock Performance Since Spinoff from Valero Energy

Urges the Board to Either Immediately Make the Necessary Changes to Improve CST Brands' Operations or Evaluate All Strategic Alternatives to Maximize Shareholder Value

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Engine Capital LP →
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NEW YORK, Dec. 9, 2015 /PRNewswire/ -- Engine Capital LP (together with its affiliates, "Engine"), a shareholder of CST Brands, Inc. ("CST" or the "Company")(NYSE: CST), with ownership of approximately 1% of the outstanding shares of the Company, today announced that it has delivered a letter to the Company's Board of Directors.

The full text of Engine's letter follows:

December 9, 2015

Members of the Board of Directors
CST Brands, Inc.
One Valero Way
Building D, Suite 200
San Antonio, TX 78249

Dear Board Members:

Engine Capital LP, together with its affiliates ("Engine"), owns approximately 1% of the outstanding shares of CST Brands, Inc. ("CST" or the "Company"). CST represents a significant investment for Engine. We invested in CST because we believe the Company is deeply undervalued and that there exist opportunities readily within the control of the Board of Directors (the "Board") to substantially increase shareholder value. Over the last few months, we have shared with you a number of concerns and suggestions around the poor stock performance of CST since its spinoff from Valero Energy Corporation ("Valero"), the significant operational underperformance of the Company, executive compensation, capital allocation, real estate monetization, corporate governance matters, investor communication and board composition. We had hoped, following our discussions, to work cooperatively to increase value for all shareholders. Unfortunately, given the lack of progress to date together with the importance to act with urgency, as described in more detail below, we have little choice but to share our thoughts publicly at this time.

CST has a collection of valuable assets, including (i) a large portfolio of retail stores in the U.S. in populous, growing areas such as Texas, Colorado and California, (ii) a large retail presence in Ontario and Quebec, (iii) a very significant portfolio of real estate holdings, and (iv) an attractive legal and capital structure with a "sponsored MLP" relationship. The public market is not currently ascribing appropriate value for these substantial assets. CST trades at a significant discount to its public peers with Alimentation Couche-Tard ("Couche-Tard") and Casey's General Stores, Inc. ("Casey's")[1] trading at approximately 13x and 10x EBITDA, respectively versus approximately 8x for CST. CST also trades at a significant discount to what it would fetch in a sale given the scarcity value of this at-scale asset, the consolidating nature of the industry and the recent transaction multiples. Based on recent M&A transactions, we estimate that CST would sell for between $50 and $55 per share, implying a premium of around 43% to the current stock price (assuming the midpoint of our valuation range).

Fundamentally, CST is in a strategic quandary. The Board and senior management view the Company as one of the industry consolidators, yet is unable to articulate how it improves operations at its target companies. A consolidation strategy works when the consolidators are the best operators and bring the most value to their targets. As we describe below, CST has consistently lagged the better operators on the key relevant metrics. In CST's case, it is the

targets that tend to have the best-of-breed merchandising practices that CST is trying to acquire[2]. In this consolidation phase, CST competes with entities such as Speedway (a division of Marathon Petroleum Corporation), Sunoco LP and Couche-Tard. These three companies are top-tier operators that significantly improve the operations of their targets and that can therefore afford to pay more than CST for their acquisitions. As an example, Speedway monitors and manages its business using a statistic called Light Product Breakeven which incorporates merchandising productivity and fuel volumes to determine the fuel breakeven pricing. Speedway's breakeven cents per gallon is below 3 cents compared to approximately 7 cents for CST[3], indicating much better merchandising and operating productivity at Speedway. Additionally, the recent and dramatic decline in value of CAPL is further exacerbating this strategic issue. Without the CAPL currency, it has become even harder for CST to compete for assets against larger players with lower cost of equity. In other words, CST has a higher cost of capital than the three natural consolidators and is not as productive on the merchandising side. CST must quickly demonstrate it can increase its merchandising and operating productivity if it is to be one of the enduring consolidators in the industry.

The recent Flash Foods deal is a case in point. As part of the deal synergies, CST has communicated that it expects a $4 million improvement in gross profit by year three, which equates to an approximately $24 thousand benefit per acquired store. By comparison, in the recent purchases of Hess Retail (by Marathon Petroleum Corporation) and The Pantry (by Couche-Tard), the increase in anticipated gross profit dollars per store was approximately $56 thousand and approximately $39 thousand, respectively[4]. These better operators can squeeze more profits from their targets and can therefore afford to pay more, which make them the natural consolidators in this space. While it is difficult to evaluate the financial attractiveness of the Flash Foods acquisition because management has not shared any financial metrics of the target, our point is that CST must become a best-in-class operator if it wants to pursue a successful consolidation strategy given the competitiveness of the M&A market.

With this as relevant industry background, we believe that two avenues exist for senior management and the Board to significantly increase shareholder value. One option is for CST to remain a standalone public company, but make the necessary changes to aggressively improve the numerous aspects of its business operations that we highlight below. If management is able to execute on this, we believe CST can compound earnings attractively over the medium to long term given the industry tailwinds which include an expanding

convenience store market and competitive advantages over smaller gasoline retail players. The other option is to promptly initiate a review of the Company's strategic alternatives and explore what buyers may be willing to pay for CST in the current robust M&A market. Engine would be supportive of the option that creates the most risk-adjusted value for CST shareholders.

It is imperative that the Board act with a sense of urgency given the stock performance[5] of CST versus its peers and the S&P 500 since the Company was spun off from Valero more than two years ago.

Total Shareholder Return	Since 5/1/13	Since 1/1/14
CST	24%	2%
Casey's	116%	74%
Couche-Tard	216%	138%
Average	166%	106%
S&P500	32%	13%

In order to become a top tier operator, CST needs to immediately improve the following areas of its business:

A. Merchandising Operations

Based on our research, it appears that CST is substantially lagging its peers when it comes to providing compelling merchandise and foodservice offerings, as evidenced by the lagging merchandising same store sales ("SSS") and higher Light Product Breakeven of CST versus its peers[6] in both US and Canada.

US Same Store Sales Growth	2013	2014	1Q15	2Q15	3Q15	Cumulative
CST (U.S. Retail)	-0.7%	1.1%	3.0%	3.1%	3.8%	**3.7%**
Couche-Tard (U.S.)	2.8%	3.6%	5.2%	5.1%	5.2%	12.0%
Speedway	4.3%	5.0%	6.2%	4.6%	3.6%	14.8%
Susser / Stripes	3.0%	4.1%	3.9%	3.1%	4.7%	11.4%
Casey's (Grocery & Other)	5.7%	7.3%	9.7%	7.0%	7.5%	22.5%
Casey's (Prepared Foods)	9.8%	12.1%	13.5%	10.3%	9.4%	36.7%
Peer average						**17.0%**

Canadian Same Store Sales Growth	2013	2014	1Q15	2Q15	3Q15	Cumulative
CST (Canadian Retail)	0.4%	-0.5%	4.8%	3.6%	4.1%	**4.1%**
Couch-Tard (Canada)	1.8%	2.9%	3.8%	2.3%	3.6%	**8.1%**

The same store sales figures above do not paint the full picture of underperformance because (1) most of CST's stores are located in states with above average population growth; and (2) the SSS for CST includes a mix shift towards larger New to Industry (NTI) stores.

This is particularly concerning given that the merchandise sales per store at CST is well below the sales of its industry peers[7].

$000s	CST	Hess	Sunoco	Industry Average	Speedway
Merchandising sales per site per year (2014)	1,288	1,399	1,524	1,749	2,228

In other words, CST started from a very low basis but is still underperforming its peers when it comes to merchandise SSS since the spinoff from Valero in 2013. By comparison, Hess, another low merchandising volume network, is seeing significant improvement following Speedway's purchase.

Engine believes there is significant room to grow this portion of the business with more foodservice penetration (CST has one of the lowest foodservice penetration among its peers), better private label offerings, loyalty card offerings, and better merchandising and operations in general. This is about blocking and tackling every day. Speedway, for example, expects to significantly increase the merchandise sales at its recently purchased Hess locations by introducing its leading loyalty program which will drive in-store traffic and provide merchandising opportunities. On Marathon's latest earnings call, the company stated it has

realized more than two times as many synergies as anticipated in the first year of the acquisition. Sunoco has also been aggressive with its foodservice offering with the rollout of the Laredo Taco foodservice brand.

During our recent discussion, senior management and Board members emphasized the recent improvement in SSS. While the performance has slightly improved (from a negative number to 3.8% during the last quarter), it is still lagging peers consistently and substantially. As shareholders in a company pursuing a consolidation strategy, we expect top quartile performance, not just improved performance.

B. Capital Allocation

According to CST's 2020 plan, a large component of its growth strategy will come from the growth in NTI stores. While we agree with the strategic merit of growing new store openings and increasing the portion of gross profit that comes from merchandising, we are concerned by the unlevered return metrics of the organic growth program. Management has communicated a 15% return target once these new stores mature. While 15% sounds like an acceptable return target, that number is pre-tax and pre-maintenance capital expenditures. Adjusting for these two factors, we estimate the return on capital for these projects is around 10% on an unlevered basis, which is simply too low. Top-tier players target cash-on-cash returns in the mid-teens and include tax and necessary capital expenditures in their return definition. As an illustration, during its analyst day on December 3, 2015, Marathon Petroleum disclosed that its return on "new build" locations is 18% after tax and after maintenance capital expenditures. Based on our discussion with management, we understand that very little work has been done to test alternative designs with lower capex requirements that may generate better returns. So while we support the growth strategy, we believe that the Board needs to raise the threshold returns for the NTI program and make sure that growth initiatives are as potent as possible.

When it comes to M&A, because of the dynamics that we have discussed above, we are concerned that CST may be overpaying for its targets. CST just paid $425 million to buy Flash Foods without sharing any relevant metrics that would allow shareholders to assess the attractiveness of the acquisition. How can shareholders assess the performance of senior management with regard to its consolidation strategy if we are kept in the dark on the price

paid for its acquisitions? In its own press release, CST highlights the competitiveness of the Flash Foods auction by quoting the seller Jimmy Jones, Chairman and CEO of Flash Foods as saying "We are happy to have selected CST Brands from a formidable group of potential buyers." Given that the top-tier players are significantly improving their targets' merchandising operations, they can afford to pay higher multiples (relative to other operators). As shareholders, we would like to independently assess whether spending around 15% of the Company's market capitalization to buy Flash Foods is a better use of capital than, say, repurchasing 15% of the Company's shares outstanding.

C. Real Estate

As we have discussed with you over the last few months, we do not believe the market is properly valuing the significant real estate holdings of CST. Given the locations (Texas, Colorado and California, in particular) and the strength of CST as a tenant, Engine believes that the cap rate of the portfolio is between 6.5% and 7.0% and is valuing the real estate portfolio at around $2 billion. Many sites may actually be sold at significantly lower cap rates in the 1031 market where we have seen transactions between 5.0% and 5.5%. We note the recent comments from senior management on the Q3 earnings call about looking at ways to maximize the value of CST's real estate[8]. While this is something that should be considered and significant value may be unlocked through a thoughtful transaction (or series of transactions), we believe that this review may need to be broader as we discuss below. We hope that the Board is getting advice from a nationally-recognized top-tier investment bank as it considers this real estate review.

D. Executive Compensation

We are concerned that the current compensation structure fails to align executive compensation with the most relevant metrics for shareholder performance. Over the last two years, the top five employees at CST have earned close to $20 million (the CEO close to $10 million) while the stock performance has continually lagged CST's peers and relevant indexes. The current compensation scheme also poorly aligns executive pay with long-term value creation. For example, management compensation is not tied to ROIC (return on invested capital). Given that the Company is trying to enlarge its footprint though new stores and M&A, ROIC is an important measure of management's ability to create value by investing shareholders' capital. Also, metrics should be per-share based as opposed to absolute since the

goal is to increase intrinsic value per-share. For the long-term incentive compensation, we are concerned that too much weight is given to time-based shares where an executive can still receive substantial wealth even if there is poor performance and the stock price declines. In the table below, we suggest a new compensation structure for CST's senior management and compare it to the current structure.

	CST (Today)	**Engine's recommendation for CST**
Short-term incentive (STI) metrics	1. Net income - 50% 2. Same store merchandise gross profit growth - 30% 3. New to industry builds - 10% 4. Individual participation in the Corner Store Time Program - 10%	1. EPS - 40% 2. ROIC - 40% 3. Same store merchandise gross profit growth - 20%
STI form of payment	Cash	Mix of cash and equity to further align management with shareholders
Long-term incentive compensation	Stock options - 50% RSU - 50%	Performance shares - 50% Stock options - 25% Time-based shares - 25%

E. Corporate Governance and Board Composition

We believe that CST should adhere to corporate governance best practices. In particular, we note that the Company maintains a classified Board and a combined position of Chairman and CEO. In light of this governance structure, we question whether there is proper accountability and oversight at the board level.

We further believe that the Board could be significantly strengthened through the addition of new directors with strong, relevant backgrounds. Given the Company's business and assets, Engine thinks it is important to add new Board members with merchandising, convenience store, real estate, marketing and/or capital allocation experience. This is particularly important at CST given the non-operational background of the CEO. Furthermore, the Board would be strengthened by having stronger independent shareholder representation.

F. Investor Communication

We have significant concerns about the way CST communicates with its stakeholders. Here are just a few recent examples that highlight the issues:

- The Company does not disclose adequate details regarding its return of capital on its NTIs. By comparison, Marathon Petroleum disclosed return metrics for remodels, new builds and rebuilds at its investor day presentation from December 3, 2015.

- On November 4, 2015, the Company announced that it is reviewing strategic alternatives for its California network. In its earnings call, the Company proceeded to explain why this portfolio does not fit with the Company's strategy. We think that these comments may have reduced the strategic flexibility of the Company (because it is tougher to keep the assets after CST has highlighted how it doesn't fit with its strategy) and the potential price CST could garner in any sale process (by highlighting that CST wants to sell this assets for strategic reasons). Why make the strategic review announcement in the first place? Why go into further detail about why this asset does not fit with CST's strategy? Potential bidders may bid less knowing all this information and the Company has less leverage to walk away from a sale (or to threaten to walk away as a strategy to get better pricing) after making such announcements.

- During the second quarter 2015 earnings call on August 7, 2015, the earnings growth at CAPL caught a lot of investors by surprise. Most communication to investors regarding CAPL stressed an earnings profile that was not tied to commodity pricing. That quarter CAPL wholesale EBITDA grew $2m year-over-year despite spending approximately $250m in acquisitions and management had to finally recognize the impact of falling oil prices.

These are just some recent examples of poor disclosures and lack of strategic thinking when it comes to the way the Company communicates with its stakeholders.

Review of Strategic Alternatives

As an alternative to the standalone option, we believe the Company could also create significant value through a comprehensive review of its strategic alternatives. CST has already publicly announced that it is conducting a strategic review of its California assets and senior management has publicly commented that it is looking for ways to unlock the value of its real estate assets. Given that the California assets, as well as the real estate holdings, represent a significant component of the Company's entire value and these assets may have strategic value for potential acquirers of CST, the Board should not consider these transactions in a vacuum. It

may be more prudent to engage in a price discovery process for the entire Company in parallel to the other potential transactions that CST is currently considering. Therefore, the decision to monetize the real estate assets has broader implications that the Board needs to consider.

As we describe above, there are a number of steps that management and the Board can take to create value on a standalone basis. Yet there are significant execution risks. At the same time, a number of recent large M&A transactions in the space confirm the rapid pace of consolidation and imply a valuation for CST significantly higher than CST's current trading price.

Recent large transactions and their multiples include:[9]

Purchaser	Target	EBITDA Multiple
Marathon (Speedway)	Hess	16.4
ETP	Susser	10.7
Couche-Tard	The Pantry	7.8
Sunoco	Aloha	10.0
Average		11.2
CST trading multiple		8.3

Based on prior transactions, we believe a sale of CST today would take place at between 11x and 12x EBITDA which would imply a sale price of approximately $50 to $55 per share. Given the scarcity value of the asset, we believe there will be fierce competition and the high end of the range is the most likely outcome. A sale price of $52.5 per share (at the midpoint of our valuation range) would imply a premium of approximately 43% based on an unaffected stock price of $36.82[10] per share. Factoring in the time value of money and execution risk, in order to try to justify not selling the Company now, by our calculation, the Board would have to be confident that the Company's stock would reach $74 per share within 3 years (at a 12% discount rate and assuming a $52.50 per share transaction).

At this point, Engine has certainly not reached the conclusion that the Company should be sold. We have raised it as a value-maximizing alternative given our uncertainty at this stage as to whether senior management and the Board would commit to executing on the standalone initiatives we described above.

In conclusion, we think CST is significantly undervalued. There are many levers for management and the Board to significantly enhance shareholder value. In order to justify remaining a standalone public company and not taking advantage of this unprecedented period of M&A, CST must act quickly and make the necessary changes to improve its operations along the lines we highlight above. Alternatively, CST could evaluate all strategic alternatives to maximize shareholder value and explore what one of the large consolidators would pay for the Company's valuable assets. The one thing that is certain is that the status quo is unworkable and the Board needs to act with a sense of urgency.

We intend to monitor closely the developments at the Company. We reserve our rights to take whatever actions in the future we believe may be required to protect the best interests of shareholders.

Very truly yours,

Arnaud Ajdler	Brad Favreau
Managing Partner	Director

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[1] During our discussions with the Company, management mentioned Murphy USA and TravelCenters of America as other peers to justify its lower multiple. We don't believe these companies are relevant for valuation purpose because they follow different strategies than CST or have idiosyncratic issues.

[2] Recent quotes from the CEO include "Nice N Easy is an acquisition that CST was working at not necessarily because upstate New York is a great growing geography from a market standpoint, but because it has some really nice best practices in it. They've got a very strong food program, a strong grocery set. They actually started off as grocery stores. And we're already leveraging that best practice into our systems -- our stores, particularly in the San Antonio area to test them further." (May 27 investor conference) and "On Slide 6, you'll see some examples of the food items that will be part of our offering. These are all items that are currently available at our Nice N Easy stores, where food sales make up around 1/3 of our total inside sales. This effort underscores the added benefit to CST from our acquisition strategy as we begin to bringing acquired best practices to scale across our network." (Q2 2015 earnings call)

[3] Last publicly available figure for Speedway is 2.56 in fiscal year 2013. CST figure per Engine Capital using LTM figures through 3Q 2015.

[4] $70 million merchandising gross profit improvement across 1,256 Hess locations per Marathon presentation on 5/22/14 and $59 million of gross profit improvement across 1,512 Pantry locations per Bank of America research dated 3/18/15 (assumption made for gross profit impact of credit card fee reduction)

[5] Performance as of 12/4/2015

[6] Couche-Tard and Casey's fiscal years end in April. To better compare annual same store sales performance with CST, we use straight average of fiscal fourth quarter through the third quarter of the following fiscal year for Couche-Tard and Casey's. Additionally 1Q15, 2Q15 and 3Q15 for CST is compared to fiscal 4Q, 1Q and 2Q for Casey's and Couche-Tard, respectively. SSS excludes cigarette sales for Speedway. Susser 2014 SSS calculated as straight average of publicly available quarterly results. Susser 3Q15 figure is for Stripes brand and excludes Western Texas stores with exposure to oil-producing areas. Peer average calculated as straight average of Couche-Tard, Speedway, Susser and average of Casey's grocery and prepared foods figure. Cumulative figure assumes annualization of YTD 2015 results.

[7] CST merchandising sales per site per year is an annualization of core same store per day merchandising figure from company filings. Hess and Speedway figures derived using 2013 figures per Acquisition of Hess Retail presentation (May 22, 2014) grossed up by Speedway 2014 SSS. Industry average per NACS state of the industry report (2014)

[8] Kim Lubel during the Q3 2015 earnings call: "In terms of the comment on the IRS, it's simply that the IRS has recently indicated they are no longer going to give private letter rulings on a tax-free real estate spin. As a result it makes that process a little bit more complicated and we continue to analyze it and I think in case -- the market that we get on that we are going to be evaluating with the board and we'll likely be coming back out with an announcement in the first half of 2016 with respect to recommendations for how to try to get more value out of our real estate in the process"

[9] Multiple for the Pantry transaction is less relevant given the lower quality of the asset and the lower percentage of real estate ownership. Multiple of the Aloha transaction based on discussion with industry participants and includes an earn-out component.

[10] Closing price as of 12/7/15

ABOUT ENGINE CAPITAL

Engine Capital is a value-oriented special situations fund that invests both actively and passively in companies undergoing change.

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