

SHOPKO®

1845 Haines Avenue
Rapid City, South Dakota 57701

- Favorable Assumable Non-Recourse Debt in Place
- Additional Upside With Included Outparcel Development Opportunity
- Recent Lease Extension



OFFERING MEMORANDUM

EXCLUSIVE NET-LEASE OFFERING

Marcus & Millichap
THE NNN PRO GROUP

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Like all real estate investments, this investment carries significant risks. Buyer and Buyer's legal and financial advisors must request and carefully review all legal and financial documents related to the property and tenant. While the tenant's past performance at this or other locations is an important consideration, it is not a guarantee of future success. Similarly, the lease rate for

some properties, including newly-constructed facilities or newly-acquired locations, may be set based on a tenant's projected sales with little or no record of actual performance, or comparable rents for the area. Returns are not guaranteed; the tenant and any guarantors may fail to pay the lease rent or property taxes, or may fail to comply with other material terms of the lease; cash flow may be interrupted in part or in whole due to market, economic, environmental or other conditions. Regardless of tenant history and lease guarantees, Buyer is responsible for conducting his/her own investigation of all matters affecting the intrinsic value of the property and the value of any long-term lease, including the likelihood of locating a replacement tenant if the current tenant should default or abandon the property, and the lease terms that Buyer may be able to negotiate with a potential replacement tenant considering the location of the property, and Buyer's legal ability to make alternate use of the property.

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TENANT OVERVIEW

Headquartered in Green Bay, Wisconsin, Shopko Stores Operating Company, Limited Liability Company (LLC) is a nearly \$3 billion retailer that operates over 363 stores in 24 states throughout the Central, Western and Pacific Northwest. Retail formats include: 131 Shopko stores; 222 Shopko Hometown locations; five Shopko Express Rx stores, a convenient neighborhood drugstore concept; and five Shopko Pharmacy locations.

SHOPKO®

Headquartered
Green Bay, Wisconsin

Regions
Midwest, Mountain, North Central, Pacific Northwest

Average Shopko Size
Shopko Store: 80,000 SF; Shopko Hometown: 15,000 – 35,000 SF

Concepts
Shopko Retail (134) , Shopko Hometown (176), Shopko Express RX (5), Shopko Pharmacy (18)

Employees
Over 18,000 Teammates

Distribution Centers
DePere, WI; Boise, ID; Omaha, NE; Lebanon, IN

1961

1991

2010

2012

shopko milestones

Shopko was organized by James Ruben in Chicago, Illinois in 1961. When Ruben opened the first Shopko store in Green Bay in 1962, he envisioned a company focused on quality, convenience and value. He saw the opportunity to combine health care services with a large discount store, and in 1971 Shopko became one of the first mass retailers to feature a pharmacy in its stores. In another innovative step, Shopko added optical care centers to its stores in 1978.

In 1991, Shopko Stores, Incorporated became a publicly-held, independent company with stock traded on the New York Stock Exchange under the symbol “SKO”. In December of 2005, Shopko Stores, Incorporated was purchased by an affiliate of Sun Capital Partners, Incorporated, a leading private investment firm, and is no longer a publicly owned corporation.

In 2010, Shopko introduced a new retail concept to augment Shopko’s larger store format: Shopko Hometown. The Shopko Hometown retail format offers a differentiated and financially successful merchandising strategy. Shopko Hometown combines pharmacy services and a comprehensive HBA, household goods and dry grocery assortment with a broad and dynamic offering of strong national brands and high-value private label brands of apparel, home goods, toys, consumer electronics, and more – all in attractive, well laid out, easy-to-shop store format that range in size from 15,000 – 35,000 square feet.

Shopko merges with Pamida Stores to become one of the largest United States retailers focused on serving smaller, rural communities. Following its merger with Pamida in early 2012, Shopko acquired and converted over 170 stores and pharmacies to the Shopko brand. Today Shopko is known for its excellence in optical care and its best in class pharmacy services.

TENANT OVERVIEW

SUN CAPITAL PARTNERS, INC.

Sun Capital affiliates invest in companies which typically have the number one or two market position in their industry, long-term competitive advantages, and significant barriers to entry. Sun Capital has offices in Boca Raton, Los Angeles, and New York, and affiliates in London, Frankfurt, Paris, Luxembourg, Shanghai, and Shenzhen.

Sun Capital affiliates have invested in more than 310 companies worldwide with combined sales in excess of \$45 billion since our inception in 1995. On a consolidated basis, Sun Capital's affiliated portfolio companies would rank in the top 100 of Fortune Magazine's listing of the 500 largest companies in the United States.

Sun Capital has over \$9 billion of capital under management. Sun Capital often bridges the entire purchase price at closing, raising permanent debt financing afterwards. Sun Capital targets companies with up to \$3 billion or more of revenues, but many of our transactions are with businesses with sales between \$50 million and \$500 million. Sun Capital's unique ability to close deals without external financing, staff of approximately 160 people, and a decisive approach to business enables us to close deals within 30 days compared to three to six months for most other buyers.

VALUE CREATION

Performance improvement is driven by partnering with strong management teams and utilizing our substantial in-house resources and expertise. Our in-house resources consist of dedicated professionals who, prior to joining Sun Capital, spent their careers operating businesses. We possess deep expertise in the following sectors: packaging, general industrial, retail, building products, restaurants, consumer products, food, and beverage, chemicals, automotive and healthcare.

About Us

Sun Capital Partners, Incorporated is a pioneer in private equity investing, uniquely combining the financial skills and resources of a traditional private equity firm with the insight, scale and expertise of a world class operating team. The firm focuses on market-leading companies that can benefit from our in-house professionals, resources, and expertise in their efforts to materially improve operating performance.

MISSION

- ✓ Consistent, top decile returns for our Limited Partnership's (LPs)
- ✓ Protect and enhance our reputation
- ✓ Continuous improvement
- ✓ Provide outstanding people with great careers
- ✓ Our stakeholder partners share in our success

CULTURE

- ✓ Integrity and fairness, always
- ✓ Honor and respect everyone
- ✓ No ego or arrogance
- ✓ Be decisive and accountable
- ✓ Demonstrate commitment and passion
- ✓ Have fun and lighten up

OPERATING IMPERATIVES

- ✓ Liquidity, liquidity, liquidity
- ✓ Prioritize and get it done
- ✓ Great people make great companies
- ✓ Benchmark, measure and improve
- ✓ Know the numbers
- ✓ Think differently

capital under management over \$9 billion

pioneer in private equity investing

2013 Winner Private Equity Firm of the Year

invested in more than 330 companies worldwide

completed 42 financings for approximately \$3.1 billion in 2013



**Favorable Assumable
Nonrecourse Debt In Place-
Debt Must Be Assumed**

**Outparceled Development
Opportunity- Potential For
Upside From Development Of
One Acre Outparcel**

**Long-Term Commitment to
the Location- Recent Lease
Extension**

**Below Market, Replaceable
Rent**

**Absolute Triple-Net (NNN)
with Zero Landlord
Obligations**

Corporate Guaranty

**Strong Inflation Hedge | 6%
Rental Increases Every 3
Years***

**Note: Rental increases are equal to the lessor of either six percent or the change in the Consumer Price Index (CPI) multiplied by 1.25x every three years*

Property Name	Shopko
Location	1845 Haines Avenue Rapid City, SD 57701
Price	\$8,772,413
Cap Rate	7.25%
Cash on Cash Return- Actual	8.13%
Cash on Cash Return- Proforma	10.29%
Price per SF	\$93
Rent per SF	\$6.61
Building Size	94,106
Lot Size	Shopko- 9.53 Acres Outparcel- 1.00 Acres
Year Built	1988

The Shopko is located at 1845 Haines Avenue in Rapid City, South Dakota. Built in 1988, this ShopKo is comprised of 94,106 square feet of building space and sits on approximately 9.54 acres of land. This location also benefits from a rent/SF that is well-below market, providing investors with additional income stability in the future.

Additionally, there is a separate, one acre outparcel available for development in front of the property, facing Haines Avenue. This outparcel will be included with the Shopko in this offering, and the new Owner will be able to capitalize on the additional potential rental upside, either through a Ground Lease or Build to Suit development. The estimated value of the outparcel today is \$700,000-\$1,000,000. Expected ground lease rates for this outparcel are approximately \$70,000-\$80,000 per year. The development and/or sale of the outparcel will substantially increase the overall annual returns of the offering, bringing the total cash on cash to 10-15% (See Page 8).

The debt in place must be assumed, and the terms are substantially better than what is available in today's debt markets. The note is Non-Recourse, subject to a 30 Year Amortization Schedule, with an interest rate fixed until 9/30/2025 at 5.26%.

This ShopKo has roughly 17.75 years remaining on a true triple net lease that was entered into June 1, 2006. The rent is scheduled to increase to \$636,000 on June 1st, 2017, with scheduled rent increases of the lesser of six percent and 1.25x the change in CPI over the previous three years. Rent will follow this escalation structure every three years after the next rental increase. Additionally, there are two, ten-year tenant renewal options.

SHOPKO

FINANCIAL OVERVIEW

Lease Summary

SHOPKO®

Tenant Name	Shopko Stores Operating Company
Property Type	Net-Leased General Merchandise/Pharmacy
Ownership	Private
Lease Guaranty	Corporate Guaranteed
Lease Commencement	June 1, 2006
Lease Expiration	November 30, 2034
Lease Term Remaining	17.75 Years
Lease Type	Absolute Triple-Net (NNN)
Roof & Structure	Tenant Responsible
Options to Renew	2, 10-Year Options
Rental Increases	Lesser of 1.25x the Change in Consumer Price Index (CPI) and 6% Every Three Years
Number of Locations	363+
Sales Volume	\$2.8 Billion
Headquarters	Green Bay, WI
Website	www.shopko.com

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Debt Summary

The debt in place must be assumed, and the terms are substantially better than what is available in today's debt markets. The note is Non-Recourse, subject to a 30 Year Amortization Schedule, with an interest rate fixed until 9/30/2025 at 5.26%.

Current Loan Amount	\$5,536,824
Down Payment	\$3,235,589
Debt Service Cost	\$373,066
Interest Rate	5.26%
Interest Rate Fixed	9/30/2025
Loan Maturity	9/30/2025
Amortization Schedule	30 Years
Loan Liability	Non-Recourse

Annualized Operating Data

Rent Increases	Annual Rent	Monthly Rent
Current - 5/31/2017	\$600,000	\$50,000
6/1/2017 - 5/31/2020	\$636,000*	\$53,000
6/1/2020 - 5/31/2023	\$674,160	\$56,180
6/1/2023 - 5/31/2026	\$714,609	\$59,550
6/1/2026 - 5/31/2029	\$757,486	\$63,123
6/1/2029 - 5/31/2032	\$802,935	\$66,911
6/31/2032 - 11/30/2034	\$851,111	\$70,925

Shopko NOI- Actual	\$636,000
Cap Rate	7.25%
Price	\$8,772,413
Debt Service	\$373,066
Total Return	\$262,934
Cash On Cash Return- Actual NOI	8.13%

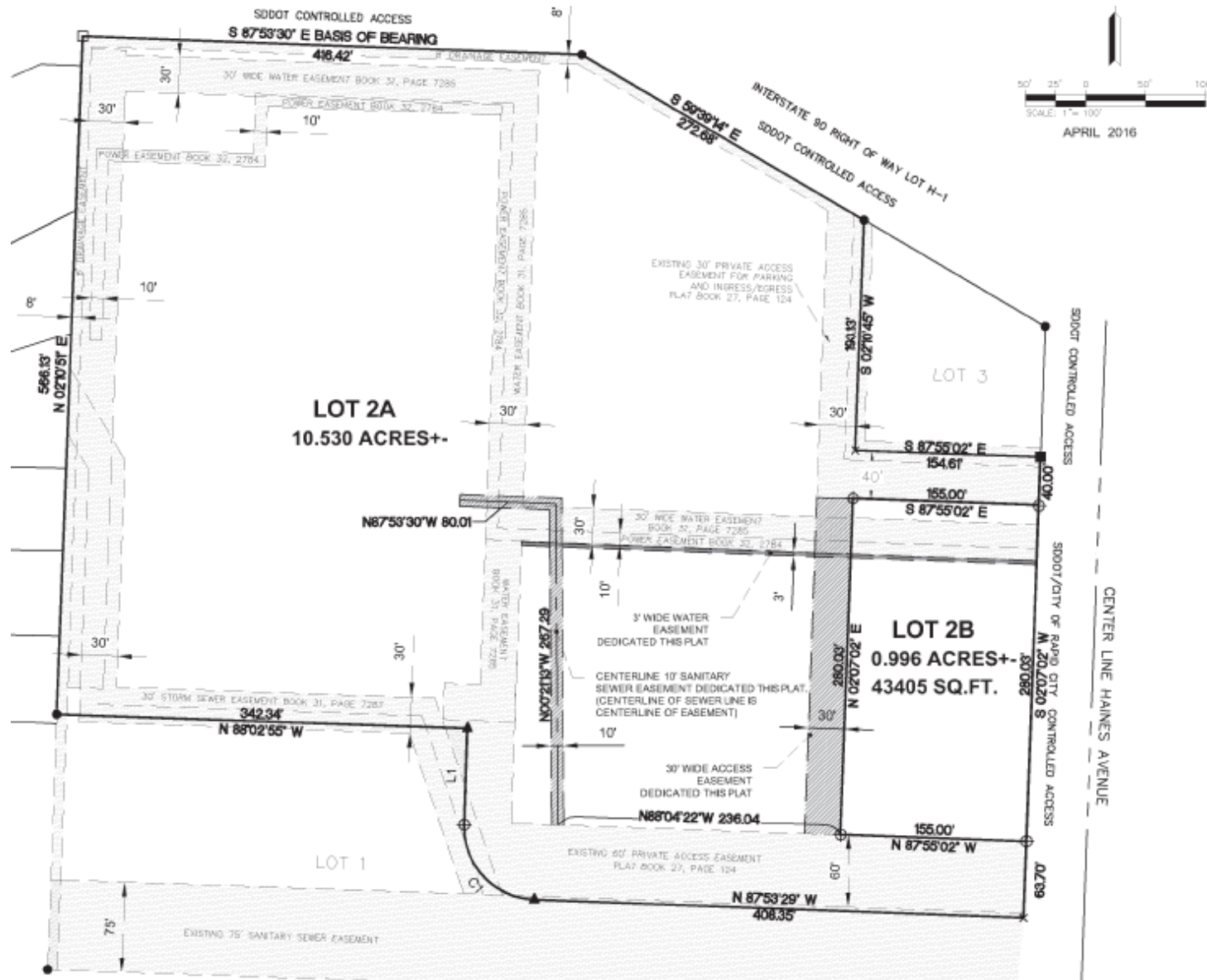
**Note: Rental increases are equal to the lesser of either six percent or the change in the Consumer Price Index (CPI) multiplied by 1.25x every three years*

Cash On Cash Return- Actual Vs Proforma

ShopKo Rent Increases	Shopko Annual Rent	Cash On Cash Return- Actual	Outparcel Proforma Rent	Total NOI	Total Cash On Cash Return
6/1/2017 - 5/31/2020	\$636,000	8.13%	\$70,000*	\$706,000	10.29%
6/1/2020 - 5/31/2023	\$674,160	9.31%	\$70,000	\$744,160	11.47%
6/1/2023 - 5/31/2026	\$714,609	10.56%	\$70,000	\$784,609	12.72%
6/1/2026 - 5/31/2029	\$757,486	11.88%	\$70,000	\$827,486	14.04%
6/1/2029 - 5/31/2032	\$802,935	13.29%	\$70,000	\$872,935	15.45%
6/31/2032 - 11/30/2034	\$851,111	14.77%	\$70,000	\$921,111	16.94%

**Note: An NOI of \$70,000 has been applied for the Ground Lease of the included outparcel Lot 2B*

Outparcel- Potential Upside of Lot 2B



Outparcel Potential- Sales & Rent Comps- Rapid City

SHOPKO



Panera Bread | 1830 Eglin Street, Rapid City, SD

Price:	\$3,295,250	Lot Size:	1.00 Acres
CAP Rate:	4.75%	Square Feet:	4,500
Term Remaining:	15 Years	Annual Rent:	\$156,524



KFC/Long John Silver's | 817 East North Street, Rapid City, SD

Price:	\$2,800,000	Lot Size:	0.97 Acres
CAP Rate:	6.07%	Square Feet:	4,082
Term Remaining:	17 Years	Annual Rent:	\$170,000



IHOP | 550 Disk Drive, Rapid City, SD

Price:	\$2,545,000	Lot Size:	7/21/2014
Term Remaining:	13 Years	Square Feet:	5,140
		Annual Rent:	\$229,050

FINANCIAL OVERVIEW

- ❖ **Fantastic Location | Immediately Off Interstate 90 | ADTC Over 33,000 Vehicles**
- ❖ **Dense Retail Corrido | Surrounding Tenants Include: Kohl's, Best Buy, Lowe's, OfficeMax, Wendy's, and More**
- ❖ **Major Medical Center for Surrounding 5-State Region | 394-Bed Rapid City Regional Hospital is Just 10 Minutes South**
- ❖ **Just 30 Minutes North of Historic Mount Rushmore**



Location Overview

This Shopko is located at 1845 Haines Avenue in Rapid City, South Dakota. The property is located off of Interstate 90 which has a daily average traffic count of 33,000. Rapid City is the county seat of Pennington County and the second largest city in South Dakota. Rapid City has a population of approximately 71,000. Due to the city's close proximity to Mount Rushmore, tourism is a major portion of the city's economy.

Shopko is adjacent to Payless ShoeSource, OfficeMax and Wendy's. In the immediate vicinity are Goodwill, Taco John's, Jimmy John's and Papa John's. Major national retailers and quick-service restaurants within five minutes of the property include JCPenney, Sears, Payless ShoeSource, Herberger's, Bon-Ton, GameStop, Foot Locker, Lowe's, Best Buy, Pier 1 Imports, Ashley Furniture, Kohl's, America's Best Value Inn, Applebee's, Chuck E. Cheese's, Texas Roadhouse, Red Lobster, Olive Garden, Chili's, IHOP and Hardee's. Oglala Lakota College and North Middle School are located less than half a mile east of the property.

Rapid City is a major medical care center for the surrounding five-state region. One of the main facilities is Rapid City Regional Hospital, located just 10 minutes south of the property. The hospital is a 394-bed, not-for-profit, community-based medical facility. The facility's services include emergency care, surgery, obstetrics, rehabilitation, pain management, heart and vascular care, laboratory services and dialysis.

The property is situated approximately 30 minutes north of the Mount Rushmore National Memorial. Covering over 1,200 acres, the landmark is a sculpture carved into the granite face of Mount Rushmore of Presidents George Washington, Thomas Jefferson, Theodore Roosevelt and Abraham Lincoln. The memorial draws over two million visitors annually, making it South Dakota's top tourist attraction.

SURROUNDING AREA MAP



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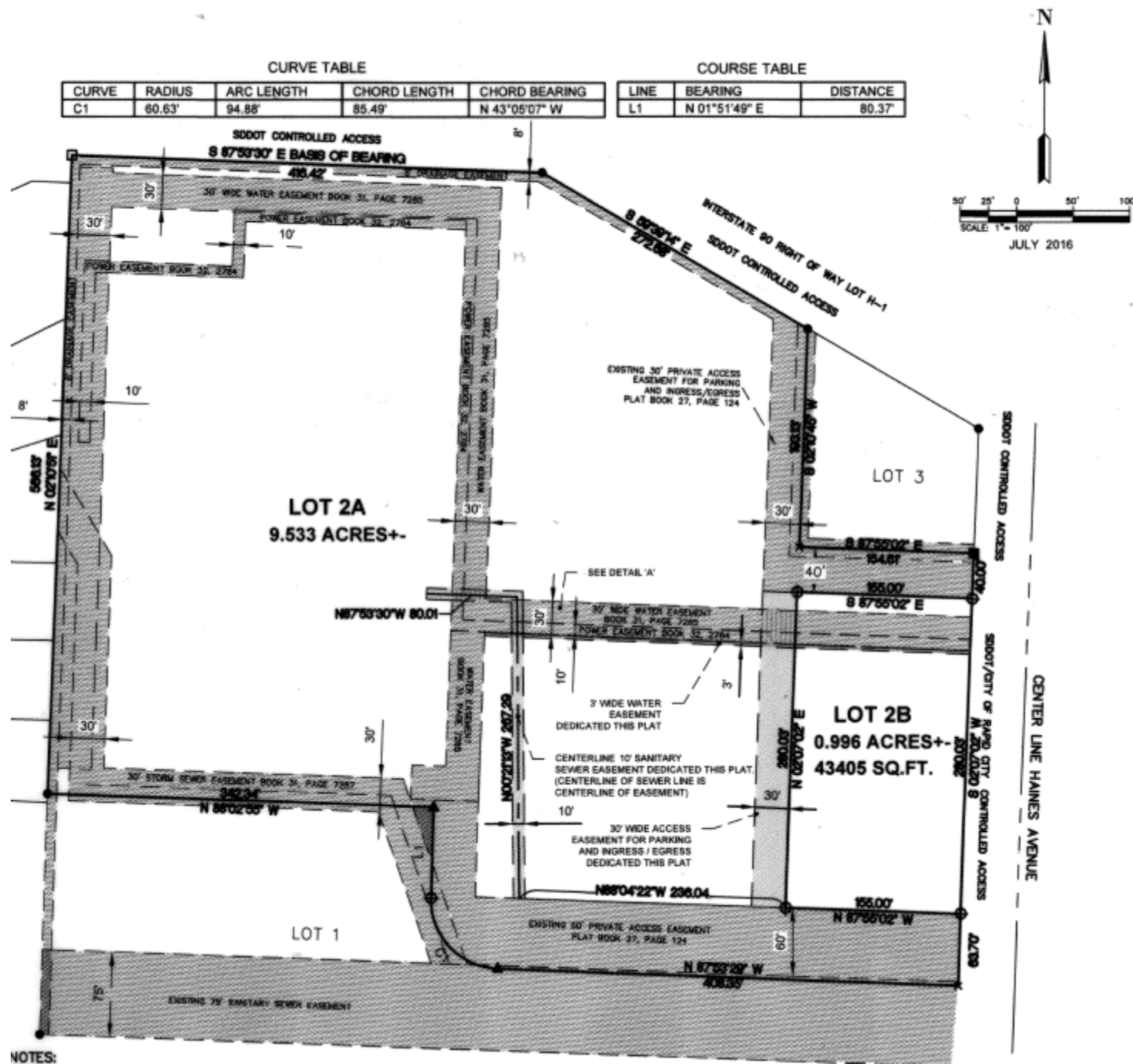


SHOPKO



PROPERTY PHOTO

SHOPKO®

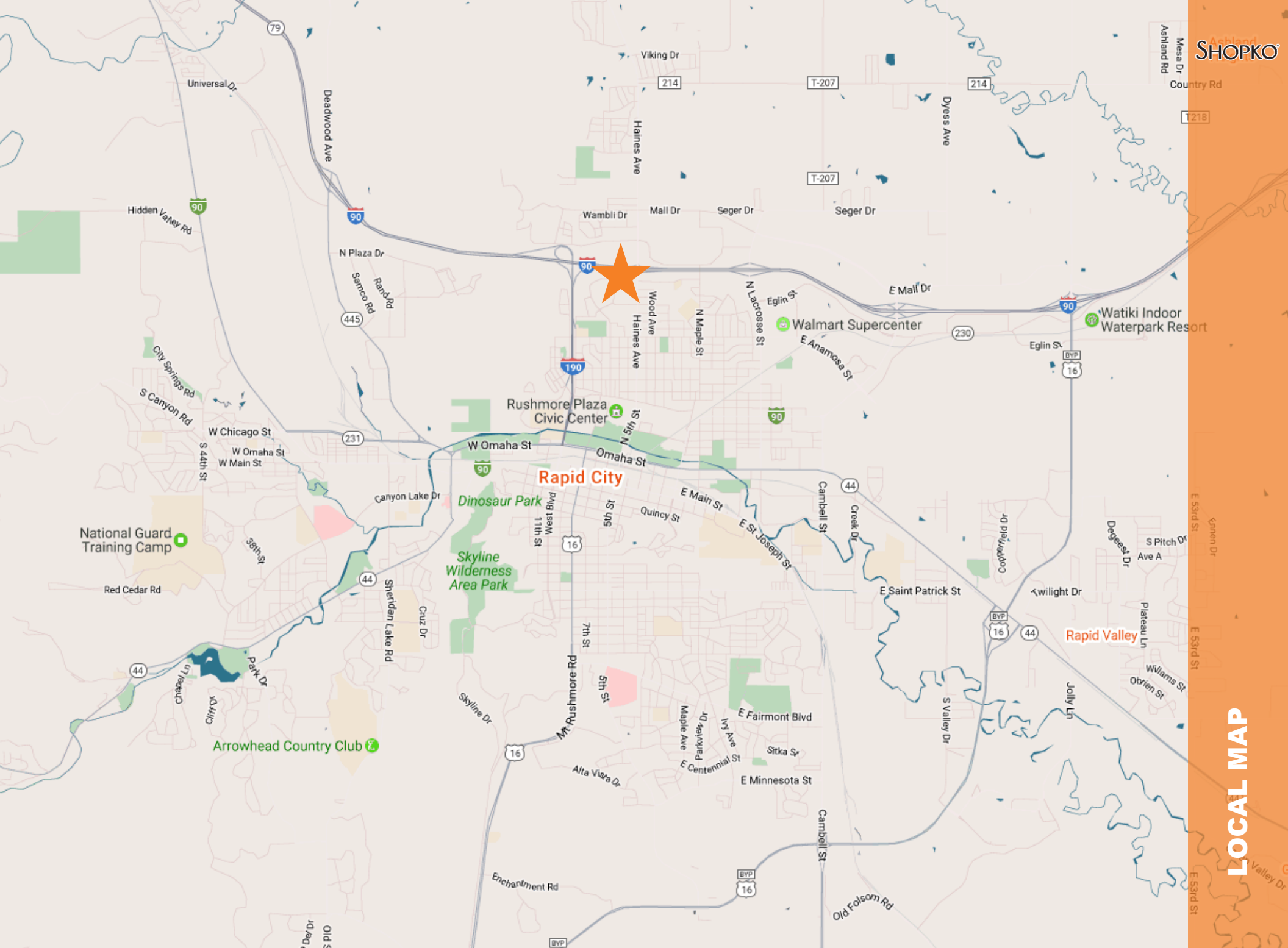


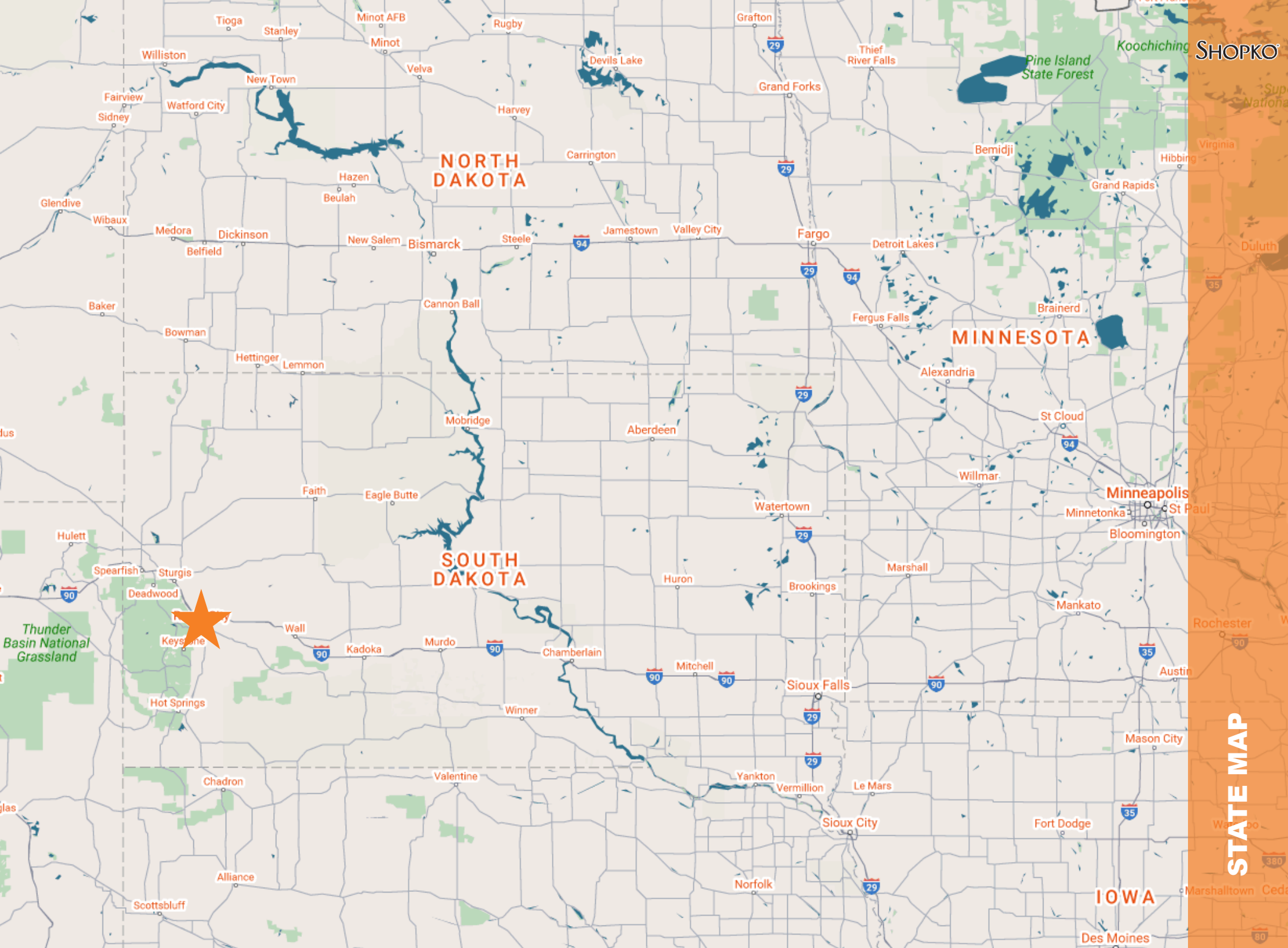
OUTPARCEL – DEVELOPMENT OPPORTUNITY



SHOPKO

SURROUNDING AREA PHOTOS





SHOPKO

STATE MAP

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Population

In 2014, the population in your selected geography is 72,509. The population has changed by 14.57% since 2000. It is estimated that the population in your area will be 75,691 five years from now, which represents a change of 4.38% from the current year. The current population is 49.83% male and 50.16% female. The median age of the population in your area is 35.1, compare this to the Entire US average which is 37.3. The population density in your area is 920.95 people per square mile.

Income

In 2014, the median household income for your selected geography is \$44,654, compare this to the Entire US average which is currently \$51,972. The median household income for your area has changed by 27.53% since 2000. It is estimated that the median household income in your area will be \$52,695 five years from now, which represents a change of 18.00% from the current year. The current year per capita income in your area is \$25,202, compare this to the Entire US average, which is \$28,599. The current year average household income in your area is \$59,110, compare this to the Entire US average which is \$74,533.

Employment

In 2014, there are 39,942 employees in your selected area, this is also known as the daytime population. The 2000 Census revealed that 59.55% of employees are employed in white-collar occupations in this geography, and 40.39% are employed in blue-collar occupations. In 2014, unemployment in this area is 4.29%. In 2000, the average time traveled to work was 18.2 minutes.

POPULATION



	1-Mile	3-Mile	5-Mile
2010	8,771	33,430	69,795
2014	9,051	34,644	72,509
2019	9,235	35,677	75,691

2014 HOUSEHOLD INCOMES



	1-Mile	3-Mile	5-Mile
Average	\$39,625	\$47,018	\$59,110
Median	\$31,392	\$34,685	\$44,654

SHOPKO[®]

exclusively listed

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