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We recommend a **BUY** for the following reasons:

- Currently, the market has depressed TA's stock price and it is trading below book value; we believe that this will be corrected over time, making it an attractive investment
- TA receives strong support from Hospitality Properties Trust; their relationship provides the company financial flexibility through the deferred rental agreement
- We expect TA to continue its market leadership and the company will be well-positioned (through its strategic locations and strong cash position) to profit when the economy recovers

**COMPANY OVERVIEW**

**STOPS ACROSS THE COUNTRY**

Currently operating 233 travel centers in 41 states and Canada, Travel Centers of America is the largest player in the full-service truck stop industry. The company operates 188 of the travel centers directly, franchising the remaining 45 locations. Travel Centers earns revenues from fuel sales (contributed 84% to FY 2008 total revenues), nonfuel sales (15.5%), as well as rent and royalties (<0.5%)<sup>1</sup>. In recent years, the company has struggled to be profitable; causes have included unmanageable rent obligations, acquisition costs, and the extreme volatility of fuel prices in the U.S. Due to the volatility that oil prices caused for TA's fuel revenues, the best predictors of the company's success are fuel volumes and gross margins.

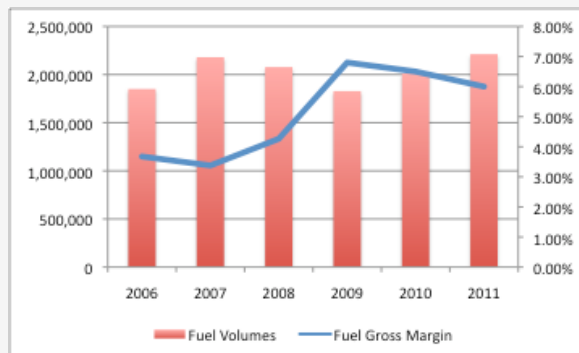
**A HEALTHIER RELATIONSHIP WITH HPT**

Hospitality Properties Trust (HPT), a real estate investment trust, was founded in 1995. Before January 2007, HPT had only operated real estate properties in the hospitality industry. However on January 31, 2007, HPT acquired TA for \$1.9 billion and spun it off to HPT shareholders. As part of the agreement, HPT became owners of the underlying real estate of TA's truck stops. This real estate is one of HPT's largest assets, making up 39.7% of their investments<sup>2</sup>.

**TRAVEL CENTERS OF AMERICA**

<b>TICKER:</b>	<b>TA</b>
<b>HEADQUARTERS:</b>	<b>WESTLAKE, OHIO</b>
<b>CURRENT PRICE (10/30/09):</b>	<b>\$5.65</b>
<b>TARGET PRICE:</b>	<b>\$9.84</b>
<b>52-WEEK RANGE:</b>	<b>\$0.96 – 8.75</b>
<b>SHARES O/S (MM):</b>	<b>16.67</b>
<b>MARKET CAP (MM):</b>	<b>94.19</b>
<b>TEV (CURRENT, MM):</b>	<b>14.18</b>
<b>TEV/EBITDA 2008:</b>	<b>0.37x</b>
<b>TEV/EBITDA 2010:</b>	<b>0.16x</b>
<b>P/S 2008:</b>	<b>0.01x</b>
<b>P/S 2010:</b>	<b>0.02x</b>
<b>P/B 2008:</b>	<b>0.23x</b>
<b>P/E 2010:</b>	<b>3.32x</b>
<b>CASH TO MARKET CAP:</b>	<b>1.93x</b>
<b>FY '08 REVENUES:</b>	<b>\$7.66B</b>
<b>FY '08 EPS:</b>	<b>\$(2.71)</b>

**FISCAL FUEL GROSS MARGINS AND VOLUMES**



<sup>1</sup> TA 2008 Annual Report, Dec. 31, 2008,

<http://www.tatravelcenters.com/annual-reports>

<sup>2</sup> Inhospitable Value at Hospitality Properties Trust, Sept. 9, 2008,

<http://seekingalpha.com/article/94520-inhospitable-value-at-hospitality-properties-trust>

Since the reorganization, TA's stock price has dropped dramatically. As a result, a shareholder derivative suit was filed against TA and HPT on February 1, 2008 in the Delaware Courts.

A large reason why TA struggled after the spin off was due to the extremely high rent obligations it had to HPT. Between 2006 and 2007, rent increased by \$179.9 million, accounting for nearly all of the \$182.3 million cash flow from operations decline that occurred during the same time period<sup>3</sup>. In order to avoid bankruptcy, the two companies entered into a rent deferral agreement. This agreement was a positive sign for TA, as it signaled that HPT was willing to aid it in becoming profitable again.

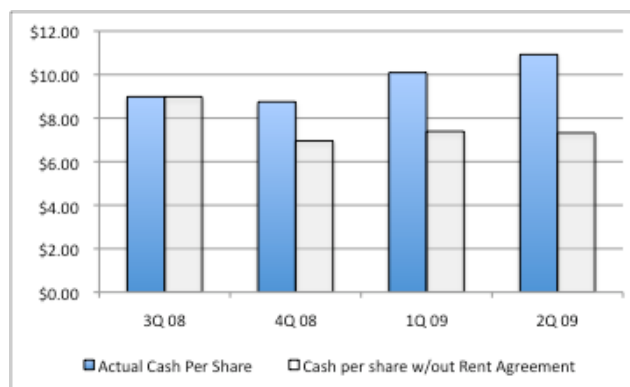
### CASH IS KING (AT LEAST FOR NOW)

TA has entered into a unique lease agreement with HPT, which has positively affected cash. There are two leases TA has under Hospitality Trust – one for 145 TA travel centers and another for 40 Petro centers. The TA lease terminates on December 31<sup>st</sup>, 2022 while the Petro lease expires on June 30<sup>th</sup>, 2024. Each lease is set up so that TA is responsible for all expenses occurred during the tenure of the lease. Also, each lease requires minimum payments to Hospitality Trust along with a premium to be paid based on nonfuel gross revenues after a certain year. The minimum payments for the TA Centers lease is continuously increasing from \$153.5 million in FY2007 to \$175.0 million in FY2013 where it will remain for the remainder of the lease. The Petro centers lease requires a minimum payment of \$62.2 million annually. Each lease has additional fees equal to 3% of increases in nonfuel gross revenues along with a 0.3% fee on the increase of fuel gross revenues. This provision is enacted in 2012 for the TA lease and in 2013 for the Petro lease<sup>4</sup>.

Deferred rental allowance was initiated by Hospitality Trust to fund up to \$125 million in capital expenditures at the sites under the TA lease. TA holds this as a liability on their balance sheet and amortizes this on a straight-line basis for the length of their lease under Hospitality Trust – ending in 2022. TA entered into an additional rent deferral agreement with Hospitality Trust on July 1<sup>st</sup>, 2008. Under this agreement, TA is allowed to defer a maximum of \$5 million each month between July 1<sup>st</sup>, 2008 and December 31<sup>st</sup>, 2010. TA is not obligated to pay any cash interest on these deferred expenses up to December 31<sup>st</sup>, 2009. Past this date, any additional or remaining deferred expenses are interest bearing at a monthly rate of 12% annually. To gain this option, TA issued 1.54 million shares of common stock (9.6% of current outstanding shares as of July 1<sup>st</sup>, 2008) to Hospitality Trust under the agreement that TA can repurchase said shares if the company does not use their \$5 million allowance for deferred rent each month.

Currently, TA has used the maximum allowable rental deferral each month since inception of this agreement – having \$60 million in deferred expenses as of June 30<sup>th</sup>, 2009. We believe this trend will continue until December 31<sup>st</sup>, 2009 at which time interest on these obligation will begin to build. When TA defers rents, the do not prepay rents as the accounting definition of the word would imply.

Cash Per Share Comparison



Instead, this \$5 million per month allocation allows the company to delay paying rent at an interest free rate until December 31<sup>st</sup>, 2009 and the company can continue deferring rent during 2010 at an annual interest rate of 12%. This program was set in place by Hospitality Trust to quell negative investor sentiment and help boost earnings. With the program in place, cash values/share are currently inflated compared to what they would be without such aid from Hospitality Trust. Adjusting for deferred rent each quarter gives us cash/share values less than the current, actual amounts.

## INDUSTRY OVERVIEW

### A CONSOLIDATING LANDSCAPE

The operating landscape for truck stops, in what was previously a fragmented industry, has greatly changed over the past few years. The extreme volatility and large increases in oil prices led to decreasing margins and less drivers on the road. In response to lower margins and the tight credit market, many players in the market either filed for bankruptcy or moved to consolidation. For example, Flying J, a direct competitor of TA, filed for bankruptcy in December 2008. The company cited the credit crisis and precipitous drop in oil prices as the reasons for their liquidity issues. This summer, details came out about their plans to merge with Pilot, another large company in the industry<sup>5</sup>. Likewise in 2007, Travel Centers of America became a wholly owned subsidiary of Hospitality Trust. Operating on mature and well-positioned land in relationship to the interstate system, the truck stop industry is mature and difficult to imitate. That being said, firms in this business have to deal with volatile oil prices, tight margins, the driving trends of Americans, and overall

<sup>3</sup> Footnote 2

<sup>4</sup>Footnote 1, pg. F22

<sup>5</sup> Details of Pilot-Flying J Merger Come Out, July 15, 2009

<http://www.knoxnews.com/news/2009/jul/15/details-of-merger-come-out/>

economic conditions. In recent years, these factors have led to increased occurrences of bankruptcy and merger deals. Going forward, we believe consolidations will continue to be the trend, at least until the market has stabilized. Two main factors will affect this industry going forward; the privatization of toll roads as well as the commercialization of state highway rest areas will make it difficult for tiny truck stops to survive<sup>6</sup>. Larger players in the market will be in a better position to combat these new threats and be profitable as the economy recovers.

### FOCUS ON FUEL

Fuel gross margins per gallon have historically had an inverse relationship to oil prices. Over the past decade a “normal” economic environment has been one of steadily increasing oil prices, with the current recession being the only period of decreasing prices. We expect oil prices to gradually increase as the economy recovers and so we forecast gross margins to decrease slightly over the next 2 years, hovering around 6%. As part of the economic recovery we expect to see increased shipping activity and increased vacation travel, which will lead to an increase in fuel sales volume. As a result we expect to see fuel profits increase as the economy recovers despite the fact that margins will decrease slightly.

Pro Forma Income Statement			
<i>(in thousands, except EPS)</i>	FYE 2011	FYE 2010	FYE 2009
Fuel Sales (in gallons)	2,212,122	2,011,020	1,828,200
<i>% y-o-y growth</i>	10%	10%	-12.02%
Fuel Revenues	4,756,062	4,122,591	3,397,259
<i>% y-o-y growth</i>	15.37%	21.35%	-47.36%
Fuel Gross Margin	6.00%	6.50%	6.80%
Nonfuel Revenues	1,261,905	1,190,476	1,138,683
<i>% y-o-y growth</i>	6.00%	4.55%	-4.28%
Nonfuel Gross Margin	58.00%	58.00%	58.06%
<b>Total Revenues</b>	<b>6,033,967</b>	<b>5,328,067</b>	<b>4,550,070</b>
<i>Total Gross Margin</i>	<i>17.12%</i>	<i>18.27%</i>	<i>19.92%</i>
Total Operating Expenses	982,268	925,965	941,552
Operating (loss)/Income	51,000	47,479	-35,399
<i>Operating Margin</i>	<i>0.85%</i>	<i>0.89%</i>	<i>-0.78%</i>
<b>Net (loss)/income</b>	<b>31,200</b>	<b>28,383</b>	<b>-48,458</b>
EPS	1.87	1.70	-2.91

## VALUATION OF TA

### AN UNDERVALUED GEM

With TA’s main competitors being private (Pilot’s, Love’s, and Flying J), we conducted a DCF analysis to determine a valuation for the company. Revenues are forecasted to be \$4.55 billion in FY 2009, down 41% versus FY 2008 values. We expect the company to grow its revenues 17% and 13% in FY 2010 and FY 2011, respectively. Growth is based primarily on volume increase of fuel related sales. We expect FY 2009 to have lower y-o-y volumes due to the weakened economy – decreasing 12% from 2.078

million gallons in 2008 to 1.828 million gallons in 2009. Past this point, we expect fuel volumes to increase 10% for each 2010 and 2011. Nonfuel revenues are also expected to increase 5% and 6% in 2010 and 2011, respectively. We arrived at these results by examining historical nonfuel gross margins and increases in nonfuel costs. Nonfuel gross margins have consistently been around 58% since FY 2006 while nonfuel costs have grown around 6% annually during this time. We expect both of these trends to continue. It should be noted that intrinsic value is highly sensitive to changes in nonfuel gross margins as shown by the table below.

Sensitivity of Nonfuel Gross Margins					
	56%	57%	58%	59%	60%
Price/Share	(11.21)	(0.93)	9.84	21.13	32.99

We calculated intrinsic value per share using a DCF model on the basis that there is not a sufficient amount of publicly traded comparable companies on which we could perform a relative valuation.

Our assumptions include a WACC of 10.69% and a perpetuity growth rate of 1%. We felt that since TA operates in a fully developed market, growth opportunities are small, which is why we used a perpetuity growth rate of 1%. Using these assumptions, we arrived at an intrinsic value per share of \$10.26, 82% above current market price of \$5.65.

Intrinsic Valuation	
<i>(in millions)</i>	<i>using 1% Growth</i>
Implied TEV	91.50
less Debt	102.50
plus Cash	182.00
Implied Equity Value	171.00
Shares O/S	16.67
<b>P*</b>	<b>\$10.26</b>
Current Price	\$5.65
Undervalued	81.56%

In analyzing TA, some interesting statistics immediately popped out at us. The company’s trailing 12-month Price to Book ratio is 0.23. Also, their available cash to market cap is currently 1.93x. Trailing Price to Sales was 0.01, and our projected 2010 P/E is 3.32x. Forecasting future results for TA was difficult, due to its volatile nature. However, based on the values listed above, we believe the stock is grossly undervalued. As with any stock, we believe that TA needs to at least be trading at the value of its assets. Since the spin off and new relationship with HPT began in 2007, the market has continued to punish the company’s stock. However, we believe that even with modest growth in the coming years the company has ample upside potential - in the very least up to a P/B of 1.0x.

<sup>6</sup> Roadside Truck Assistance Services - Overcoming Challenges in a Rapidly Changing Environment, Oct. 16, 2009, <http://www.frost.com/prod/servlet/market-insight-top.pag?Src=RSS&docid=182750722>