PEI 2018 Annual Membership Meeting

October 9, 2018
Rex Brown
Director of Information Services
Whitney Emerick
Director of Marketing
Mary Ann Hill
Accounting & Office Manager
Jennifer Lindsey
Meetings
& Exhibition Manager
Dana Roseberry
Director of Advertising
Ryan Tuttle
Administrative Assistant
Sarah West
Director of Convention & Education
Melinda Whitney
Director of Operations
Bob Young
Director of Industry Relations
The State of the Industry

Rick Long
EVP & General Counsel
Petroleum Equipment Institute

Annual Membership Meeting          October 9, 2018
CONTEXT
The Economy

• Taxes down
• Interest rates low-ish
• Business regulations down
• GDP up
• Manufacturer confidence way up
• Unemployment at historically low levels
The Industry

- Federal UST regulatory deadlines here
- State UST regulations approaching
- EMV deadline getting closer
- Sump testing accelerating
- New opportunities arising
People

President Trump

2017
People

2017
President
Trump

2018
Scott Pruitt
EPA
People

2017

President
Trump

Andrew Wheeler
EPA

2018
People

2017
President Trump
Andrew Wheeler EPA

2018

Elon Musk Tesla
So, where are we...
So, where are we...

...and where are we going?
DISTRIBUTORS
Sources of Revenue

<table>
<thead>
<tr>
<th>Source</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail fueling</td>
<td>56%</td>
<td>52%</td>
</tr>
<tr>
<td>Fleet fueling</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Government contracts</td>
<td>11%</td>
<td>14%</td>
</tr>
<tr>
<td>Everything else</td>
<td>12%</td>
<td>16%</td>
</tr>
</tbody>
</table>
How’s Business (1 to 10 scale)?

2014 6.77 $$$$$$$$$$$$$$$$$$$
How’s Business (1 to 10 scale)?

2014  6.77 $$$$$$$$$$$$$$$$$$$$
2015  7.40 $$$$$$$$$$$$$$$$$$$$$$
DISTRIBUTORS

How’s Business (1 to 10 scale)?

2014 6.77 $$$$$$$$$$$$$$$$$$$$$$$$$
2015 7.40 $$$$$$$$$$$$$$$$$$$$$$$$$$$
2016 7.30 $$$$$$$$$$$$$$$$$$$$$$$$$$
DISTRIBUTORS

How’s Business (1 to 10 scale)?

<table>
<thead>
<tr>
<th>Year</th>
<th>Rating</th>
<th>$</th>
<th>$</th>
<th>$</th>
<th>$</th>
<th>$</th>
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</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6.77</td>
<td>$$$</td>
<td>$$$</td>
<td>$$$</td>
<td>$$$</td>
<td>$$$</td>
<td>$$$</td>
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<tr>
<td>2015</td>
<td>7.40</td>
<td>$$$$$</td>
<td>$$$$$</td>
<td>$$$$$</td>
<td>$$$$$</td>
<td>$$$$$</td>
<td>$$$$$</td>
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<tr>
<td>2016</td>
<td>7.30</td>
<td>$$$$$$</td>
<td>$$$$$$</td>
<td>$$$$$$</td>
<td>$$$$$$</td>
<td>$$$$$$</td>
<td>$$$$$$</td>
</tr>
<tr>
<td>2017</td>
<td>7.20</td>
<td>$$$$$$$</td>
<td>$$$$$$$</td>
<td>$$$$$$$</td>
<td>$$$$$$$</td>
<td>$$$$$$$</td>
<td>$$$$$$$</td>
</tr>
</tbody>
</table>
## How’s Business (1 to 10 scale)?

<table>
<thead>
<tr>
<th>Year</th>
<th>Score</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6.77</td>
<td>$$$$$$$$$$$$$$$$$$$</td>
</tr>
<tr>
<td>2015</td>
<td>7.40</td>
<td>$$$$$$$$$$$$$$$$$$$$$$</td>
</tr>
<tr>
<td>2016</td>
<td>7.30</td>
<td>$$$$$$$$$$$$$$$$$$$$$$</td>
</tr>
<tr>
<td>2017</td>
<td>7.20</td>
<td>$$$$$$$$$$$$$$$$$$$$$$</td>
</tr>
<tr>
<td>2018</td>
<td>7.45</td>
<td>$$$$$$$$$$$$$$$$$$$$$$</td>
</tr>
</tbody>
</table>

### DISTRIBUTORS

![PEI Logo]
What’s Going Well?

- Construction: 20.6%
- EMV upgrades: 17.5%
- Testing/compliance: 15.9%
- Diversification: 15.9%
- Everything!: 14.3%
What’s Trending?

• Improved management practices
• UST closure and replacement
• High-throughput fueling facilities
• Non-retail work
  • Commercial
  • Lifts, lube, commercial
  • Data center generator fueling systems
  • ASTs for construction sites and road/bridge crews
DISTRIBUTORS

Biggest Challenges

- Shortage of qualified techs: 30.0%
- Profit margins: 18.3%
- Change: 16.7%
- Manufacturer relations: 15.0%
MANUFACTURERS
How’s Business (1 to 10 scale)?

<table>
<thead>
<tr>
<th>Year</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6.55</td>
</tr>
<tr>
<td>2015</td>
<td>6.04</td>
</tr>
<tr>
<td>2016</td>
<td>6.23</td>
</tr>
<tr>
<td>2017</td>
<td>6.87</td>
</tr>
<tr>
<td>2018</td>
<td>7.49</td>
</tr>
</tbody>
</table>
What’s Going Well?

- Upgrade/replacement of aging infrastructure: 15.4%
- Compliance-related upgrades/repairs: 12.8%
- New store construction: 10.2%
- Everything!: 10.2%
Biggest Challenges

- Shortage of skilled labor: 22.9%
- Nothing!: 17.1%
- Customer consolidation: 14.3%
LOOKING AHEAD
How do you feel about next year (1-10 scale)?
How do you feel about next year (1-10 scale)?
What about the next three years?

<table>
<thead>
<tr>
<th></th>
<th>DISTRIBUTORS</th>
<th>MANUFACTURERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Optimistic</td>
<td>15.25%</td>
<td>16.67%</td>
</tr>
<tr>
<td>Moderately Optimistic</td>
<td>67.80%</td>
<td>71.43%</td>
</tr>
<tr>
<td>Ambivalent</td>
<td>11.86%</td>
<td>9.52%</td>
</tr>
<tr>
<td>Somewhat Pessimistic</td>
<td>3.39%</td>
<td>2.38%</td>
</tr>
<tr>
<td>Extremely Pessimistic</td>
<td>1.69%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
DISTRIBUTORS

How Many Employees in 2019?

- FEWER 0.00%
- SAME NUMBER 33.90%
- MORE 66.10%
How Many Employees in 2019?

- FEWER: 4.76%
- SAME NUMBER: 35.71%
- MORE: 59.52%
THREATS AND OPPORTUNITIES
If E15 could be sold year round, nationwide, what impact would that have on the number of retailers offering this blend?

- Dramatic increase: 0.00%
- Moderate increase: 13.56%
- Small increase: 37.29%
- No increase: 15.25%
- Beats me!: 33.90%
DISTRIBUTORS: E15 REBRANDING

E15 is now “Unleaded 88”
As the Oct. 2020 EMV forecourt deadline approaches, how would you describe the pace of these installations and upgrades?

- No change at all: 40.00%
- Moderate increase: 54.55%
- Dramatic increase: 5.45%
What percentage of your customers (a) already have completed or (b) will complete EMV forecourt hardware upgrades by the Oct. 2020 deadline?

- Already completed: 33.3%
- Will be completed (est): 64.2%
What is the primary reason customers will not complete EMV upgrades by the deadline?

- Procrastination: 56.4%
- Equipment shortage: 0.0%
- Technician shortage: 0.0%
- No intention of upgrading: 23.6%
- Unsure: 20.0%
What percentage of your customers will meet the Oct. 2018 deadlines?

48.7%
What is the primary reason customers will not meet UST compliance deadlines:

- Procrastination: 70%
- Shortage of techs: 2%
- No intention of upgrading: 12%
- Unsure: 16%
How would you describe the pace of UST replacements in 2018?

- Increasing: 23.7%
- About the same: 61.0%
- Declining: 6.8%
- N/A: 8.5%
DISTRIBUTORS

Rate the Threat (1-10 scale)

- Shortage of qualified technicians: 7.58
- Customers doing “our” work: 4.44
- Remote equipment monitoring/service by manufacturers: 4.78
- Government regulations: 4.86
- The rise of electric vehicles: 3.92
DISTRIBUTORS: SKIMMERS

How often do you encounter skimmers at retail fueling locations?

<table>
<thead>
<tr>
<th>Frequency</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>21.6%</td>
<td>29.8%</td>
</tr>
<tr>
<td>Rarely</td>
<td>33.0%</td>
<td>29.8%</td>
</tr>
<tr>
<td>Occasionally</td>
<td>31.8%</td>
<td>35.1%</td>
</tr>
<tr>
<td>Often</td>
<td>13.6%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>
DISTRIBUTORS: ELECTRIC VEHICLES

To what extent are you involved in EV charging station installation and/or service?

Actively engaged: 3.5%
Not yet involved, but planning to: 15.8%
Have not yet decided: 52.6%
No intention of getting involved: 28.1%
In five years, how will fuel purchases be made?

Credit or debit at the pump 58%
Contactless mobile at the pump 26%
In-dash payment apps 10%
Cash inside the store 11%
### MANUFACTURERS: 3D PRINTING TECHNOLOGY

**How are you using 3D printing?**

<table>
<thead>
<tr>
<th></th>
<th>SEPT. 2017</th>
<th>SEPT. 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prototypes/models</td>
<td>59.1%</td>
<td>73.9%</td>
</tr>
<tr>
<td>Production</td>
<td>9.1%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Both</td>
<td>31.8%</td>
<td>21.7%</td>
</tr>
</tbody>
</table>
MANUFACTURERS: INTERNATIONAL SALES

Five years ago 4.20%
Today 5.09%
Five years from now 7.72%
Has your business purchased cyber insurance?

<table>
<thead>
<tr>
<th></th>
<th>Distributors</th>
<th>Manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>34.5%</td>
<td>31.7%</td>
</tr>
<tr>
<td>No</td>
<td>65.5%</td>
<td>68.3%</td>
</tr>
</tbody>
</table>
PEI’S RESPONSE
1. Lead the way on safe removal of tanks
PEI’S RESPONSE

2. Engage with non-retail organizations
PEI’S RESPONSE

3. More research and analysis
4. Deepen staff technical expertise

Scott Boorse, director of technical programs and industry affairs

• Training
• Safety
• Recommended Practices
• Technical Support
5. Pursue growth and service in Latin America

a. Hire Latin America director
b. Build on Spanish-language convention education
c. Translate key resources
d. Partner with Latin America groups
Thank You!

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