Alimentation Couche-Tard (TSX: ATD.B)

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INVESTA INSIGHTS

Alimentation Couche-Tard (TSX: ATD.B)

Company Overview

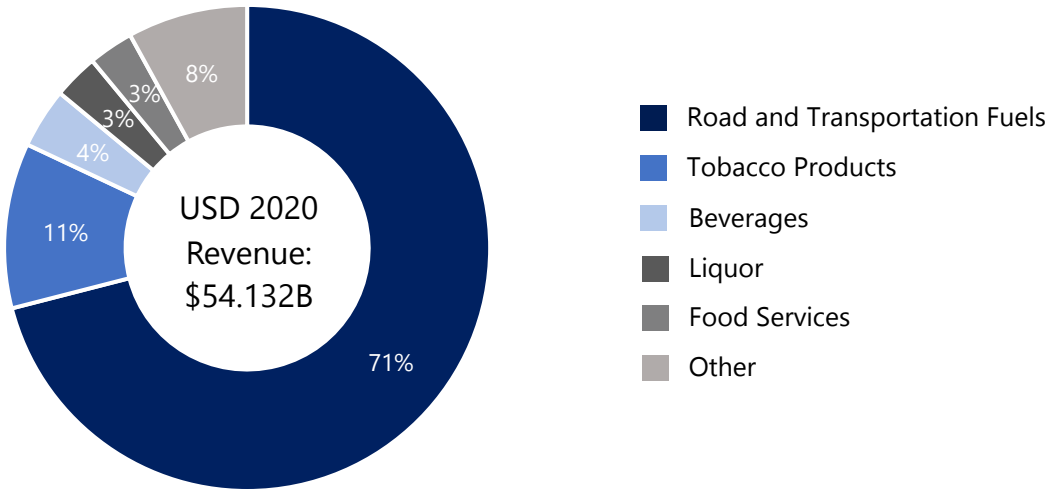
Business Description

- Alimentation Couche-Tard Inc. (TSX: ATD.B) is a leader in the Canadian convenience store and road transportation fuel retail industries with coast-to-coast presence in Canada and the United States
  - Offers food products, fast-food services, lottery tickets, fuel stations, chemicals, automated banking machines, and a variety of other products
- In the US, it is the largest independent convenience store operator in terms of the number of company-operated stores
- It is the 2nd largest company in Canada by revenue and the 15th largest by market-capitalization
- Has approximately 14,500 business sites, operating mainly under the Couche-Tard, Circle K and On the Run brands, but also under brands 7-jours, Dairy Mart, Daisy Mart, and Winks
- Employs 109,000 people throughout its 9,274 convenience stores in North America

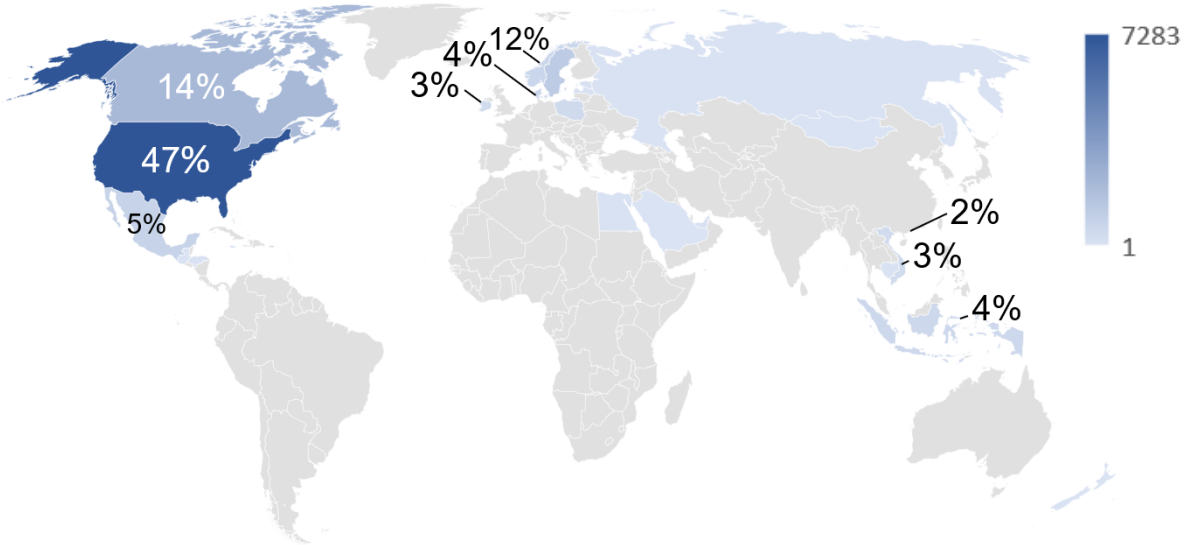
Management Team

Name	Brian Hannasch	Claude Tessier	Kevin A. Lewis	Ina Strand
Position	President & CEO	CFO	CMO	CHRO
Years Experience	23	48	31	19
Background	Previously VP of Bigfoot Stores LLC	Previously President of IGA Unit at Sobeys	Previously CMO of Total Wine & More	Previously Senior VP of Special Projects

Revenue Segmentation



14,500 Locations - Geographic Segmentation



Source(s): Company Filings, Forbes

Couche-Tard's Business Model

Company Overview

Select Acquisition History

Date Announced / Completed	Target	Transaction Value (M USD$)	Stores Acquired	Target Description
Nov 4, 2020 / TBD	Convenience Retail Asia Limited	$360.0	373	Operator of Circle K licensed convenience stores in Hong Kong and Macau
Aug 22, 2016 / Jun 28, 2017	CST Brands Inc.	$3,700.0	1,263	4th largest convenience and fuel chain in North America
Dec 18, 2014 / Mar 13, 2015	The Pantry, Inc. (Kangaroo Express)	$1,700.0	1,512	One of largest independent convenience store chains in the U.S.
Apr 18, 2012 / June 29, 2012	Statoil Fuel & Retail	$3,600.0	2,300	Largest Scandinavian convenience and fuel retailer, 100+ year's experience in region
Oct 6, 2003 / Dec 18, 2003	The Circle K Corporation (from ConocoPhillips)	$830.0	2,290	U.S. convenience store chain with global presence through franchising/licensing

Acquisition Strategy

- Actively participate in the U.S. convenience store industry consolidation, gaining market share of competitors when they close their sites
- Monitor integrated oil companies in Europe and Canada that are selling, or expected to sell, their retail assets

Core Product Offerings

Road Transportation Fuel

Merchandise and Services

Road transportation fuel and merchandise and services made up 71.5% and 27.1% of Couche-Tard's sales in FY2020, respectively. The company focus has been on improving their merchandise offering as these products have higher and more stable gross margins than fuel

Licensing to Grow Global Footprint

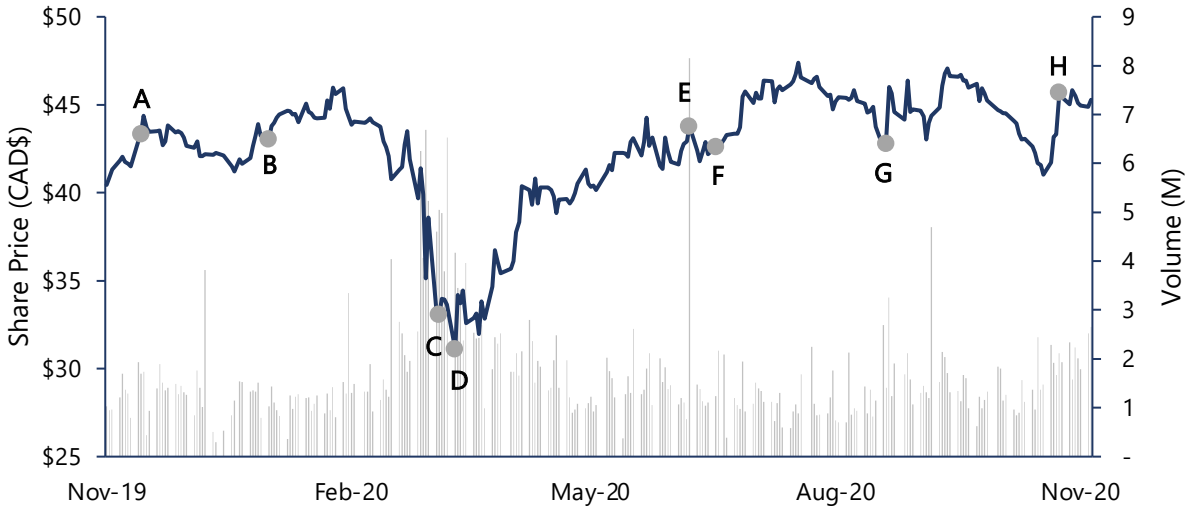
- Couche-Tard has 2,347 stores operating under the Circle K banner through licensing agreements in 15 countries and territories
  - Mostly located in Mexico (836), Indonesia (550), Vietnam (382), and Hong Kong (337)
- Key difference from other stores: Couche-Tard does not provide licensees with road transportation fuels through their supply contracts
- Reduces capital required and risk in expanding to new international markets
- Potential to acquire licensed stores after they have successfully established themselves in new market

Source(s): Capital IQ, Press Releases, Company Filings

PV Chart & Public Market Overview

Company Overview

LTM Price Volume Analysis



Select Key Events

A: Nov 26, 2019	2020 Q2 results are released, EPS $0.51 vs $0.48 estimate
B: Jan 13, 2020	Completed deal to acquire 17 Gas Stop Holiday stores in Midwest U.S.
C: Mar 17, 2020	2020 Q3 results are released, EPS $0.52 vs $0.44 estimate
D: Mar 23, 2020	Couche-Tard hits its 52-week low from COVID-19 sell-off closing at CAD$31.10
E: Jun 18, 2020	WSJ reports Marathon Petroleum is in discussions to sell its Speedyway convenience stores (~3,900 in U.S.) with Couche-Tard linked as a buyer
F: Jun 29, 2020	2020 Q4 and year end results are released, Q4 EPS $0.47 vs $0.43 estimate
G: Sept 1, 2020	2021 Q1 results are released, EPS $0.71 vs $0.40 estimate
H: Nov 5, 2020	Announced USD$360M acquisition of 373 Circle K stores in HK and Macau

Public Market Overview

(in USD$ M)

Capitalization

Share Price (Nov 17, 2020)	$45.27
Share Price converted at 0.76322 USD/CAD	$34.55
Common Shares Outstanding	1,112.9
Diluted Securities	1.2
Fully Diluted Common Shares Outstanding	1,114.1
Market Capitalization	**38,510**
(+) Total Debt	6,336
(+) Capitalized Leases	2,842
(-) Cash and Cash Equivalents	(3,270)
Net Debt	5,908
Enterprise Value	**$44,419**

Trading Multiples[1]

EV/EBITDA FY2020E	11.2x
EV/EBITDA 2021E	10.2x
EV/EBITDA 2022E	10.8x
P/E FY2020E	16.4x
P/E 2021E	17.3x
P/E 2022E	19.0x

Market Data

52-Week High	$47.49
% of 52-Week High	*95.3%*
52-Week Low	$30.40
Beta (5-Year Monthly)	0.87

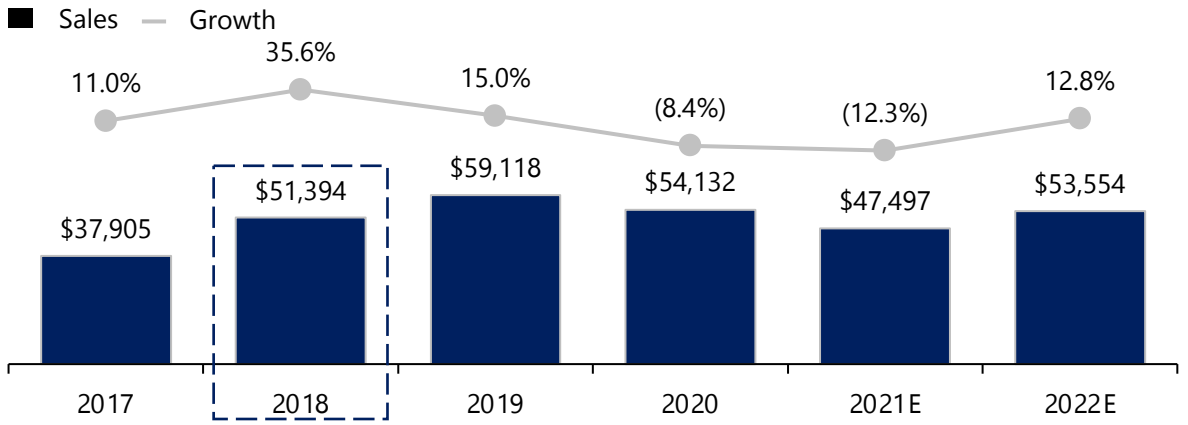
Source(s): PV Data as of 11/17/2020 (Capital IQ), Press Releases, Company Filings, Yahoo Finance

1. Estimates based on consensus estimates

Operating Metrics

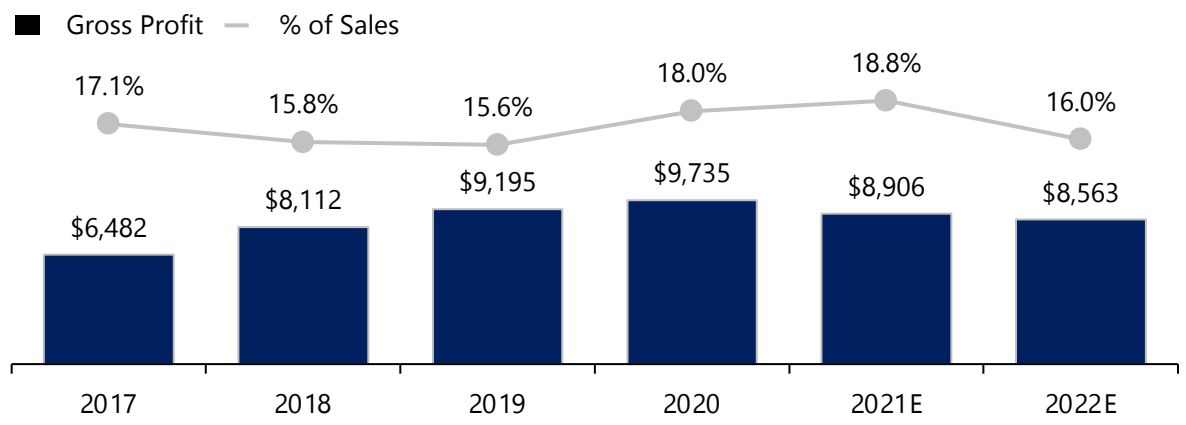
Company Overview

Sales Growth

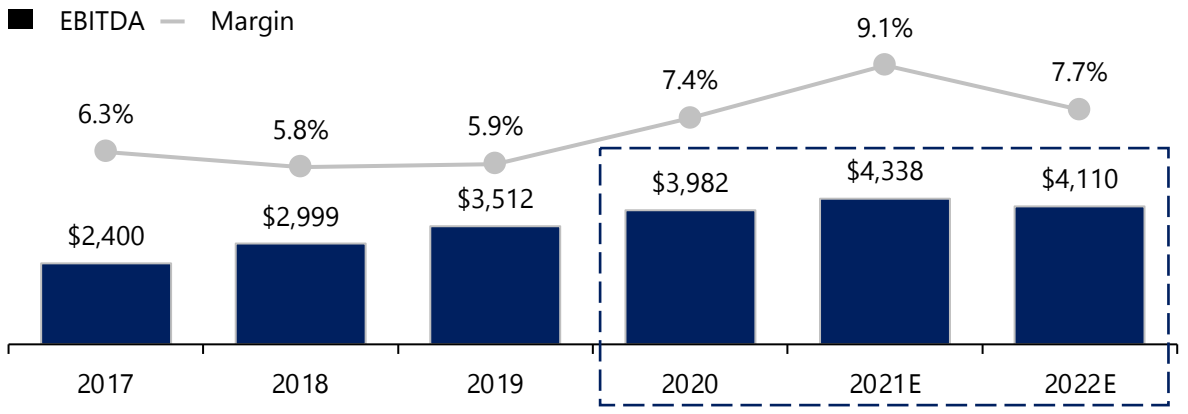


35.6% growth in sales in 2018 is largely a result of acquisitions and partnerships adding 3,280 stores to Couche-Tard's network

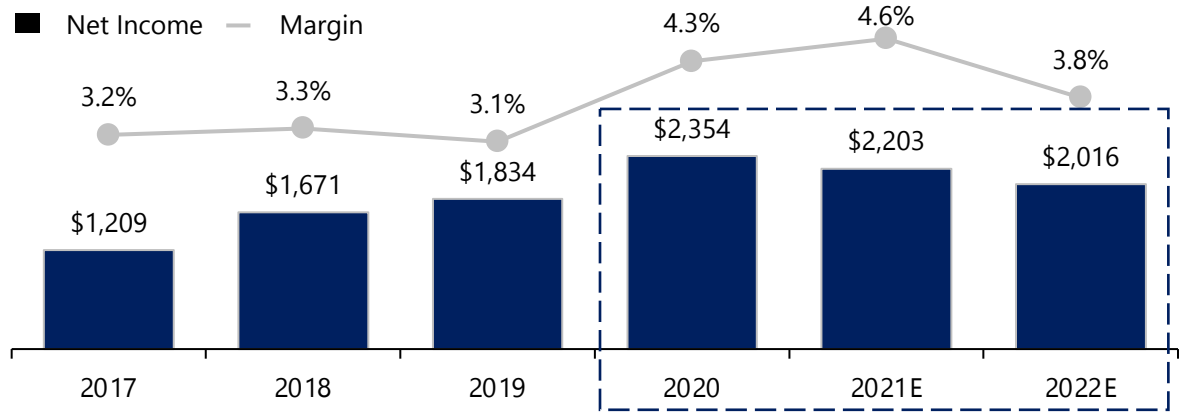
Gross Profit Growth



EBITDA Growth



Net Income Growth



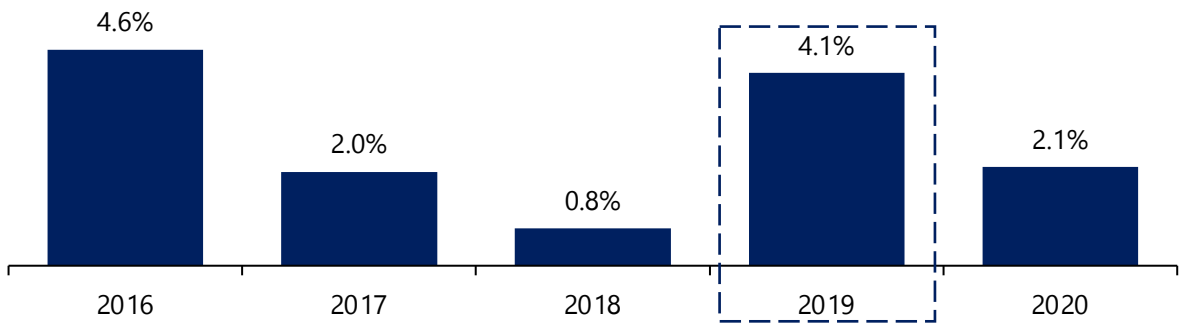
Consensus estimates suggest Gross Profits will be stagnant or slightly decrease from 2021 to 2022, with SG&A rising by approximately 5%, ultimately lowering EBITDA and flowing down to Net Income. However, recovering oil prices, more frequent customer travel, and the re-opening of the global economy are projected to set Couche-Tard back on an upward trajectory

Source(s): Information as of 11/17/2020, Capital IQ, Company Filings
Metrics in USD unless otherwise stated

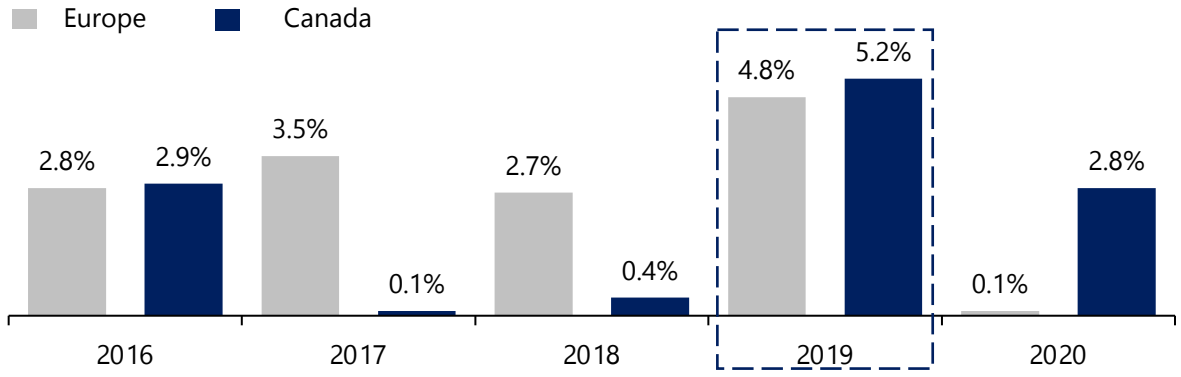
Historical Operating Metrics

Company Overview

U.S. Same-Store Merchandise Sales Growth

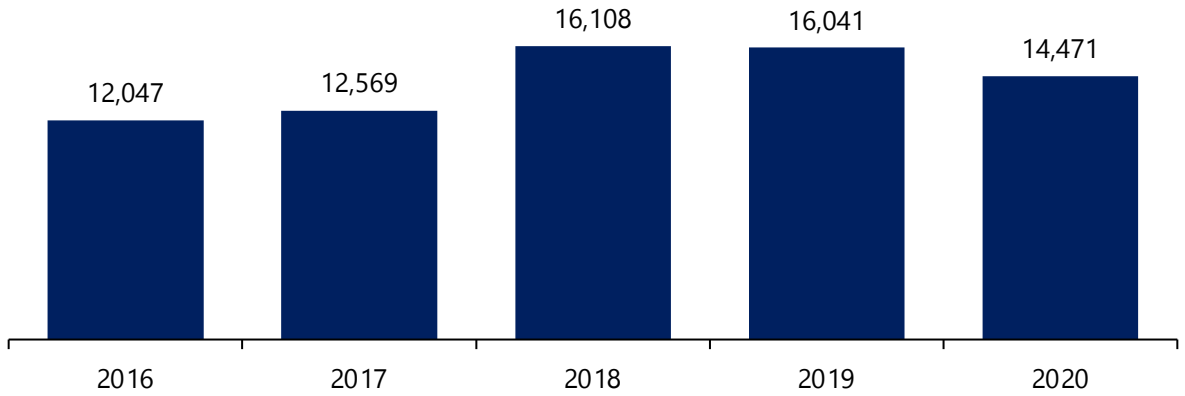


Europe and Canada Same-Store Merchandise Sales Growth



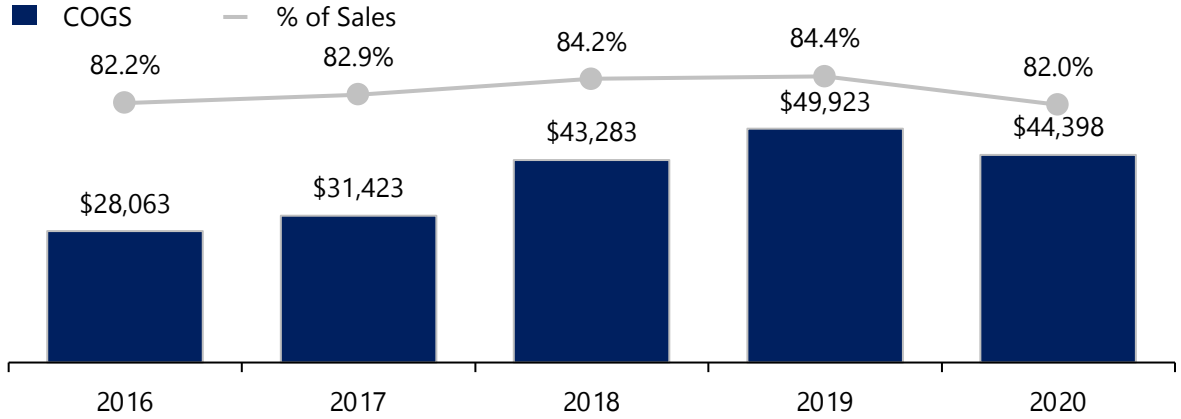
Strong same-store merchandise sales growth across all of Couche-Tard's main geographical segments driven by an enhanced fresh food offering (sandwiches, pastries, pizza, and hotdogs), the implementation of an appealing new store design in Europe, and other initiatives to increase customer traffic

Total Store Network Growth Per Year



Jump in 2018 is attributed to acquisitions CST Brands and CrossAmerica Partners LP (CAPL), 2020 decline is from the disposal of interests in CAPL

Cost of Goods Sold



Source(s): Capital IQ, Company Filings

Convenience Store with Gas Stations Industry

Industry Overview

Convenience Store with Gas Stations Industry

The Convenience Stores Industry in Canada is composed of establishments that retail automotive fuels and a limited line of merchandise in a convenience store setting. Industry establishments may also provide automotive repair services.

Main Activities:

- Retailing groceries, beverages, snacks, and other merchandise.
- Retailing automotive fuels (gasoline and diesel fuels).
- Retailing tobacco and lottery products.
- Perform automotive services.

Less volatile to commodity prices due to the diversification of their revenue drivers.

Main Players

External Industry Drivers

Price of Crude Oil

- When oil prices rise, operators absorb some of these costs and pass them on to consumers. Therefore, operators' revenue increase during periods of oil price growth.

Total Vehicle-Kilometers

- When total vehicle-kilometers rises, demand for automotive fuels grows, helping boost industry revenue.
- More people on the streets creates higher demand for products sold at convenience stores due to their practicality and time-saving qualities.

Consumer Confidence Index

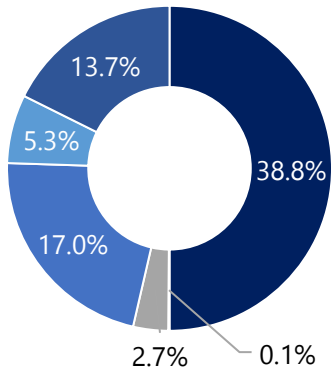
- Consumer confidence is expected to stabilize as a result of restoration of employment levels post COVID-19 due to the increase in disposable income.

Seasons

- Historically, consumers increase their transactions and purchase higher margin items when weather conditions are favorable.

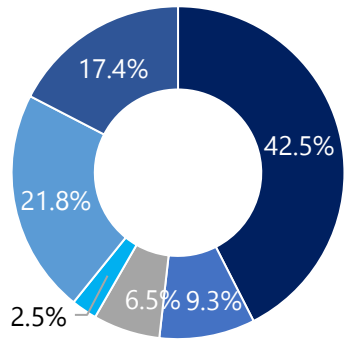
Product and Services Segmentation

Gas and Convenience Stores



- Regular Gasoline
- Midgrade Gasoline
- Premium Gasoline
- Diesel Fuel
- Automotive Services
- Food and Drinks

Convenience Stores



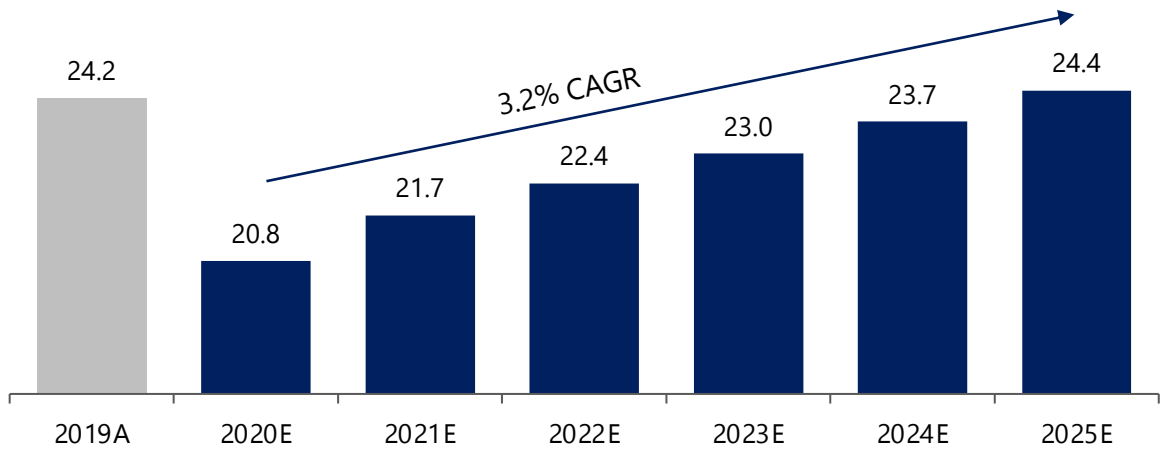
- Tobacco Products
- Beverages
- Candy and Snacks
- Beer and Wine
- Food Services
- Other

Source(s): Capital IQ, IBISWorld, Company Filings

Convenience Store with Gas Stations Industry

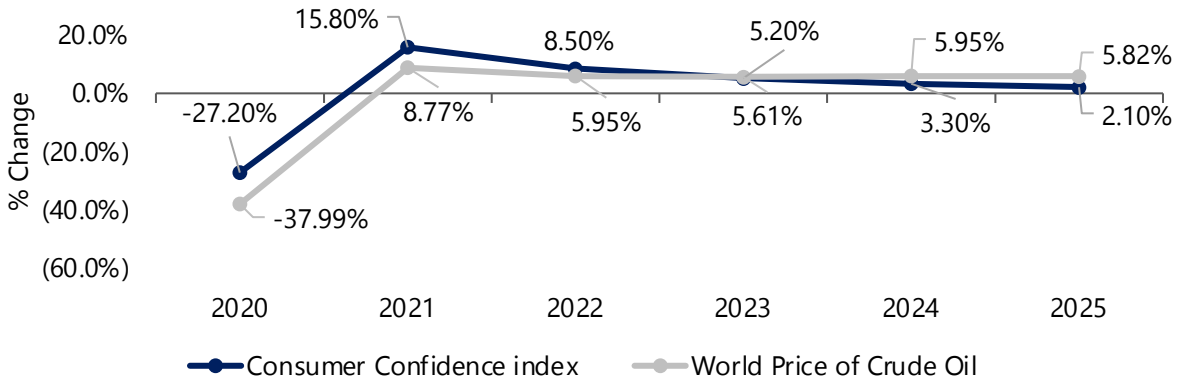
Industry Overview

Industry Revenue (In Billions CAD$)



Industry Outlook

- In Canada, revenue for the industry is expected to grow over the next five years to 2025, aided by rising oil prices and rising sales volumes due to increases in total vehicle-kilometers
- The industry is projected to benefit from growth in consumer demand for fuel over the next five years, fueled by growth in per capita disposable income and stable domestic employment



Main Trends

Low Demand for Fuel

- The COVID-19 pandemic has caused a substantial decline in demand for fuel due to boarder closures, social distancing protocols, work-from-home orders, and other regulations that deter people from travelling; causing a negative effect on revenue

Low Crude Prices

- Due to excessive production levels of crude oil from OPEC countries amidst a shrinking demand for oil derivatives caused a serious decrease in crude prices; causing a negative effect on revenue

Percentage of Smokers

- Most of Canadian consumers who smoke purchase their cigarettes directly from convenience stores
- According to IBISWorld, the smoker's percentage has been declining in the last 5 years and is expected to continue to decrease in the next 5 years at 3.41% annually
- As a result, convenience stores are trying to reduce their dependence on tobacco products due to escalating consumer health concerns and threats of government taxation and regulation

Extra Leisure Time

- Due to low unemployment levels and more people staying at home, people have more leisure time
- Extra leisure time is bad for convenience stores, as their main point of sale is that convenience stores offer conveniency and on-the-go food

Consolidating Industry

- The industry is highly fragmented. As a result, the industry has consolidated in recent years, with many large operators acquiring smaller players (especially in the US)
- These acquisitions have helped major operators reduce costs through economies of scale, and to enter new geographic regions

Source(s): Capital IQ, IBISWorld, Company Filings

Exceptionally Strong Capital Allocation and Operational Performance

Investment Thesis I

Solid Financial and Operational Performance

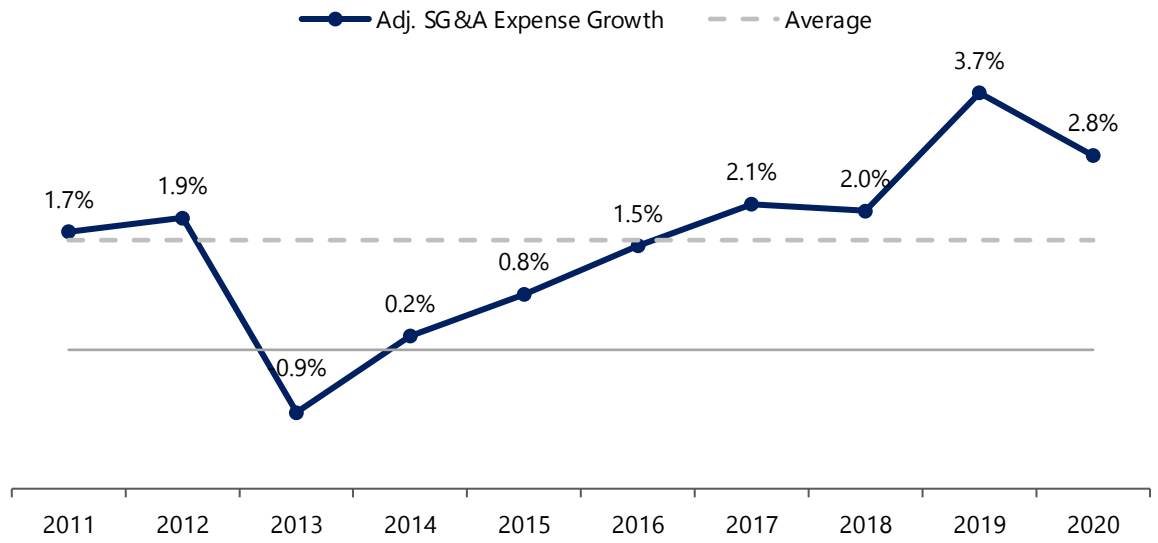
Fiscal	2015	2016	2017	2018	2019	2020	Industry Avg
Return on Assets %	8.72	10.31	9.13	8.97	8.02	9.75	7.08
Return on Equity %	23.75	26.71	21.87	24.66	22.25	24.79	23.79
Return on Capital %	14.72	17.06	15.09	15.06	12.93	14.35	13.57

Couche-Tard's ROA, ROE, and ROI highlight its efficiency at using its assets and allocating the capital under its control to generate profits. It is increasing its ability to generate profit without needing as much capital, which is a crucial insight into the health of the company

Fiscal	2015	2016	2017	2018	2019	2020	Industry Avg
Gross Margin %	15.26	17.81	17.10	15.78	15.55	17.98	16.61
Operating Margin %	3.95	4.81	4.53	4.05	4.19	5.70	3.36
Net Margin %	2.70	3.50	3.19	3.26	3.10	4.35	2.42

Couche Tard's margins continue to grow, which emphasizes the success of the company in proactively identifying and capitalizing on trends in the industry and indicating whether operating costs and overhead costs are being contained

Cost Discipline



Owing to its highly experienced executive team, cost discipline and lean operations have become a major part of the way by which Couch-Tard conducts its operations

This enables Couche-Tard to successfully preserve and continue to grow value for its employees, customers, and shareholders. This also enables Couche-Tard to weather crises, such as the current COVID-19 pandemic, better than its competitors

Couche Tard's approach to cost containment is supported by:

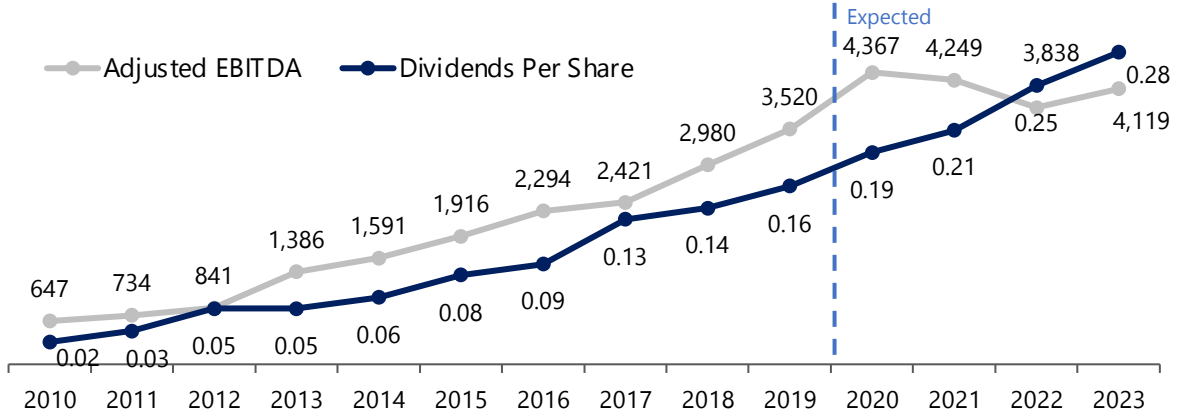
- Decentralized Business Units: This enables Couche-Tard to speed up decision-making, address local demand, and minimize corporate overhead
- Continuous Benchmarking
- Procurement Efficiency
- Automation, Robotics, and AI: This enables Couche-Tard to offer a seamless customer experience, while reducing costs and operating more efficiently

Source(s): Capital IQ, Press Releases, Company Filings, CSIMarket

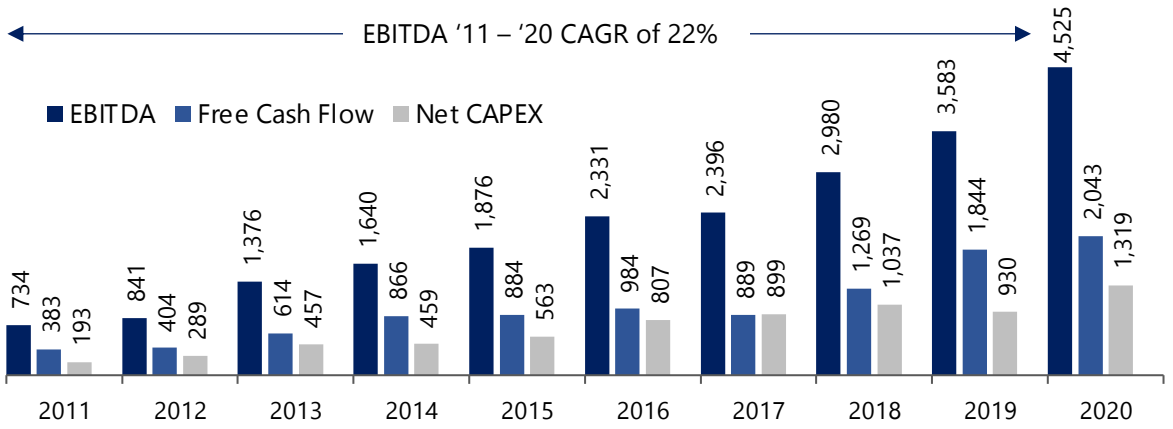
Exceptionally Strong Capital Allocation and Operational Performance

Investment Thesis I

Dividend Growth and Impressive EBITDA-to-FCF Conversion

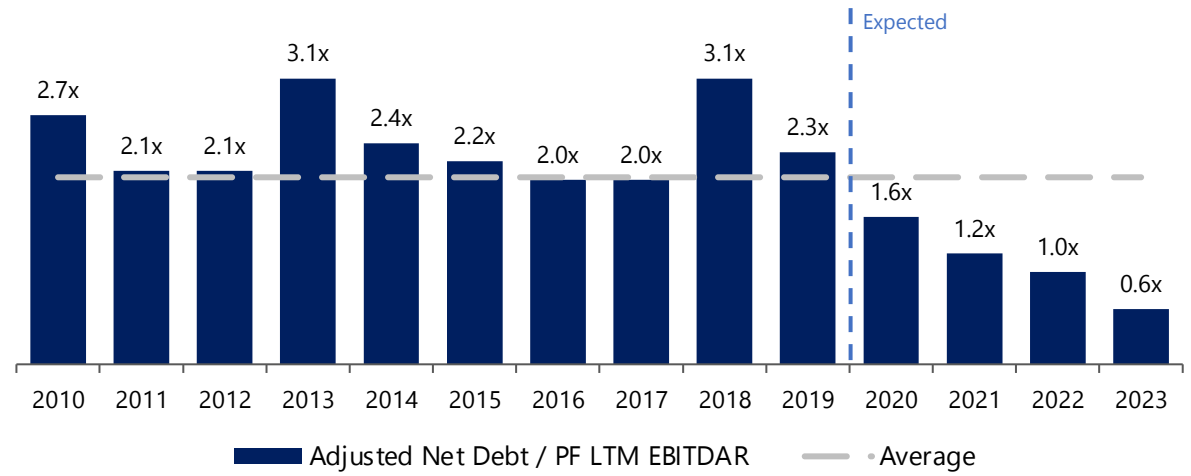


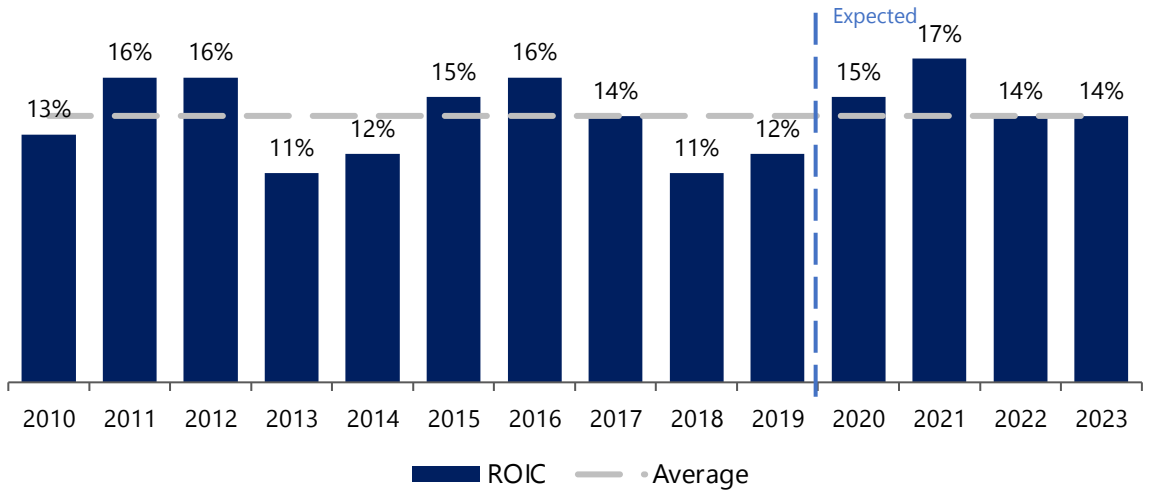
Couche-Tard's dividend increased by more than 8-fold since 2011 (~27% CAGR) and its last dividend hike was 12%



Couche-Tard benefits from robust EBITDA growth growing at a ~22% CAGR since 2011, converting 35% of EBITDA to FCF since 2011

Disciplined Debt Reduction and Driving Returns





Couche-Tard is able to pursue profitable growth through disciplined M&A and quick deleveraging, while supporting additional capex and dividend requirements. Despite their aggressive M&A undertaking, the company has among the lowest leverage in their comparable universe without excessive equity issuances diluting shareholders.

Source(s): Capital IQ, Press Releases, Company Filings

New Ventures and Strategic Acquisitions Driving Future Growth

Investment Thesis II

New Ventures

Artificial Intelligence

- In 2020, Couche-Tard teamed up with Standard Cognition, a provider of autonomous checkout technology
- This will allow Couche-Tard to facilitate touchless, autonomous checkouts
- No need to relocate merchandise, replace shelves, or build new stores
  - Standard Cognition's technology would be integrated with Couche-Tard's existing systems and retrofitted to its existing stores

Introduction of Electric Vehicle Charging Stations

- Couche-Tard is testing super-charging for electric vehicles to meet changing mobility needs
  - To date, Couche-Tard has over 150 EV charging stations at its locations in Europe
  - Couche-Tard plans to deploy a comparable strategy in North America after learning from consumer habits in northern Europe
- As vehicles transition to electric over the next decade, Couche-Tard could be well positioned to benefit from the shift
  - Developing a quick-charge station in a retail environment will provide first-mover advantages as consumer preferences shift from diesel cars to electric cars

Diversifying into the Cannabis Market

- Couche-Tard owns a stake in legal cannabis producer Fire & Flower, with the latter opening cannabis stores alongside Couche-Tard's convenience outlets across Canada
  - August 7th, 2019: Invested CAD $26.0 million in Fire & Flower Holdings Corp making it a minority shareholder with 11.3% ownership interest
  - CEO of Fire & Flower, Trevor Fencott, estimates 4000 retail locations are needed to saturate the current demand for cannabis in the Canadian market, however, approximately 1000 currently exist
- This partnership could give Couche-Tard a foothold in the rapidly expanding Cannabis Industry

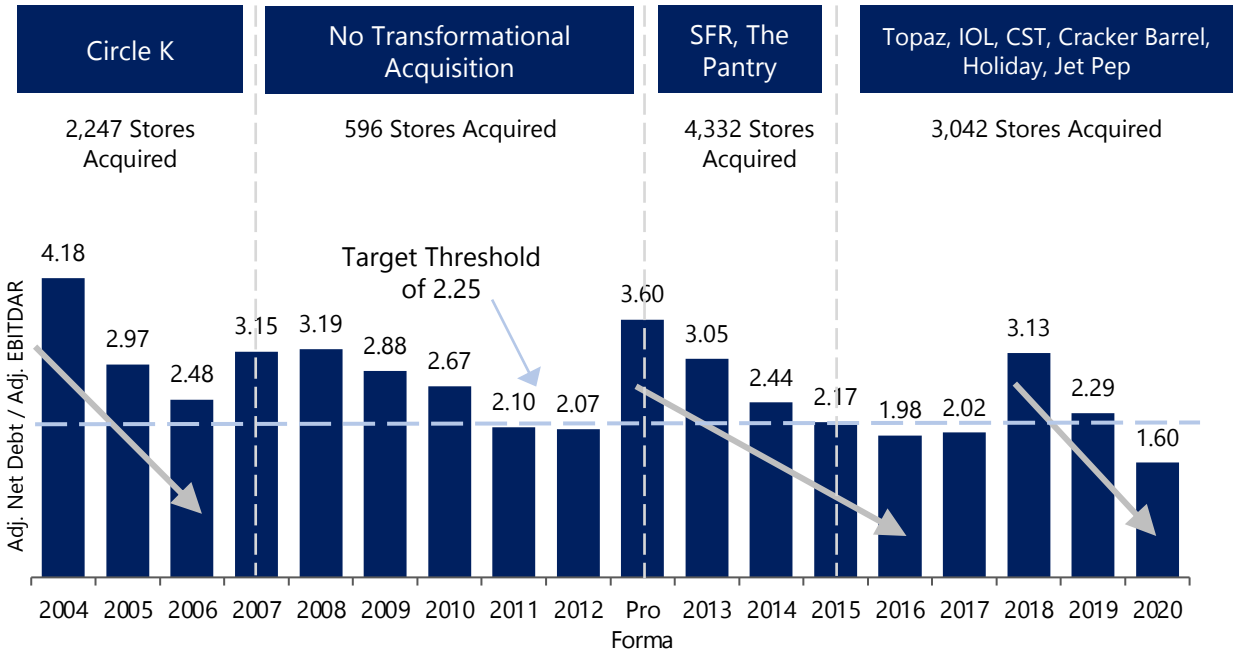
Strategic Acquisitions

Smart, Disciplined Acquisition Strategy

- Since 2004, Couche-Tard has successfully completed a total of 60 deals, adding ~10,200 stores globally
- This was done without compromising on its profitability, with its EPS increasing at a CAGR of 22% since 2011
- Significant runaway remains globally, with a focus on U.S. and Asia

Exceptional Deleveraging Track Record

- This stems out of its commitment to maintaining a strong balance sheet and sustaining its investment grade credit rating



Source(s): Press Releases, Company Filings

Short-Term and Long-Term Risks

Catalysts and Risks

Risks

Further Restrictions Due to Covid-19 Pandemic

- Traffic and fuel volume have dropped significantly due to lockdown provisions. This may be aggregated with additional lockdown restrictions from the worsening of Covid-19
  - That being said, the loosening of lock-down measures may act as a catalyst

Over-Reliance on Tobacco Product Sales

- Tobacco products represent the largest product category of merchandise and service revenues at 41% in 2019 FY
- Heavy regulation and awareness of the risks of smoking tobacco have caused a shift in consumer preferences away from tobacco

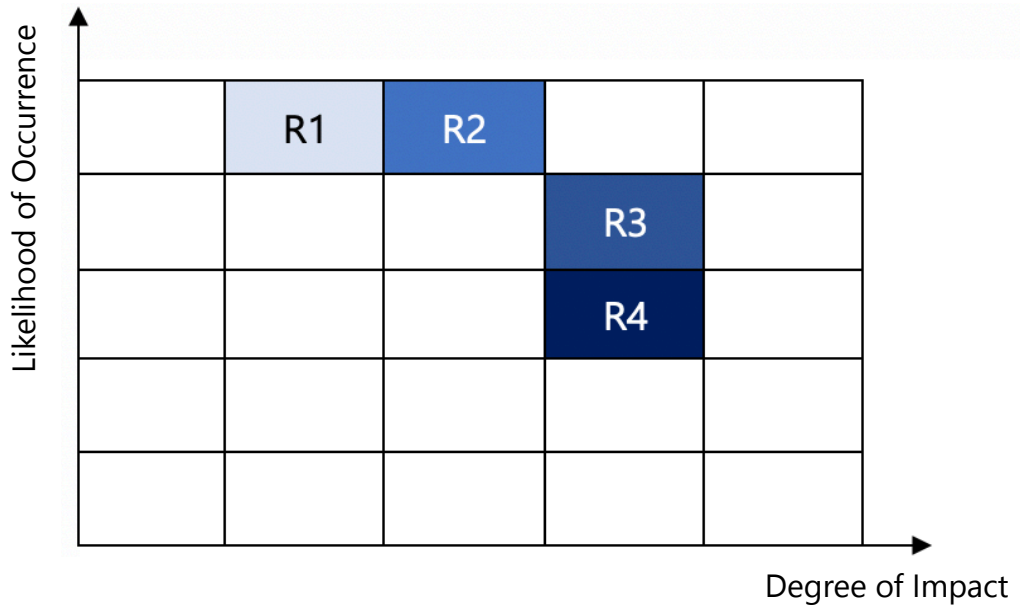
Long-Term Decline in Fuel Demand

- Fuel demand is declining in recent years due to an increase in awareness surrounding global warming and a growth in popularity of electric vehicles
- Less fuel demand will result in less traffic for Couche-Tard's locations potentially harming future cash flow streams

Overdependence on Acquisition Growth Strategy

- Acquisitions have become a significant contributor to Couche-Tard's growth strategy where profitability relies on the creation of synergies
- Potential long-term implications of a rise in operating costs, business disruption, difficulty maintaining stakeholder relationships

Likelihood and Impact



R1	Economic Slowdown Following the Covid-19 Pandemic
R2	Over-reliance on Tobacco Product Sales
R3	Long-term Decline in Fuel Demand
R4	Overdependence on Acquisition Growth Strategy

Mitigating Factors

Further Restrictions Due to Covid-19 Pandemic

- Recession resilience and contactless delivery solutions. E.g. Curbside delivery and Circle K App ordering

Over-Reliance on Tobacco Product Sales

- Diversification away from tobacco products and expansion into selling food and cannabis

Long-Term Decline in Fuel Demand

- Active plans in introducing electric charging stations

Overdependence on Acquisition Growth Strategy

- Aiming for more balanced future growth. Currently 30% organic and 70 M&A, moving towards goal of 50% organic, 50% M&A

Source(s): Company Filings

Short-Term and Long-Term Catalysts

Catalysts and Risks

Catalysts

Rollout of New Food Service Programs

- New food service program to expand their basic food offerings to 1500 stores by Fall 2020 and have already begun deploying the new product offerings
- Plans to expand the new program to Canada in the coming months

Biden's Pro Electric Vehicle Policies

- Biden's green energy plan: aiming for at least 500,00 public charging stations and looking to restore the full EV tax credit to incentivize the purchase of EVs
- Plan to offer incentives or rebates for people to trade in less fuel-efficient cars for EVs made in America
- Accelerated conversion of government and public vehicle fleets to all-electric

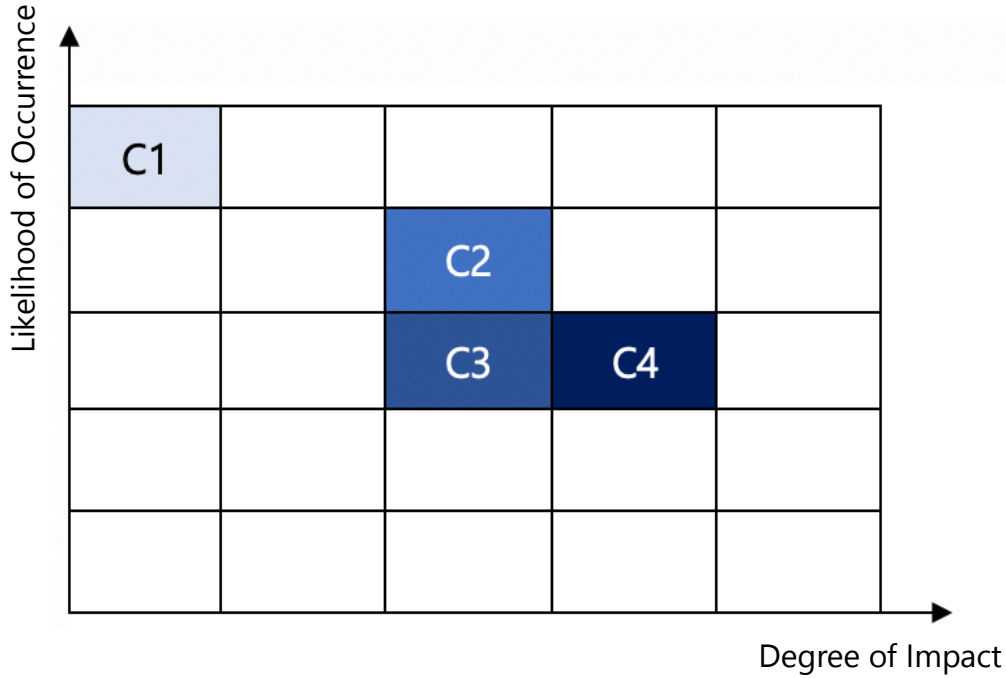
CAD/USD Exchange Rate

- $1 USD is currently worth $0.76 CAD benefitting Canadian businesses through cheaper relative prices in the US market; growing their American export revenue
- Additionally, products/services quoted in USD will translate to higher revenue figures for the Canadian company

Network Expansion into the Asia-Pacific Market

- CEO of Couche-Tard, Brian Hannasch, believes the Asia-Pacific market is where GDP growth will be greatest in the coming decades
- Couche-Tard has been observing Caltex for 3-4 years in order to find a synergistic company in Australia to use as a launching pad into the entire Asia-Pacific region
- Hong Kong: already acquired Circle K HK as a platform for the Asia-Pacific region in 2020

Likelihood and Impact



C1	Rollout of New Service Program
C2	Introduction of Electric Charging Stations
C3	CAD/USD Exchange Rate
C4	Network Expansion into the Asia-Pacific Market

Source(s): Company Filings, JoeBiden.com, BNN Bloomberg

Comparable Company Analysis

Valuation

Comparable Companies: U.S.- and Canadian-Based Convenience Store Companies

($ USD in Millions Except Per Share Amounts in USD as Stated, Calendarized to Dec 31 Year-End)

Valuation Statistics:	Capitalization		Enterprise Value / EBITDA			Enterprise Value / EBIT			P / E Multiple		
Company Name	Equity Value	Enterprise Value	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
American Comparables											
Casey's General Stores, Inc.	$ 7,105.9	$ 9,207.2	15.5x	12.4x	13.0x	26.6x	19.2x	21.9x	31.3x	21.7x	25.0x
Murphy USA Inc.	4,295.0	5,834.1	13.8x	8.6x	11.5x	21.6x	10.7x	18.1x	27.7x	11.4x	20.8x
The Kroger Co.	25,872.7	48,929.7	9.4x	7.5x	8.0x	18.6x	12.7x	15.1x	16.3x	10.3x	12.2x
Canadian Comparables											
Dollarama Inc.	11,910.9	14,616.1	18.2x	17.7x	15.9x	22.6x	23.6x	19.5x	28.2x	29.1x	24.6x
Empire Company Limited	7,471.6	14,855.2	11.7x	9.4x	9.6x	19.5x	15.7x	15.4x	18.1x	15.3x	15.2x
Parkland Corporation	4,492.5	9,793.2	10.2x	13.7x	10.9x	16.4x	12.3x	12.0x	15.5x	38.0x	24.5x
Mean	$ 10,191.4	$ 17,205.9	13.1x	11.6x	11.5x	20.9x	15.7x	17.0x	22.9x	21.0x	20.4x
Median	7,288.8	12,204.6	12.8x	10.9x	11.2x	20.5x	14.2x	16.7x	22.9x	18.5x	22.6x
Alimentation Couche-Tard Inc.	**$ 38,412.9**	**$ 45,150.7**	**11.4x**	**9.8x**	**10.6x**	**16.8x**	**13.5x**	**15.5x**	**18.6x**	**16.0x**	**17.7x**

Source(s): Data as of 11/15/2020, Capital IQ, Company Filings

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Valuation Summary	Range of Valuation Multiples		Implied Per Share Value Range	
	Mean	Median	Mean	Median
Metric	Multiple	Multiple	Per Share Value	Per Share Value
EV/EBITDA 2019A	13.1x	12.8x	$ 40.30	$ 39.02
EV/EBITDA 2020E	11.6x	10.9x	41.19	38.54
EV/EBITDA 2021E	11.5x	11.2x	37.56	36.49
EV/EBIT 2019A	20.9x	20.5x	44.04	43.19
EV/EBIT 2020E	15.7x	14.2x	40.59	36.06
EV/EBIT 2021E	17.0x	16.7x	38.13	37.50
P/E 2019A	22.9x	22.9x	36.09	42.22
P/E 2020E	21.0x	18.5x	38.75	39.43
P/E 2021E	20.4x	22.6x	33.35	43.66
Average Implied Price		in USD	**$ 38.89**	**$ 39.57**
	Nov. 15, 2020 USD/CAD 1.31	in CAD	**$ 51.07**	**$ 51.97**

Comparable Analysis Commentary

- Couche-Tard currently trades at a discount to its peers on an EV/ EBITDA, EV/EBIT and P/E basis
- Peer Universe was segmented into American comparables and Canadian comparables
- Peer Universe was focused on companies that most closely aligned with Couche-Tard's business model – E.g. similar merchandise and services, fuel retailing, etc.
  - That being said, the Comparables Analysis ultimately received little weight in the overall valuation because of differences in industry and consumer segments

Source(s): Data as of 11/15/2020, Capital IQ, Company Filings

Discounted Cash Flow Analysis

Valuation

Unlevered Free Cash Flow Calculation

Discounted Cash Flow Model									
	Historical				Forecast				
(US$ millions)	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Revenue	**37,804.5**	**51,394.4**	**59,117.6**	**54,132.4**	**55,917.3**	**57,761.1**	**58,713.4**	**59,681.4**	**60,665.3**
Less: COGS	(31,422.7)	(43,282.9)	(49,922.7)	(44,397.7)	(46,662.9)	(48,201.5)	(48,996.2)	(49,804.0)	(50,625.1)
Gross Profit	**6,381.8**	**8,111.5**	**9,194.9**	**9,734.7**	**9,254.4**	**9,559.5**	**9,717.2**	**9,877.4**	**10,040.2**
Less: Operating Expenses	(3,009.7)	(3,825.4)	(4,336.3)	(4,590.9)	(4,364.4)	(4,508.3)	(4,582.6)	(4,658.2)	(4,735.0)
Less: D&A	(654.9)	(878.8)	(1,070.7)	(1,336.8)	(1,517.0)	(1,721.5)	(1,837.5)	(1,961.4)	(2,093.5)
EBIT	**2,717.2**	**3,407.3**	**3,787.9**	**3,807.0**	**3,373.0**	**3,329.8**	**3,297.0**	**3,257.8**	**3,211.7**
Less: Tax Expense	(383.2)	(383.2)	(383.2)	(383.2)	(383.2)	(383.2)	(383.2)	(383.2)	(383.2)
NOPAT	**2,334.0**	**3,024.1**	**3,404.7**	**3,423.8**	**2,989.8**	**2,946.6**	**2,913.8**	**2,874.6**	**2,828.5**
Add: D&A	654.9	878.8	1,070.7	1,336.8	1,517.0	1,721.5	1,837.5	1,961.4	2,093.5
EBITDA	**2,988.9**	**3,902.9**	**4,475.4**	**4,760.6**	**4,506.8**	**4,668.1**	**4,751.3**	**4,836.0**	**4,922.0**
Less: CapEx	(2,383.5)	(5,695.2)	(1,181.4)	(979.2)	(2,674.9)	(2,763.1)	(2,808.7)	(2,855.0)	(2,902.0)
Less: Change in Net Working Capital	(306.5)	366.3	(1,549.8)	3,947.3	(736.9)	64.3	33.2	33.8	34.3
Unlevered Free Cash Flows	**299**	**(1,426)**	**1,744**	**7,729[1]**	**1,095**	**1,969**	**1,976**	**2,015**	**2,054**

[1] Unusually high UFCF figure can be attributed to the one-time acquisition of Convenience Retail Asia (BVI) Limited and the Hong Kong C-Store Network

Source(s): Capital IQ, Company Filings

Discounted Cash Flow Analysis

Valuation

WACC and Implied Share Price Calculation

Gordon Growth Method	
PV of Forecast Period	7,700
% of Enterprise Value	15.98%
Terminal Value	
Terminal Year UFCF	2,054
Perpetuity Growth Rate	2.00%
Terminal Value	53,245
PV of Terminal Value	40,488
% of Enterprise Value	84.02%
Enterprise Value	**48,189**
Less: Net Debt	5,908
Equity Value	**42,281**
Fully Diluted Shares Outstanding	1,114
Implied Share Price (USD)	$37.95
USD to CAD Exchange Rate	1.31
Implied Share Price (CAD)	**$49.84**
Current Share Price (CAD)	**$45.27**
Implied Margin of Safety	**10.01%**

WACC Analysis	
10-Year U.S. Treasury	1.50%
Market Risk Premium	6.00%
Beta	0.87
Cost of Equity	**6.72%**
Cost of Debt	3.80%
Tax Rate	17.86%
After-Tax Cost of Debt	**3.12%**
Target Debt/Capitalization	21.80%
WACC	**5.94%**

Discounted Cash Flow Analysis Commentary

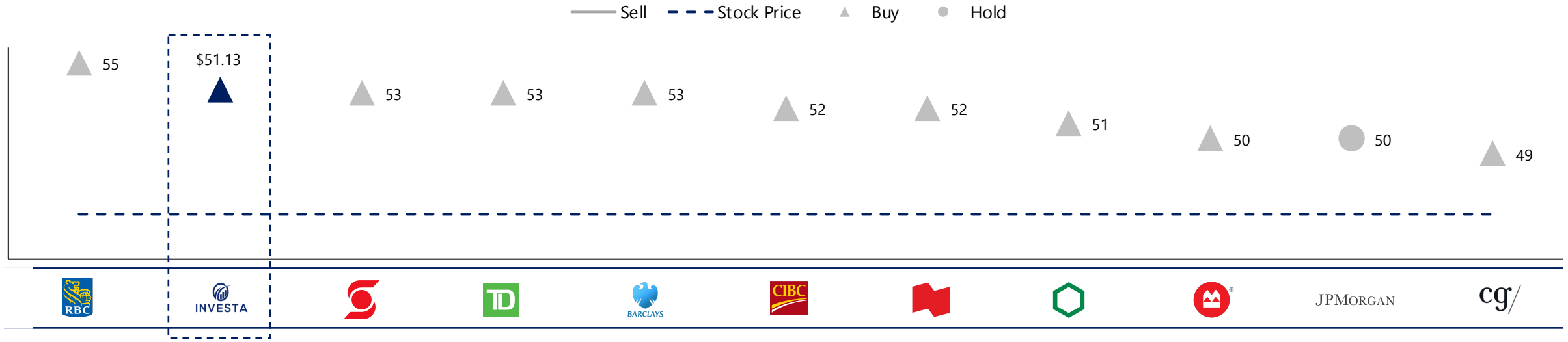
- The discounted cash flow analysis closed in on an implied share price of $62.96, a premium of nearly $15, or 39% over the market valuation
  - The premium was driven by a low WACC coupled with moderate rebounding growth projections over the forecasted period
- A conservative perpetuity growth rate was selected due to Couche-Tard's history of low organic growth and reliance on M&A for expansion

Source(s): Capital IQ, Company Filings

Recommendation: BUY

Valuation

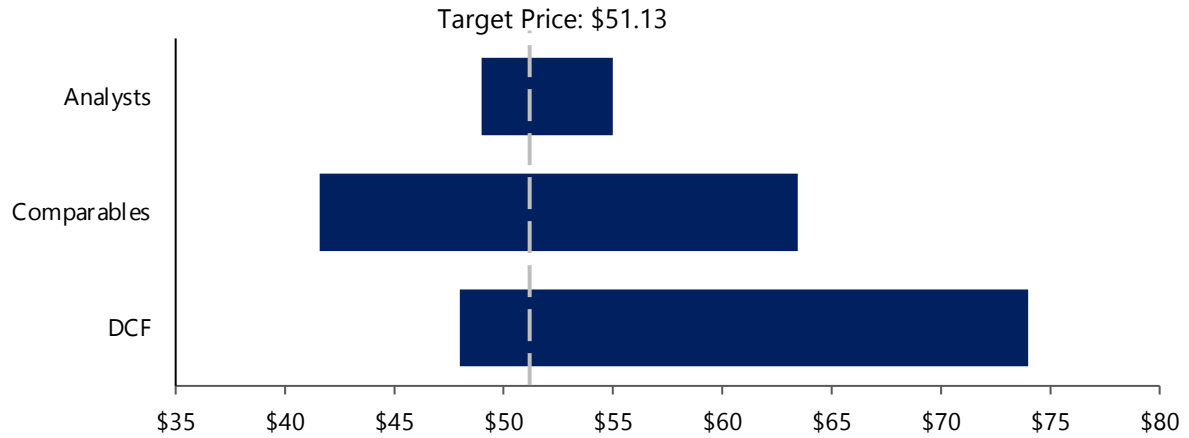
Selected Brokerage Summary



Price Target

Analysis	Price	Weights
Discounted Cash Flow Analysis	$49.84	40%
Analyst Targets	$52.00	30%
Comparable Company Analysis	$51.97	30%
Target Price	**$51.13**	**100%**
Current Price (11/17/2020)	$45.27	
Dividend Yield	0.63%	
Implied Return	**13.57%**	

Selected Brokerage Summary



When valuing Couche-Tarde we used both a Discounted Cash Flow and a Comparable Company Analysis, we come to the same conclusion as the majority of the street and recommend a BUY. Our analysis leads to a target price of $51.13, implying a total return of ~13.57%

Source(s): Capital IQ, Equity Research

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