

PALOS

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Weekly Commentary

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Alimentation Couche-Tard: Leading the EV charging rollout

Alimentation Couche-Tard (ATD: TSX) owns and operates a chain of convenience stores that offers a wide range of merchandise including gasoline, grocery products, beverages, lottery tickets, car washes, beer and wine. The company operates under the **Circle K** and **On the Run** (with Exxon) banners in the U.S., **Mac's/Couche-Tard** in Canada and under the **Ingo** (with Statoil) brand in Europe. Globally, Couche-Tard operates over 14,000 stores in 24 countries and employs over 122,000 people. Most revenues come from the gas pumps with over 14 billion gallons of gasoline sold every year.

Four years ago Couche-Tard pioneered its expansion into the electric vehicle (EV) charging business through the establishment of its Norway EV Lab. The Norway initiative has helped Couche-Tard to learn and understand more about how customers' behaviors and needs are destined to change as more drivers transition to EVs. Fuel sales are tremendously important to Couche-Tard's bottom line and the economic ramifications of the transition from fossil fuels to electric are obvious. The primary purpose of the Norway Lab is to gain as much information as possible on evolving customer behavior and how best to adapt.

The Norway Lab has contributed to significant progress. In the European market, Couche-Tard currently has more than 1,085 chargers in operation at 256 charging stations. The majority are in Norway where EVs have realized a huge degree of adoption while the remainder are located in other Scandinavian nations (Sweden and Denmark). The Norway Lab has also made significant progress in developing "home and workplace solutions" whereby the company is providing charge points for private use. Launched in 2019, more than 6,800 home chargers have been delivered.

On May 20, the company announced it had launched its North American expansion of EV charging at a prototype Circle K store located in Rock Hill, South Carolina. The location, which features high powered **direct current fast charging (DCFC)** units, was chosen due to its convenient location on an established commuter corridor in a metropolitan area where EV adoption is expected to expand. Analytics will be used to gain a better understanding of customer needs, charging habits, usage and the impact on foot traffic in the adjacent store.

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The data generated from the Rock Hill Circle K prototype will be used to determine the most opportunistic locations in Canada and the U.S., where management has stated that over 200 new locations are expected over the next two years. Management has promised to take a strategic approach to expansion by identifying areas or cities with rising EV adoption, complementary electric infrastructure, ample traffic volumes and easy accessibility.

DCFC units are superior to chargers using **alternating current (AC)**. Typically, a DCFC charging unit can recharge an EV battery to 80% of its capacity within 15 to 45 minutes, depending on the vehicle's battery capacity. Chargers using AC take much more time and in fact, can take hours or even days to reach a full charge. Thus, a customer that "plugs in" at Circle K would likely spend much more time inside the store than a customer who "fills up" the tank and either pays at the pump or goes inside the store to fulfill a specific shopping need. Although it's still far too early to estimate, there is a high likelihood that customers will spend more time (i.e. spend more money) inside the store when "charging up" versus "filling up", given the latter requires the customer to physically perform the fill up whereas charging only requires a connection to the charger and time.

While EV adoption is still in the early stages in North America, Couche-Tard is capitalizing on its knowledge and experience gained in Europe to establish themselves as an industry leader in North America. There are currently over 9,000 stores in Canada and the U.S. that currently generate a significant share of store revenues from sales of gasoline. The threat from falling gasoline sales as drivers transition to EVs is real. However, as mentioned above, charging times in the range of 15 to 30 minutes should entice EV customers to spend more time in store. We believe this presents an opportunity to leverage EV charging through expanded product offerings, a better shopping experience, or the addition of fast food or services that don't work under the traditional "convenience" model.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.13	-12.84%
Palos Equity Income Fund - RRSP	PAL101	\$6.28	-12.10%
Palos Merchant Fund L.P. (Dec 31, 2021) ²	PAL500	\$1.16	24.67%
Palos WP Growth Fund - RRSP	PAL213	\$12.88	-33.75%
Palos-Mitchell Alpha Fund ³	PAL300	\$8.35	-22.28%
S&P TSX Composite (Total Return with dividends reinvested)			-8.98%
S&P 500 (Total Return with dividends reinvested)			-17.52%
S&P TSX Venture (Total Return with dividends reinvested)			-34.44%
Chart 2: Market Data ¹			Value
US Government 10-Year			3.08%
Canadian Government 10-Year			3.30%
Crude Oil Spot			US \$104.79
Gold Spot			US \$1,742.30
US Gov't10-Year/Moody BAA Corp. Spread			235 bps
USD/CAD Exchange Rate Spot			US \$0.7729

¹ Period ending July 8th, 2022. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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