

PALOS

CONTENTS

Weekly Commentary

Issue No. 42 | October 16, 2023

Alimentation Couche-Tard Announces its 5-Year Plan	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

By [Charles Marleau CIM[®]](#) and [William Mitchell CIM[®]](#)

Alimentation Couche-Tard Announces its 5-Year Plan

Alimentation Couche-Tard (TSX:ATD) owns and operates convenience stores under the Couche-Tard, Circle K, and Ingo brand names. The Quebec-based company opened its first store in Laval, QC in 1980 and today ATD operates over 14,000 stores in 25 countries/territories, employing over 125,000 people. The company expanded into the United States in 2001 and in 2003 the Circle K business was acquired from ConocoPhillips. Subsequent expansion came from the acquisition of Scandinavia-based Statoil Fuel & Retail (2012), Ireland-based Topaz in 2016, and Circle K stores operated in Hong Kong and Macau. Approximately seventy-five percent of store locations sell transportation fuels and in 2022, the company launched EV charging capabilities in Quebec and South Carolina. Roughly half of its stores are in the U.S.

Last Tuesday the company announced its five-year strategic plan at its investor day in Phoenix, AZ. The plan, which it has named **“10 for the Win”**, sets “ambitious goals to bring more value to our customers, team members and shareholders as we strive to become the most trusted brand in convenience and mobility”, according to Brian Hannasch, President and CEO of the company. In 2018, the “Double Again” strategy was launched and goals were achieved in fiscal year 2023. The new five-year strategic plan highlights several foundational priorities that management refers to as “lighthouses guiding our voyage”: **Winning the Customer, Winning Fuel, Winning Offer** and **Winning Growth**.

Winning the Customer will be driven by using customer data to personalize store experiences, defend existing customer loyalty, and ultimately to capture greater market share. An improved “digital experience” will focus on “smart checkout” and “interactive customer screens”. The Circle K Mobile App in the U.S. has seen almost 2 million downloads with a 15% daily usage rate. Store “mapping” allows users to easily locate the nearest store and “members only” offers are driving customer loyalty; a European version is being rolled out. A program called “Operations First” plans to improve customer wait times, store cleanliness and “customer-centric” friendliness through critical employee training. Inventory management optimization will ensure product availability and effective merchandising leading to improved margins.

Winning the Offer includes a strategy to capitalize on the over \$700 billion convenience food market in North America and Europe. Recent progress includes the expansion of fresh food concepts, localized offerings, boosted brand awareness, and optimization of supply chains. With “thirst” being the number one reason customers visit a store, new cooler installations, expanded cold space, greater selection and product innovation will drive the goal to “own thirst”. A “Thirst Stop” marketing initiative aims to utilize multi-channel marketing, private branded product lines and tailored target marketing to “double market share”. The company is looking to launch over 100 new private branded products this year in addition to the existing 250-300 products.

By Charles Marleau CIM[®] and William Mitchell CIM[®]

Winning Fuel will build on ATD's strong track record of fueling the mobility needs of customers. Growing brand recognition, cost benefits from scale, and stable supply chains offer advantaged fuel margins. Initiatives for 2024 and beyond include direct sales to business customers, localized promotional and pricing strategies, and "truck friendly" locations.

Winning Growth intends to capitalize on a fragmented convenience market in the U.S. Consolidation opportunities are plentiful given that of over 150,000 convenience stores in the U.S., 60% are classified as "single store" operators. This is a business where "scale matters" and with ATD's existing organizational expertise and strong balance sheet, opportunities for large scale acquisitions and expansion abound. The "New Store Growth Strategy" looks to expand strategically in fast growing, high traffic suburban areas with strong consumer economics. "Bolt on" opportunities include express car wash, fast food services, and "Fast" EV charging stations. ATD has a leadership position in Scandinavian EV charging. Customers who use charging stations spend more "in store" than internal combustion engine customers.

Couche-Tard's vision is to become the world's "preferred destination for convenience and mobility" with the stated mission of "making customers' lives a little easier every day". Drivers of growth are untapped organic and acquisition possibilities, financial discipline, brand recognition, strong customer loyalty and team culture. The 5-year plan forecasts a 62% increase in revenues and an 84% increase in gross profits by fiscal year 2028. (Source: investor day presentation)

The Palos-Mitchell Alpha Fund currently holds shares in ATD.

Follow us on LinkedIn:



Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.79	1.57%
Palos Equity Income Fund - RRSP	PAL101	\$6.48	0.70%
Palos WP Growth Fund - RRSP	PAL213	\$10.10	-18.84%
Palos-Mitchell Alpha Fund ³	PAL300	\$10.05	27.62%
S&P TSX Composite (Total Return with dividends reinvested)			3.09%
S&P 500 (Total Return with dividends reinvested)			14.17%
S&P TSX Venture (Total Return with dividends reinvested)			-7.04%
Chart 2: Market Data ¹			Value
US Government 10-Year			4.61%
Canadian Government 10-Year			3.97%
Crude Oil Spot			US \$87.69
Gold Spot			US \$1,927.40
US Gov't10-Year/Moody BAA Corp. Spread			183 bps
USD/CAD Exchange Rate Spot			US \$0.7321

¹ Period ending October 13th, 2023. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

Weekly Commentary

Issue No. 42 | October 16, 2023

Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., “Palos”). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos’ written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. “S&P” is a registered trademark of The McGraw-Hill Companies, Inc. “TSX” is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM. Palos Funds are not available for non-Canadian residents.

PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188
F. +1 (514) 397-0199

4711 Yonge Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110
F. +1 (647) 343-7772

www.palos.ca