

September 30, 2022

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Return on Investment

Current Share Price	\$55.61
Target Price	\$70.00
Dividend Yield	0.80%
Implied Return	27%
Conviction Rating	1

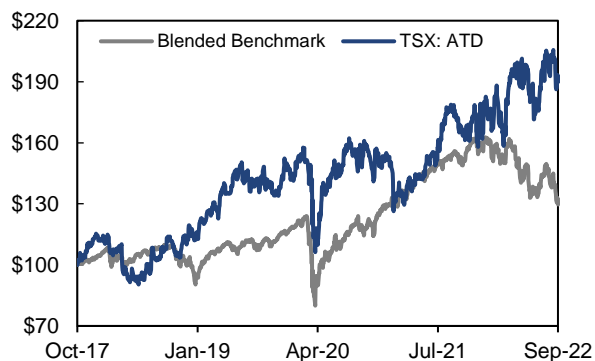
Market Profile

52-Week Range	\$45.23 - \$60.66
Market Capitalization (US\$m)	\$42,521
Net Debt (US\$m)	\$7,142
Enterprise Value (US\$m)	\$49,663
Beta (5-Year Monthly)	0.99

Metrics

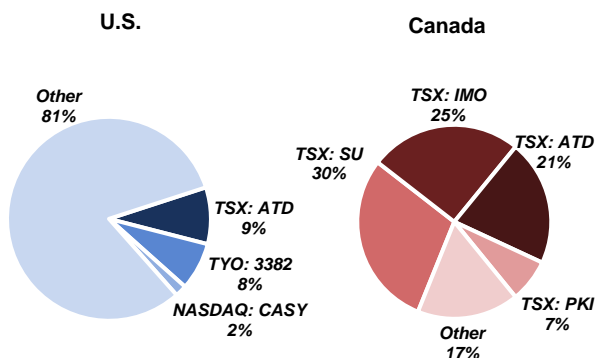
	2022A	2023E	2024E
Revenue (US\$m)	\$62,810	\$74,095	\$71,168
EBITDA (US\$m)	\$4,565	\$5,406	\$5,256
EPS	\$2.60	\$2.85	\$2.88
EV/EBITDA	10.9x	9.2x	9.4x

Historical Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: C-Store Market Share by Operator (2022)



Source: IBISWorld

Business Description

Alimentation Couche-Tard (TSX: ATD) owns, operates, and licenses an international chain of road transportation fuel stations (gas stations) and convenience stores (c-stores). The Company owns and operates ~14,000 stores across 24 countries, most of which are situated in the U.S., the Scandinavian and Baltic regions in Europe, and Canada. ATD operates under its proprietary brands: Couche-Tard, Circle K, Holiday, and Ingo. The Company offers a variety of consumer staple and discretionary goods and services broken down into three main categories:

- (1) Road Transportation Fuel:** Fuel provided at full-service and automated sites for road transportation engines
- (2) Merchandise and Services:** Grocery items, packaged snacks, fresh food offerings, beverages, ATM services, car wash services, tobacco products, bus tickets, postage stamps, lottery tickets, and gift cards
- (3) Other:** Aviation and stationary engine fuel, and rental income from operating leases for owned and leased land and buildings

Industry Overview

ATD is the second largest global gas station and c-store operator after Seven & i Holdings (TYO: 3382), which owns and operates 7-Eleven. The Company holds the leading market share in the gas station and c-store space in the Scandinavian and Baltic regions in Europe and the U.S. ATD is the third largest gas station and c-store operator in Canada. The Canadian gas station and c-store industry is largely composed of integrated oil companies. Competitors gain market share through the acquisition of retail assets sold by these integrated operators. However, the gas station and c-store industry in the U.S. is highly fragmented, as the two largest operators (ATD and Seven & i) hold only ~17% of the total market share. Currently, larger players in the U.S. are consolidating to increase market share and operational scale through the acquisition of other gas stations and c-stores.

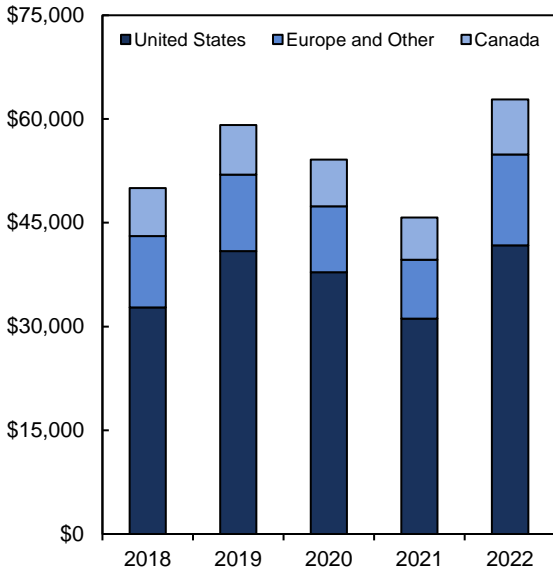
As the global economy continues to recover from easing COVID-19 restrictions, the gas station and c-store industry will continue to benefit from increases in vehicle miles driven, consumer income levels, gas consumption, and c-store purchases.

Although there are global concerns surrounding inflation and the possibility of a recession, the gas station and c-store industry has historically seen strong performance in these macroeconomic environments. The industry benefits specifically from the inelastic demand for road transportation fuel as well as increased consumer spending on staple goods provided at c-stores.

Mandate Fit

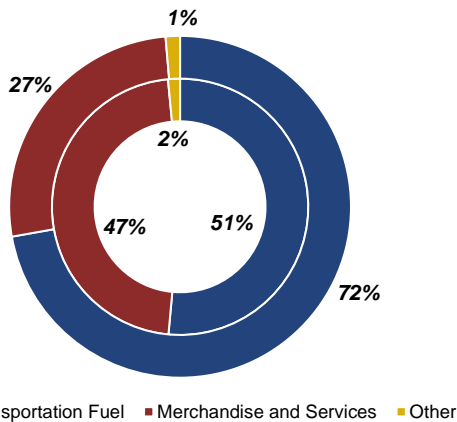
Quality Management: ATD was co-founded in 1980 in Laval, Quebec, by four individuals who are still members of the Company's executive team. Alain Bouchard, the current Executive Chairman and Co-Founder, served as ATD's President and CEO for 25 years until 2014. Brian Hannasch then became the new President and CEO, leveraging his prior experience from several VP roles within ATD since joining the Company in 2001. The remaining (cont.)

Figure 2: Geographic Revenue Breakdown (US\$m)



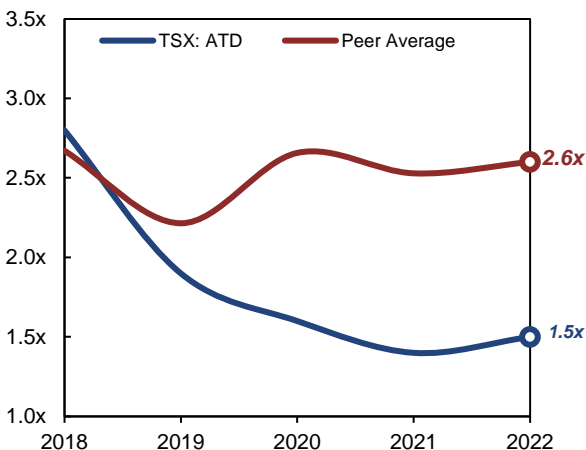
Source: Company Filings

Figure 3: FY22 Revenue (Outside) and Gross Profit (Inside)



Source: Company Filings

Figure 4: Net Debt/EBITDA vs Peers



Source: S&P Capital IQ

co-founders all serve as Corporate Directors on the executive team. Management has a strong track record of seamless acquisition integration of new c-stores and gas stations, having successfully acquired and consolidated ~10,700 stores into its global network since 2004. Management also has extensive experience growing sales, profitability, and margins through challenging macroeconomic environments. Furthermore, 83% of CEO and 71% of NEO compensation is composed of deferred share units, stock options, and short-term incentives.

Competitive Advantage: ATD’s competitive advantage is derived through its vast scale of operations from acquiring smaller competitors, granting it a dominant market share and strong brand recognition among customers. Additionally, the Company operates through a decentralized business model whereby store managers operate stores autonomously. This allows managers to cater certain product offerings and store layouts to the unique preferences of a particular customer demographic or region. Specifically, managers have full authority to make decisions on local procurement strategies in response to customer demands, which accelerates decision-making and leads to lower costs for the Company. This also allows ATD to compete with local competitors who have a higher capacity to focus on one specific geography or demographic. The Company characterizes itself as “the world’s biggest start-up” and aims to give local business units an entrepreneurial spirit through its decentralized management structure.

Strong Balance Sheet: ATD maintains a healthy balance sheet with a Total Debt/EBITDA ratio of 1.8x and a Net Debt/EBITDA ratio of 1.5x, compared to the industry averages of 3.1x and 2.6x, respectively. The Company preserves the health of its balance sheet through prioritizing deployment of excess capital to complete M&A transactions to avoid overleveraging. The Company has explicitly stated that it does not favour store count growth over profitability and financial health, further reflecting ATD’s capital discipline and commitment to maintaining balance sheet strength.

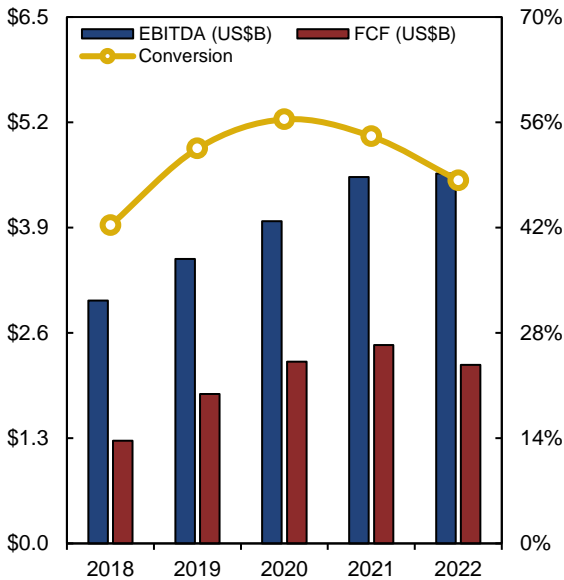
Growing Free Cash Flow: ATD has a five-year FCF CAGR of 12%. Low procurement costs derived from its decentralized management structure enhance the Company’s FCF generation, as it has converted an average of ~46% of EBITDA to FCF over the last 10 years. ATD has also grown dividends at a ~25% 10-year CAGR. In 2022, the Company renewed its share repurchase program to buy back ~79mm shares, repurchasing ~11mm shares in Q1 2023.

ESG Initiatives

Environment: In 2022, ATD issued its first Green Bond, targeting investments in five key areas: clean transportation, energy efficiency, renewable energy, pollution prevention and control, and sustainable water and wastewater management. The Company is also taking strides to reduce its carbon footprint by introducing recyclable and reusable food packaging for its fresh food offerings, providing 100% sustainably sourced coffee at store locations, converting fuel tanker fleets to renewable natural gas, monitoring car washes to recycle and recover water, and implementing LED lighting, cooler retrofits, and cooling room optimization to reduce energy usage at c-stores.

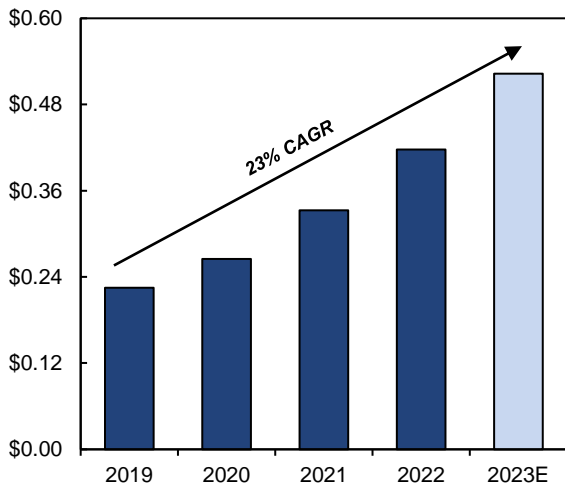
Social: During the COVID-19 pandemic, ATD made significant investments in personal protective equipment for store managers and gas station attendants. The Company continues to provide health and safety training programs to employees to prevent workplace injury and invest in deterrence measures to prevent store robberies.

Figure 5: LHS EBITDA and FCF vs RHS Conversion



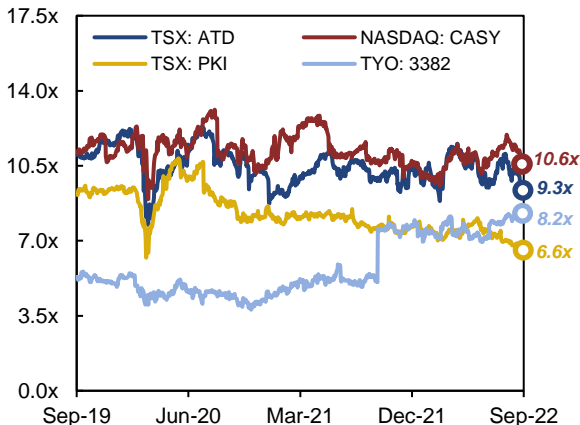
Source: Company Filings

Figure 6: Dividend per Share (\$)



Source: Company Filings, S&P Capital IQ

Figure 7: NTM EV/EBITDA vs Peers



Source: S&P Capital IQ

Governance: ATD is working to improve gender diversity at the Board level. The Company met its goal of 30% female representation on the Board of Directors in 2022 and has set a goal to increase representation to 35% by 2025.

Norway Lab

In 2018, ATD introduced Electric Vehicle (EV) charging stations to its store locations in Norway to capitalize on the country’s mass adoption of EVs. The Company uses its store locations as “labs” to study consumer behavior and in-store purchasing habits to improve the experiential aspect of its stores as customers wait for their vehicles to finish charging. To date, ATD has installed 700 fast chargers at ~100 sites in Norway and is the leading provider of EV charging stations in the country. The Company plans to use insights from its Norwegian store locations to introduce EV charging stations to the rest of its business units throughout Europe, the U.S., and Canada. ATD has installed a total of 1,180 EV chargers in ~270 sites in Europe, and recently deployed EV charging stations in Texas, South Carolina, and Quebec. The Company will continue to introduce EV charging stations to its North American store locations over the next 24 months. As well, the Company has delivered ~8,100 home and workplace EV chargers to customers in Norway and is developing a mobile application for customers to place orders for home EV chargers and monitor the charging status of their vehicles.

Catalysts and Risks

As COVID-19 restrictions lift, ATD can benefit from increased visitation and consumer spending on staple and discretionary goods at its gas stations and c-stores. Furthermore, the Company can capitalize on the fragmented gas station and c-store industry in the U.S. to continue its strategy of growth through acquisition.

A resurgence in COVID-19 cases, or any other global health crisis could lead to recurring lockdowns in turn affecting gas station and c-store visitations. As well, the Company could experience delays or increased procurement costs from pivoting suppliers of retail fuel and c-store goods. ATD experienced challenges procuring retail fuel from its European suppliers following Russia halting its supply of natural gas to the continent during the onset of the Russia-Ukraine conflict. Lastly, changing environmental laws and regulations could impact ATD’s process for procuring, storing, and transporting retail fuel.

Investment Thesis and Valuation

ATD was valued at \$70 using a five-year DCF with a WACC of 7.5%. The target price was derived using a 50/50 blend of (1) the Gordon Growth method, using a 1.0% terminal growth rate, and (2) an EV/EBITDA exit multiple of 9.3x. ATD has historically traded at a premium to its competitors, which the CPMT believes is justified due to the Company’s business strength and competitive advantage.

The CPMT views ATD favorably given its dominant market share, global presence, experienced management team, and operational excellence. As concerns of a recession arise, the Fund believes the Company will maintain its strong performance due to management’s experience and the inelastic demand for products and services provided at gas stations and c-stores. In the long-term, ATD can continue to grow through acquisition and integration of stores in the U.S., and the Fund is optimistic the Company will continue to demonstrate capital and operational discipline to complete acquisitions. The CPMT recommends initiating a position in ATD as the Company successfully meets the Fund’s mandate points and provides unique exposure to the Consumer Staples sector.