Analyst Deal Competition

Team Jean Coutu

September 27, 2018

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Transaction Overview

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- On May 11th 2018 Metro Inc. (Metro) – a retail chain – acquired the Jean Coutu Group (Jean Coutu) – a pharmaceutical company – for an enterprise value of C$4.5B
- The deal will be financed with 25% common shares of Metro and 75% cash, for total consideration of C$24.50 per share, representing a 15.4% premium(1)
- Metro has received committed debt financing of C$3.4B from BMO, CIBC and National Bank
- Metro also aims to issue shares and sell assets, having already sold bonds – worth $1.2B – and shares in Alimentation Couche-Tard – worth $1.55B

Organizational Changes

1. Jean Coutu will operate as a stand-alone division and will retain its brand name
2. Francois J. Coutu will continue to lead Jean Coutu as President
3. Francois J. Coutu and Michel Coutu have been designated by Jean Coutu to sit on the Metro Board of Directors

Transaction Rationale

- Cost Synergies: $75MM
- Expectation of FCF per share accretion
- Protection against the changing industry (e.g. Threat of Amazon)
- Melding of two experienced management teams
- Network of >1,300 locations
- Marriage of two iconic Quebec brands

Source(s): Bloomberg, Business Insider, Company Reports, Financial Post, Newswire
(1) Premium based on pre-announcement price

Industry Overview

Grocery Retail Landscape

Types of Players

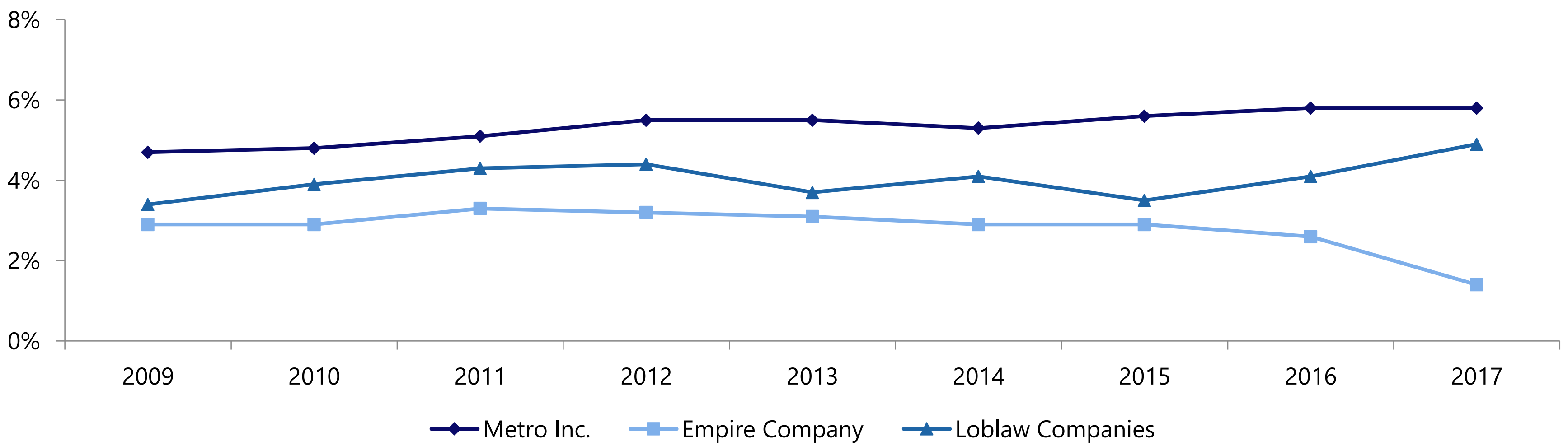
Supermarkets

Discounters

Market Characteristics

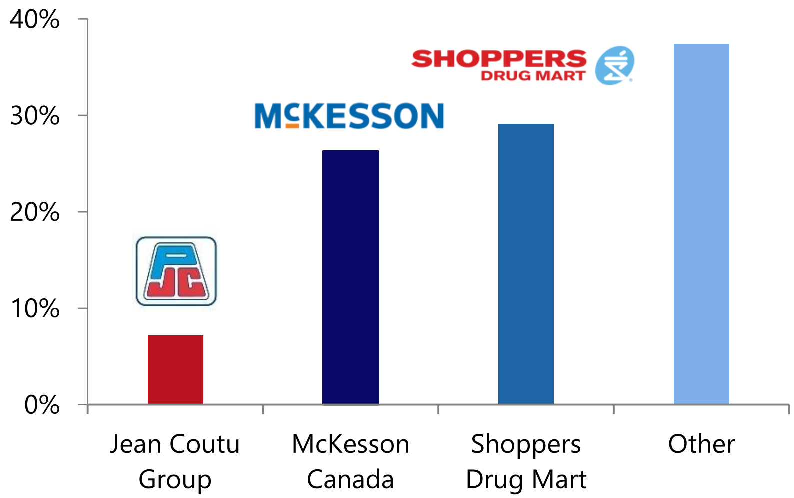
- Inherently recurring nature
  - Always a steady stream of customers, which makes grocery retail highly appealing
- Loyalty becoming scarce
  - About 60% of shoppers who had never shopped in Aldi or Lidl before said they would if one opened near them
  - Most shoppers tend to shop at an average of four stores to meet grocery needs
- Edge of store sales outpacing center of store sales
  - Edge of store sales outgrowing center of store sales by 3-4% each year
  - Volumes moving away from brands and pre-packaged foods to delis and fresh produce

Historical EBIT Margins



Pharmacy & Drugstore Landscape

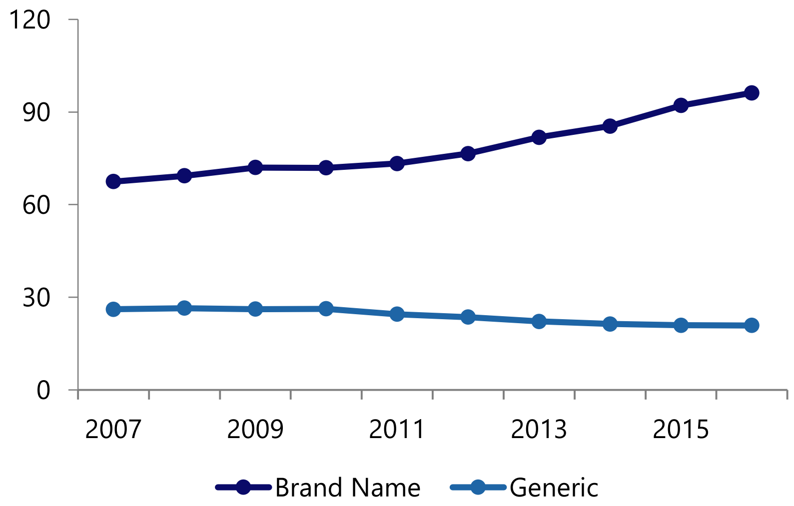
Market Share



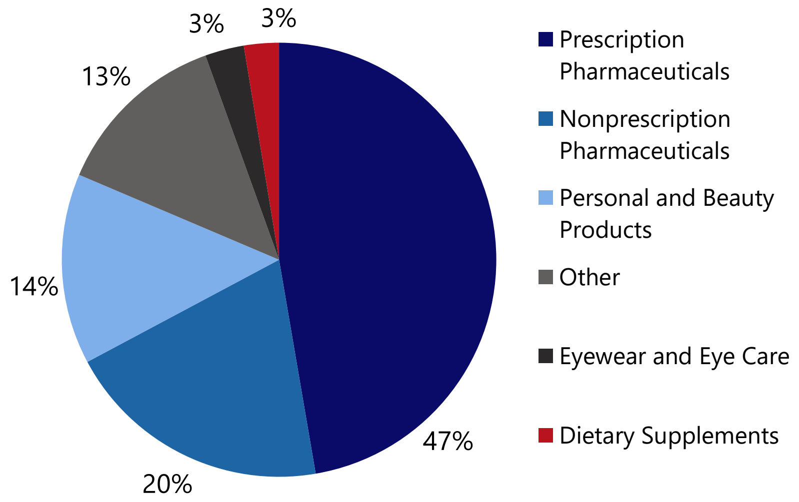
Market Characteristics

- 70% of prescription medication is for maintenance
  - Similar to grocery retail, purchases of prescription drugs are highly recurring in nature
- Higher EBIT margins than grocery retail
  - Grocery retail is encumbered by heavier and larger products, some of which require refrigeration
  - Lower distribution costs in pharma retail
- 93% of purchases are made with insurance
  - Drug insurance plans cover 98% of Canadians
  - Public health insurance covers 1/3 of total healthcare costs, but accounts for 43% of industry revenue

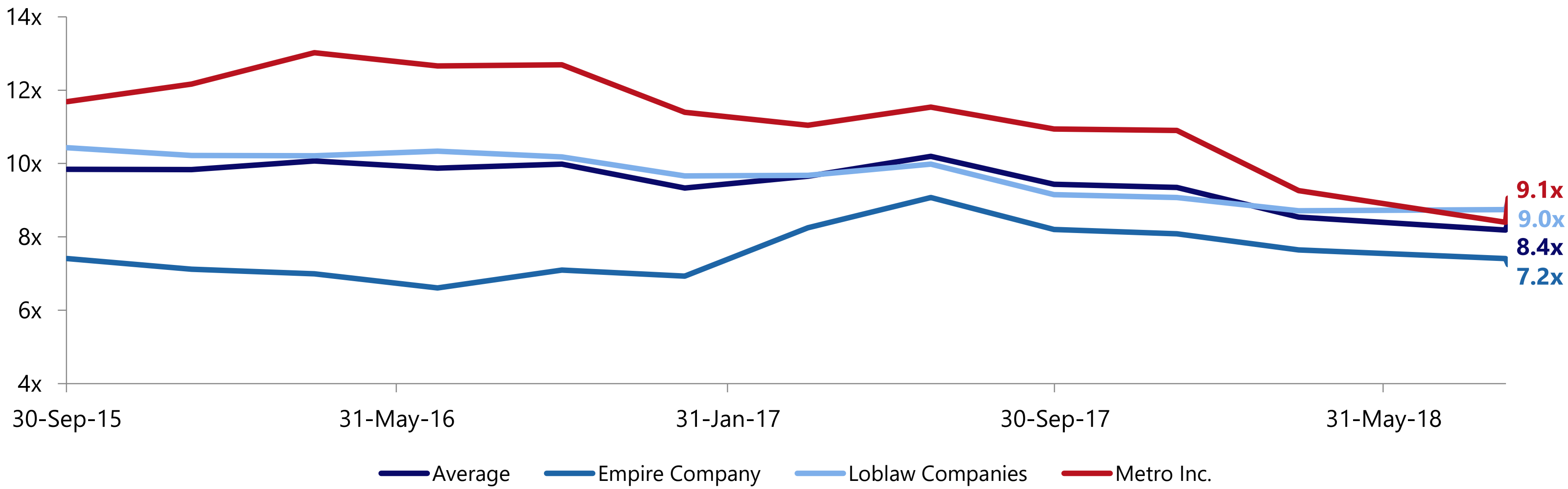
Generic v. Brand Name Drug Pricing



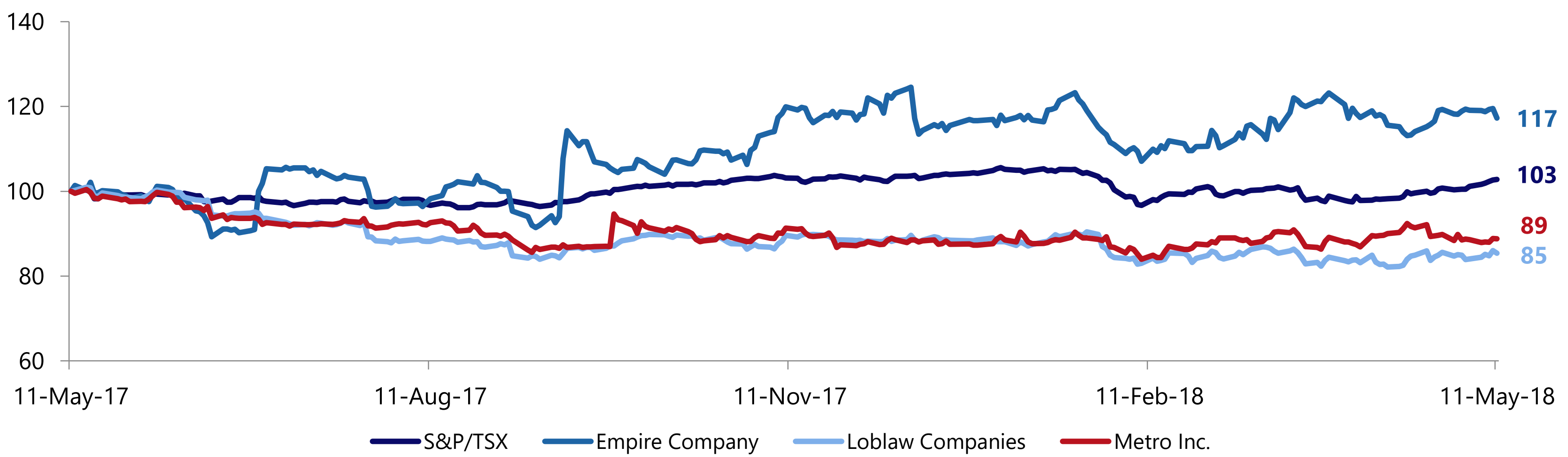
Revenue Segmentation (2017)



EBITDA Multiples



Relative Performance



Source(s): S&P Capital IQ, Yahoo Finance

The Changing Retail Landscape: 3 Emergent Trends

1. Heightened E-commerce Penetration
2. Private Label Growth
3. Increasing Retail Consolidation

Trend #1: Heightened E-commerce Penetration

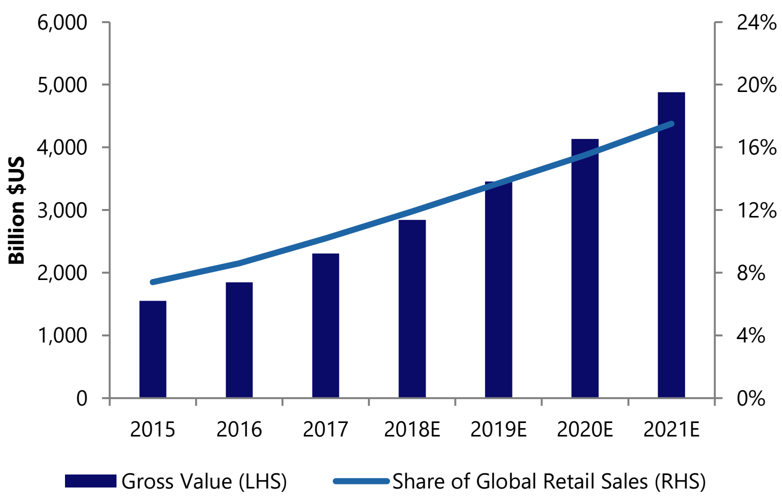
E-commerce: Two Different Forms

Dedicated e-Retailers

Incumbent With Online Channels

In 2017, 7.4% of total retail sales in Canada were conducted online

Worldwide Retail E-commerce Sales



Quick Facts

- Retail e-commerce sales worldwide (for all categories) are expected to rise to $4.9T by 2021, thus comprising 17.5% of total global retail sales
- The trend toward e-commerce is broad-based on an international scale; however, online retailing is more prominent in some nations than in others
- Retail e-commerce sales were 16.9%, 15.5% and 12.1% of total 2017 retail sales in the U.K., China, and Norway, respectively
  - The U.S. and Canada were 8th and 9th in the world, with 7.4% and 6.2%, respectively

Source(s): Bernstein, Google Images, Statista

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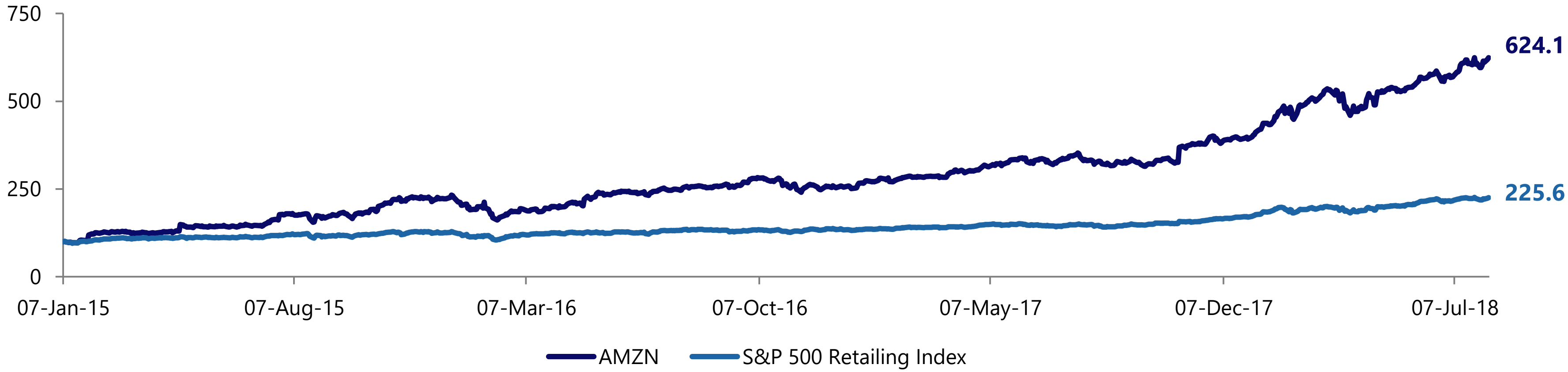
Amazon's Meteoric Rise – Rebased Stock Price vs. S&P 500 Retailing Index



The rise of e-commerce is best exemplified by Amazon's stunning growth

Amazon Financial Figures

All figures in US$MM	2012	2013	2014	2015	2016	2017	LTM
Revenue	61,093	74,452	88,988	107,006	135,987	177,866	208,125
Gross Profit	15,112	20,271	26,236	35,355	47,722	65,932	80,715
EBITDA	2,508	3,547	4,365	7,879	11,668	15,039	20,631
Unlevered FCF	1,352	2,883	4,070	6,404	100,666	9,939	11,797

Source(s): S&P Capital IQ

Trend #2: Private Label Growth

Types of Private Label Products Within the Grocery Industry

1. Value Products

2. Premium Private Labels

3. Fresh-Prepared Foods

30% of the market share of established U.S. branded packaged food players is at-risk

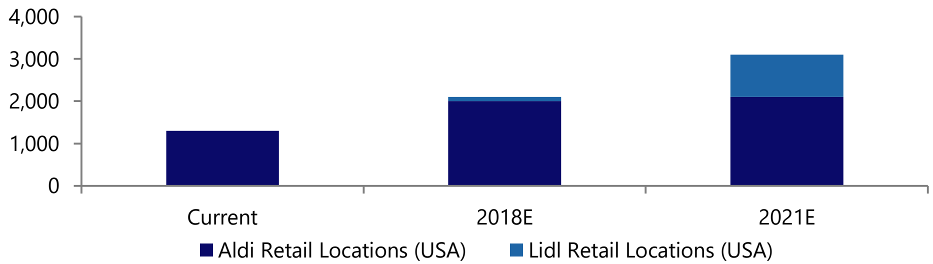
- 10% due to challenger food brands
- 10% due to better-quality, shelf-stable private label products
- 10% due to fresh-prepared, deli-style foods

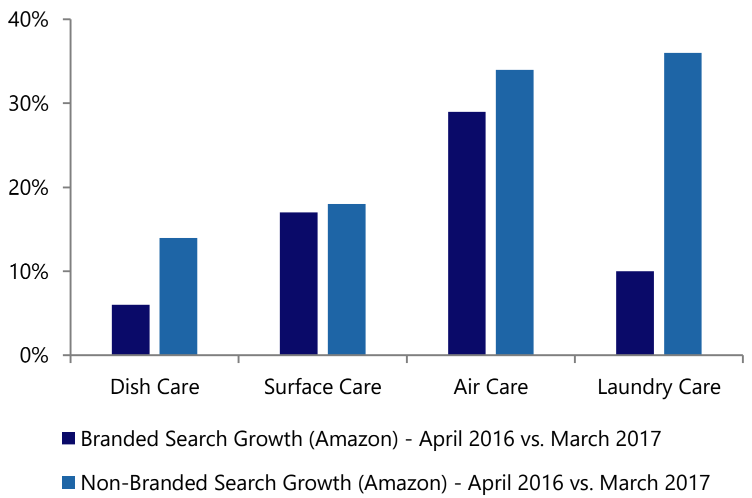
Private label market share in U.S. food sales has grown from 18.5% in 2014 to 19.2% over the last 12 months

Private Label Growth – the Reason Why

– "Hard discounters" such as Aldi and Lidl are forcing brick and mortar retailers to offer private labels that are credible, yet price-competitive

– E-commerce disruptors such as Amazon are pushing retailers to offer private labels that provide an in-store experience that is sufficient to incentivize consumers to shop at brick and mortar locations





Source(s): Bernstein

Trend #3: Increasing Retail Consolidation

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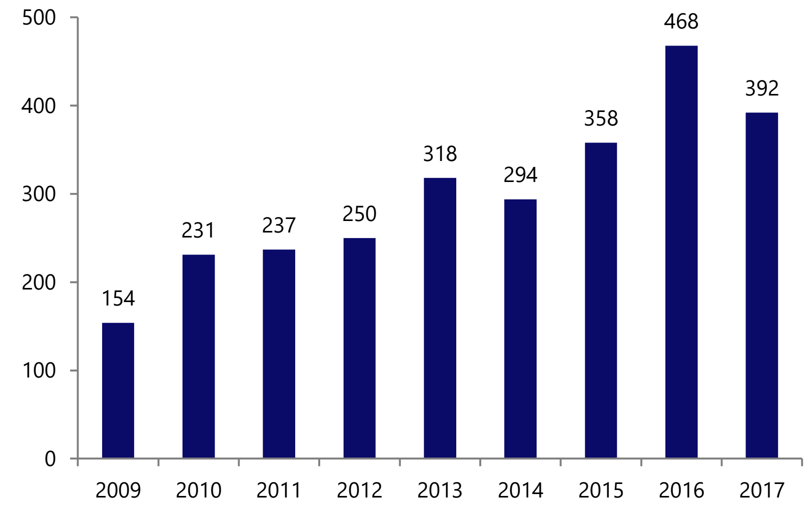
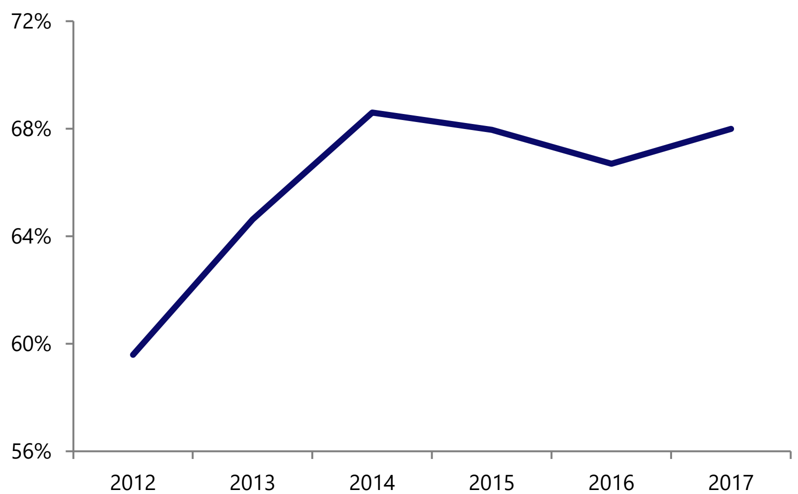
Consolidation and Acquisition Growth

- Global M&A has been fueled by historic cash reserves among CPG and retail companies (>$1T at 2017 year end)
- Canadian consumer M&A deal volumes increased 7% in 2017, with a strong outlook moving forward
- E-commerce and private label growth have put pressure on margins, driving retail consolidation in the pursuit of economies of scale
- Retailers have been forced to pursue acquisitions to compete with e-commerce platforms in sales channel variety and product range

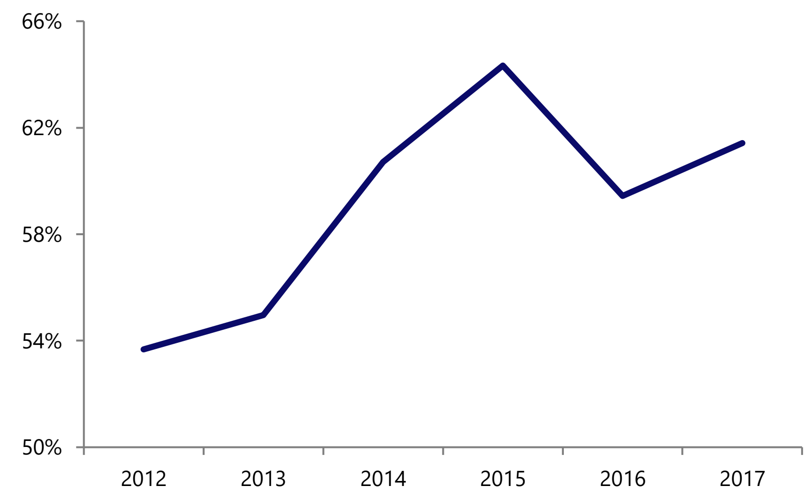
Global Consumer & Retail M&A Activity (US$B)



Market Share of 3 Largest CDN Food Retailers



Market Share of 3 Largest CDN Pharma Retailers



Source(s): A.T. Kearney, Bernstein, Company Reports, IBISWorld, Capital IQ

Justification

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1. Insulation from E-commerce Threat
2. Strong Strategic Fit
3. Cost and Revenue Synergies

1. Insulation from E-commerce Threat
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Justification #1: Grocery Market E-commerce an Overstated Threat

Overview & Barriers Facing E-Commerce Growth

- In 2016, 3% of world-wide grocery sales were conducted online; of this 3%, 1.3% was comprised of incumbent grocers operating their own platforms, and the other 1.7% was comprised of non-grocers such as Amazon
- However, just 25% of the grocery market can be more cost-effectively served by e-commerce; E-commerce may not pose as monumental threat to the grocery industry as some may believe
- Barriers to entry include:

Cold supply chains	Deeply-ingrained customer habits	Providing a credible range
– Expensive and difficult to create	– Is difficult, as most grocery products are either locally-sourced, or require a curated range that is developed over time (private label)	– In the U.S., just 2.1% of 2016 grocery sales were done online; when surveyed, just 26% of U.S. consumers said that they would be willing to buy groceries online (lowest of any category)

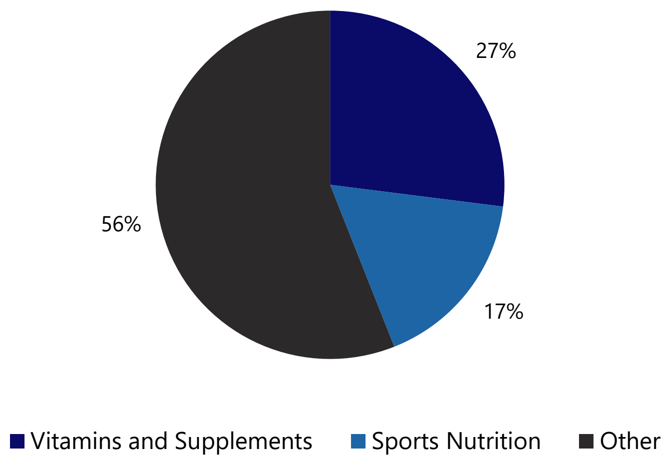
Why E-Retailers are after Grocery E-commerce

1. New categories are needed to maintain the high growth rates that many e-commerce names rely upon for cash generation
2. There is a desire to appeal to urban consumers and young families
3. There exists the opportunity to attract new subscribers (ex. Amazon prime), who will in-turn buy products other than groceries

Key Takeaway

The grocery market poses great challenges for e-retailers such as Amazon; however, online players still have incentive to participate in the industry, and provide particular "use-cases" in order to generate incremental benefits that were previously unavailable to consumers

Amazon U.S. Grocery Sales Mix (2016)



Amazon Health Product Ventures

May 2017 – Company displays interest in exploring the retail pharmacy market, as per press reports

3Q/4Q 2017 – Amazon in discussion with generic pharmaceutical manufacturers

3Q/4Q 2017 – Business conducts talent searches for pharmaceutical expertise

August 2017 – Amazon begins selling an exclusive line of OTC generic medications (*Basic Care*), manufactured by Perrigo

January 2018 – Joint healthcare venture with JP Morgan and Berkshire Hathaway announced

Health Product E-commerce: Strong Incentives for Retailers

1. Easily-facilitated logistics
2. Products are neither bulky, nor heavy
3. High margins
4. Ability to carry a wide "range-tail" of products

– In 2016, 11% of consumer health and beauty/personal care products sold in the U.S. were sold online

– 62% of sales growth in the OTC industry can be attributed to e-commerce

Customers have displayed a great propensity to purchase consumer health products online, largely due to the "range-tail" of products that can be offered. Metro's resistance to e-commerce will offer Jean Coutu shareholders protection from the negative headwinds facing the health market

Source(s): Bernstein, L2

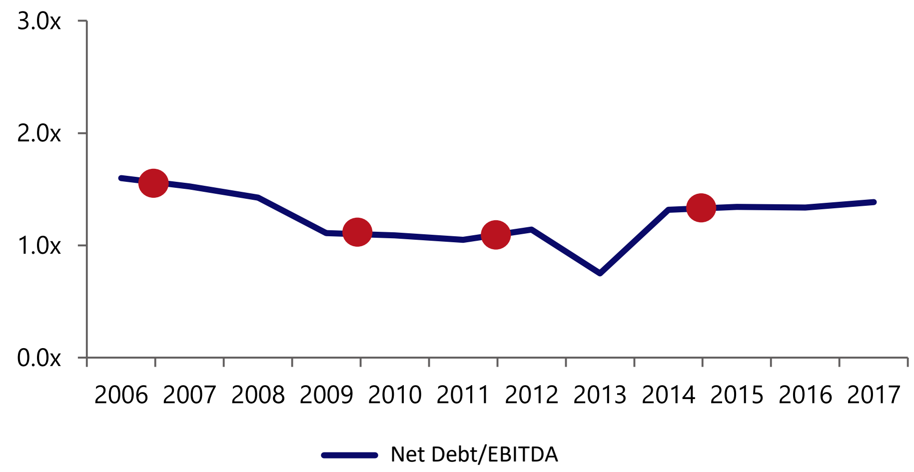
1. Insulation from E-commerce Threat
2. **Strong Strategic Fit**
3. Cost and Revenue Synergies

Justification #2: Strong Strategic Fit

Experienced Acquisition History

- Completed nine notable transactions previous to the acquisition of Jean Coutu
- Several previous acquisitions were of Eastern Canadian companies, which speaks to Metro's geographic aptitude (e.g. Miss Fresh, 2017)
- History of completing successful large scale acquisitions (e.g. A&P Canada, $1.7B acquisition, 2005)
- Family-controlled businesses have been acquired in the past (GP, 2009)
- Consistent balance sheet strength throughout acquisition history

Balance Sheet Resilience



Comparable Quebec Brands

- Brand loyalty is stronger in Quebec than anywhere else in Canada
- Also found that Québécois are less welcoming of things that are considered foreign
- Chain brands like Target have struggled in Quebec
- Consumers' affinity for Quebec-based brands and intense brand loyalty should stand to benefit Metro and Jean Coutu as both companies were founded in Quebec and hold a strong history in the region
- The merger of two strong, Quebec brands should mitigate against the possibility of brand deterioration in the eye of the consumer

Recognized Eastern Canadian Brands

Justification #2: Strong Strategic Fit

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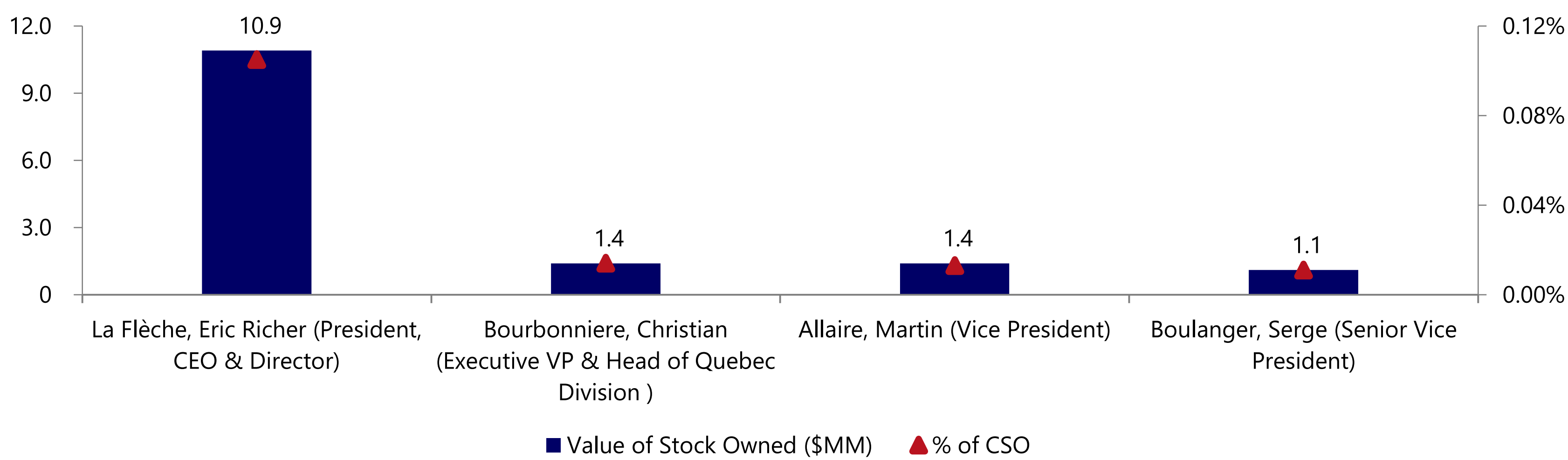
Experienced Management

- Experience in developing, retaining and protecting familial, Eastern Canadians brands throughout their acquisition tenure
- Mixture of executive backgrounds; several executives have experience at established or growth-oriented companies (e.g. Bombardier, GNC) previous to their work at Metro, with others conducting the majority of their career to date at the company
- Top five management executives have a collective tenure at Metro of >70 years of experience
- La Fléche, CEO holds a Harvard MBA

Tenure of Key Management (Years)

Eric R. La Fléche, President & CEO	27
Francois Thibault, Executive VP, CFO & Treasurer	6
Christian Bourbonniere, Senior VP & Head of the Quebec Division	10
Carmine Fortino, Executive VP & Head of Ontario Division	4
Serge Boulanger – Senior VP of National Procurement and Corporate Brands	22

High Insider Ownership



Source(s): Bloomberg, Company Reports, S&P Capital IQ

Justification

1 Insulation from E-commerce Threat

2 Strong Strategic Fit

3 Cost and Revenue Synergies

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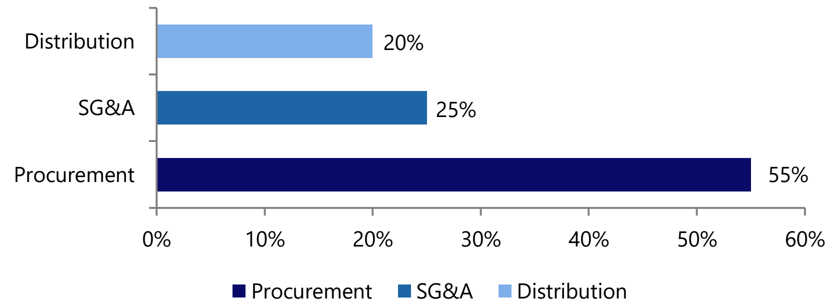
Distribution

- Metro possesses 2 distribution centres in Quebec, with 285,000 aggregate square feet and 250 employees; the company also possesses 6 distribution centres in Ontario
- In October 2017, Metro announced a $400MM investment into its Ontario distribution network
- Jean Coutu recently moved its distribution centre from Longueil to a new 800,000 square foot facility in Varennes; the company also has warehouses strategically located close to highways
- Jean Coutu can close select warehouses, and leverage the scale of its new facility along with Metro's state-of-the-art facilities
- Jean Coutu retains a state-of-the-art automated distribution facility which has excess capacity that may handle the Brunet business, thus generating efficiencies
- Cost savings are especially relevant:
  - Jean Coutu's OIBA before share-based payments decreased by $10.2MM between 2016-2017, largely due to extra warehouse expense; further, operating lease expenses have been gradually increasing on a per-year basis

Procurement and SG&A

- Joint entity will be able to leverage buying power with suppliers
- Carrefour-Tesco agreement expected to generate $500MM in overall savings for the two companies
- Reductions in force will occur, largely through the elimination of select administrative positions in functions such as legal and finance

Cost Synergy Breakdown



The complimentary nature of the two business models will allow cost synergies to occur on a vast scale. Such a notion is reinforced by the fact that all past acquisitions that Metro has made have increased the company's fortunes. Overall, $75MM in cost synergies can be expected

Source(s): Company Reports

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Leverage of Metro's Growing Square Footage and E-commerce Capabilities

- Implemented in 2016, Metro's e-commerce platform allows customers to order online, and then either pick-up or have purchases delivered to their homes
- The service has shown strong initial success; two grand prizes have been awarded to it, and the platform is available in 60% of Quebec
- E-commerce expansion into Ontario is scheduled for 2019
- In 2017, the company opened 10 new stores, and expanded or renovated 45; such represents a net increase of 236,000 square feet (1.2%)
- The company spent $11.4MM on distribution network improvements during 1Q18
- Metro's strong growth in omnichannel presence will provide Jean Coutu with additional avenues to expand into new markets
- In traditional storefronts, Jean Coutu can capitalize on Metro's retail execution prowess to enhance the front-store business

Expansion of Pro-Doc

- Jean Coutu will be able to grow sales of its generic drug line by expanding into Metro's pharmacy network
- Metro possesses 184 Quebec pharmacies, and 74 Ontario and New Brunswick pharmacies
- The company occupies 7% of the Quebec drug market, thus representing a significant runway for Pro-Doc
- Opportunity exists to enhance or replace existing Metro pharmacies (44 locations) and Food Basics pharmacies (28 Locations)

Cross-Selling of Food

- Similar to how Loblaw implemented its President's Choice private label in Shoppers Drug Mart locations, Jean Coutu will be able to expand its food offerings by cross-selling Metro's "Selection" and "Irresistibles" private labels
- The aforementioned two brands have won 22 awards, thus presenting a strong brand name to place on Jean Coutu shelves
- Cross-selling Miss Fresh products in convenience-based Jean Coutu locations presents another avenue for growth

Whilst not clearly defined in numerical terms, Metro provides Jean Coutu with numerous exciting channels for growth

Source(s): Company Reports

Risks

Transaction Risk: E-commerce Disruption

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Market Characteristics: Grocery vs Pharmacy

- Grocery delivery is challenging logistically: as a category, grocery items are heavier, higher volume, lower margin, and often require specialized transport requirements versus non-food items *(see below)*
- Pharmacy delivery appears much more prone to disruption: smaller, lighter, commoditized, durable, and higher margin products make the economics attractive for new entrants
- There is a case that new entrants could more effectively meet the growing demand for e-commerce delivery and disrupt incumbents like Metro

Mitigated for PJC Shareholders

- Pharmacy appears to be at higher risk for e-commerce disruption than grocery
- Merging with Metro provides PCJ shareholders protection though diversification, and access to the capital necessary to better compete with new entrants
- Metro-PJC combined geographic footprint allows for the e-commerce offering to focus on home delivery rather than click and collect

Difficulty of Grocery as E-commerce Industry

Category	Product	Price	Package Volume (cm3)	Weight (kg)	$/L	$/KG
Electronics	Sony Compact Camera	$ 400	375	1.1	1,066	359
Electronics	Tom Tom GPS Navigator	$ 190	435	0.6	435	317
Electronics	Ipad Air	$ 263	1,296	1.1	203	240
Durable Goods	Paperback Novel	$ 2	269	2.0	7	10
Durable Goods	Cook Book	$ 20	2,054	1.0	8	17
Appliances	Bosh Classic Washing Machine	$ 285	298,164	100.0	1	3
Average	N/A	$ 193	nmf	$ 18	**$ 287**	**$ 158**
Online Food	Typical Grocery Order	$ 100	280,000	65.0	**0.3**	**1.5**

General Retail EBIT Margins: ~10%

Food Retail EBIT Margins: 3-4%

Source(s): Bernstein, Company Reports, Financial Post

Unfavorable Competitive Developments

- Giants like Costco, Walmart, and Amazon have substantial Canadian e-commerce expansion plans
- It is likely only a matter of time before Aldi / Lidl enter the Canadian market
- Metro-PJC does not have the scale to obtain a legitimate cost advantage against hard discounters
- Grocery consumers are notoriously value focused. Price will likely become an increasingly important consideration as high debt loads and rising interest rates put pressure on spending
- Intense competition could limit margin improvement as cost savings are put toward lower prices to maintain M/S

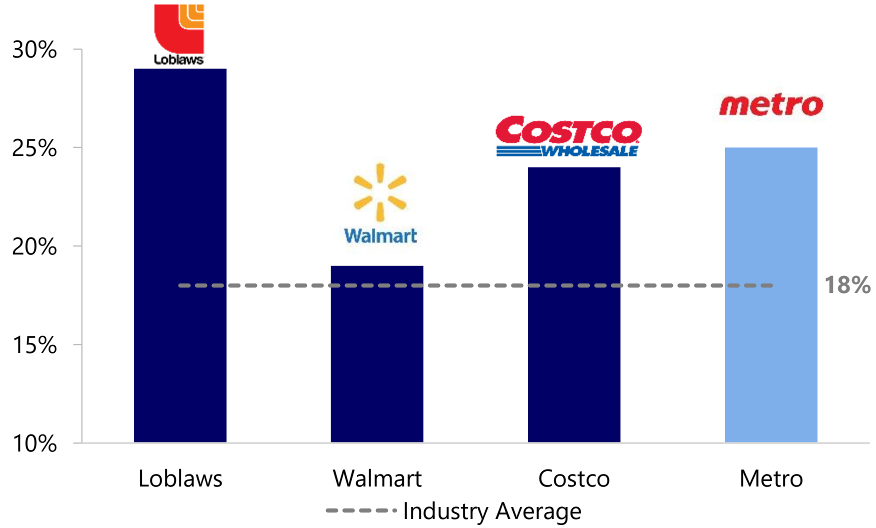
Mitigated for PJC Shareholders

- Metro holds a strong private label portfolio that already represents 25% of sales
- Continuing to build out the Metro-PJC loyalty programs will increase stickiness by adding recurring prescriptions for existing customers
- Strong Quebec brand heritage goes a long way with the francophone consumer
- Consolidation is critical to compete as industry evolves

Regulatory Headwinds

- Provincial governments are actively working to cut healthcare costs by restricting prices.
- QC is working on legislation to lower generic drug costs, calling for cost reductions of up to 40%
- Public pressure around healthcare costs means there is a good case other provinces soon will follow suit
- Government involvement could limit potential returns from the current ~50% EBITDA margin generic drug segment (Pro Doc)

Private Label Sales as % of Revenue



Integration Concerns

- The accretive effects of the transaction rely on successful execution, inherent to any acquisition
- Back end technology integration has historically created challenges. Metro runs SAP while PJC runs legacy systems, creating risk in merging operations
- Fit of management and corporate culture critical to long-term success
- The acquisition may dilute PJC brand in the eyes of francophone consumers

Mitigated for PJC Shareholders

- PJC locations will be run independently, retaining the franchised pharmacy model and reducing concerns of full back-end IT integration
- Metro's strong Quebec heritage makes ideal partner to receive merger benefits without eroding brand and culture
- Experience of management team

Case Study: Sobeys-Safeway Acquisition

In 2013, Sobeys purchased Safeway for $5.2B to better compete in the grocery industry

↓

Poor integration caused by difficulty at Safeway from a new IT system caused stockouts and logistical headaches

↓

In 2016, Sobeys posted a $943M loss from the integration, leading to the firing of CEO

Metro: Track Record of Successful Execution

Loeb, acquired in 1999 for $125M, enabled development of discount arm which became Food Basics

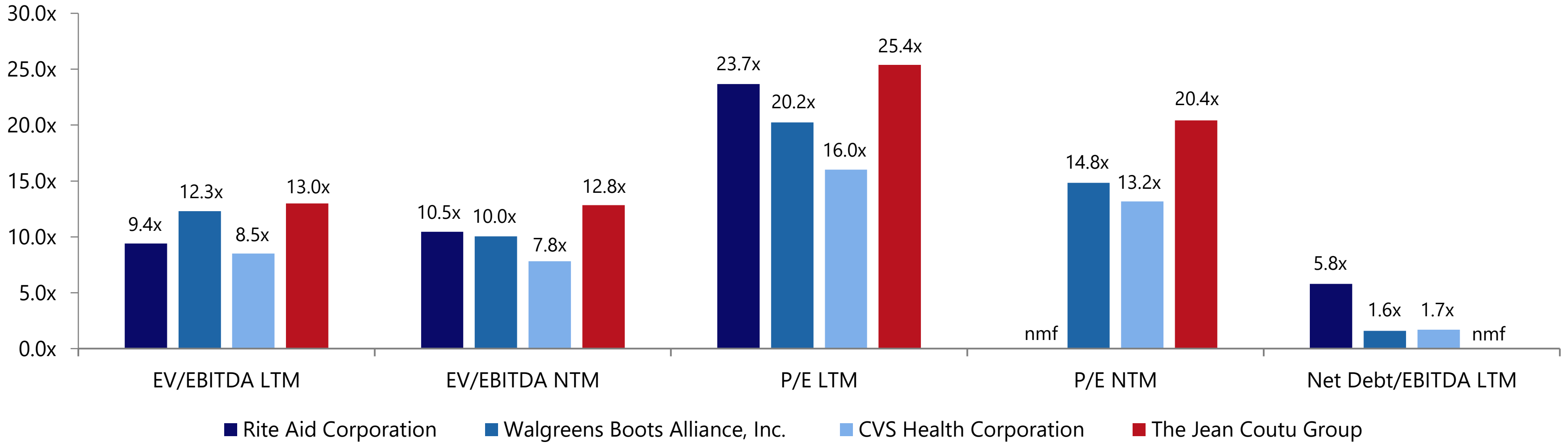
A&P Canada, acquired in 2005 for $1.7B, fully integrated and branded under Metro name in just 15mo

Displayed prudence in 2013 by not continuing to escalate with Sobeys on Safeway bid

Source(s): Company Reports, The Globe and Mail, Financial Times

Valuation

Comparable Company Trading Multiples



Data as of September 26, 2017

Commentary

Within its comparable universe, Jean Coutu is **smaller** than CVS and Walgreens on both a market capitalization and enterprise value basis. As of September 26th 2017, Jean Coutu traded **at higher multiples** than some of its larger peers

Given that the market values Jean Coutu's peers at a median of **9.4x LTM EBITDA**, the offer price of **$24.50**, implying a **14.9x LTM EBITDA**, is a compelling offer for shareholders

Jean Coutu has **no debt** on its balance sheet while its peer universe has a mean Net-Debt-to-EBITDA ratio of 3.0x

Source(s): Company Reports, S&P Capital IQ

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Multiples Paid in Precedent Transactions

Jean Coutu - Comparable M&A Transactions								
C$ in Millions			TTM	TTM	Transaction	TTM	TTM	Premium
Date	**Target**	**Buyer**	**Revenue ($)**	**EBITDA ($)**	**Value ($)**	**EV/Rev**	**EV/EBITDA**	**Paid**
15-Jul-13	Shoppers Drug Mart Corp.	Loblaw Cos.	10,954.6	1,210.2	13,564.1	1.2x	11.2x	29.4%
17-Feb-10	Duane Reade Holdings Inc	Walgreens	2,099.5	77.7	1,124.0	0.5x	14.5x	nmf
12-Aug-08	Longs Drug Stores	CVS Health Corp.	5,474.9	283.1	3,021.7	0.6x	10.7x	32.2%
23-Aug-06	Brooks-Eckard	Rite Aid Corp.	10,834.1	328.5	3,762.9	0.3x	11.5x	nmf
Median			**8,154.5**	**305.8**	**3,392.3**	**0.5x**	**11.3x**	**30.8%**
2-Oct-17	**Jean-Coutu**	**Metro Inc.**	**2941.9**	**287.6**	**4,276.20**	**1.5x**	**14.9x**	**15.4%**

Commentary

The proposed purchase price for Jean Coutu has **higher EV/EBITDA and EV/Revenue multiples** than in any comparable transaction, implying a substantial premium

Notably, the **14.9x EV/EBITDA** multiple implied by the offered purchase price represents a **considerable premium** over the **11.2x EV/EBITDA** multiple paid in the Loblaws-Shoppers merger, the most recent and directly comparable of any transaction examined

Based on a **median 11.3x EV/EBITDA** paid in precedent transactions, the **14.9x EV/EBITDA** offered for Jean Coutu represents a **32% premium** over past transactions

Source(s): Bloomberg, S&P Capital IQ

Discounted Cash Flow Analysis

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The Jean Coutu Group

Discounted Cash Flow Summary

(C$ in millions)

				Projected Period				
	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
Revenue	2,755	2,784	2,940	3,038	3,139	3,243	3,351	3,463
YoY Growth, %	*n/a*	*1.0%*	*5.6%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Cost of Goods Sold	2,232	2,270	2,437	2,486	2,568	2,654	2,742	2,833
% of Revenue	*81.0%*	*81.5%*	*82.9%*	*81.8%*	*78.6%*	*78.6%*	*78.6%*	*78.6%*
Gross Profit	522.9	513.7	502.7	552.2	570.6	589.5	609.2	629.4
YoY Growth, %	*n/a*	*(1.8%)*	*(2.1%)*	*9.8%*	*3.3%*	*3.3%*	*3.3%*	*3.3%*
Operating Expenses	189	194	206	211	218	225	233	241
% of Revenue	*6.9%*	*7.0%*	*7.0%*	*6.9%*	*10.2%*	*10.2%*	*10.2%*	*10.2%*
EBITDA	334	319	297	341	352	364	376	389
% of Revenue	*12.1%*	*11.5%*	*10.1%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*	*11.2%*
YoY Growth, %	*n/a*	*(4.4%)*	*(7.1%)*	*14.9%*	*3.3%*	*3.3%*	*3.3%*	*3.3%*
Less: Depreciation and Amortization	32	38	40	39	41	42	43	45
% of Revenue	*1.1%*	*1.4%*	*1.4%*	*1.3%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*
EBIT	302	281	257	302	312	322	333	344
% of Revenue	*11.0%*	*10.1%*	*8.7%*	*9.9%*	*9.9%*	*9.9%*	*9.9%*	*9.9%*
YoY Growth, %	*n/a*	*(7.0%)*	*(8.8%)*	*17.6%*	*3.3%*	*3.3%*	*3.3%*	*3.3%*
Less: Income Taxes	87	76	71	84	87	90	93	96
% of EBIT	*28.8%*	*27.0%*	*27.7%*	*27.8%*	*27.7%*	*27.7%*	*27.7%*	*27.7%*
Net Operating Profit After Taxes	215	205	186	218	225	233	240	248
YoY Growth, %	*n/a*	*(4.5%)*	*(9.6%)*	*17.4%*	*3.3%*	*3.3%*	*3.3%*	*3.3%*
Plus: Depreciation and Amortization	32	38	40	39	41	42	43	45
Less: Capital Expenditures	112	66	19	72	77	80	83	85
% of Revenue	*4.1%*	*2.4%*	*0.7%*	*2.4%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
Less: Change in Net Working Capital	n/a	43	21	(13)	20	9	9	9
Unlevered Free Cash Flow	134.4	135.2	186.0	199	168	186	192	199
Discount Period				0.5	1.5	2.5	3.5	4.5
PV of Unlevered Free Cash Flow				192	153	159	154	149

WACC Calculation	
Risk-Free Rate	2.96%
Market Risk Premium	5.08%
Levered Beta	0.71
CAPM Cost of Equity	6.54%
Cost of Debt	n/a
Tax Rate	27.65%
After Tax Rate Cost of Debt	n/a
Capital Structure	
Equity	100.00%
Debt	0.00%
Total	100.00%
WACC	6.54%

Implied DCF Price	
Gordon Growth Method Implied Price	$20.77
Terminal Multiple Method Implied Price	$17.47
Blended Target Price	$19.12
Purchase Price	$24.50
Implied Premium Paid	**28.14%**

DCF analysis implies a share price of **$19.12**, indicating a **28.14% premium** offered by Metro with their offer of **$24.50 per share**

Source(s): Bloomberg, Company Reports, S&P Capital IQ

Target Price & Premium Calculation

	Weighting	Target Price
DCF Analysis	33.33%	$19.12
Precedent Transaction Analysis	33.33%	$19.58
Comparable Companies Analysis	33.33%	$16.56
Blended Fair Value per Share		$18.42
Offer Price per Share		$24.50
Implied Premium to Fair Value		**33.03%**

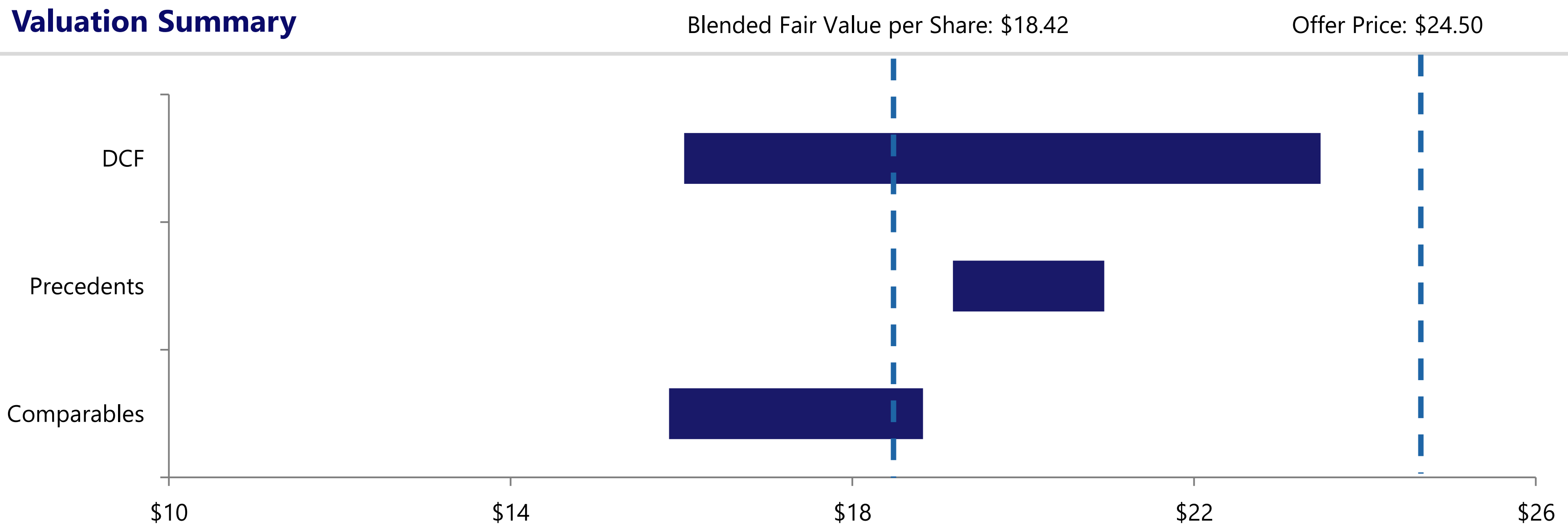
Key Takeaways

Metro's purchase offer of **$24.50** per share represents a **33.03% premium** on the blended average target share price for Jean Coutu

All valuation metrics show Metro's offer price falling **above** the maximum valuation range

From a valuation perspective, this is a favourable offer for Jean Coutu

Valuation Summary



Source(s): Bloomberg, S&P Capital IQ

Combined Company Analysis

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Transaction Assumptions

	% of Purchase Price	Amount
Cash	**0%**	**0**
New Debt	**75%**	**3,397**
Stock	**25%**	**1,132**
Per Share Purchase Price		$24.62
Shares Outstanding (MM)		184
Purchase Equity Value		**4,529**
Less: Cash & Investments		343
Plus: Debt		-
Plus: Minority Interest		-
Plus: Preferred Stock		-
Plus: Misc Liabilities		-
Purchase Enterprise Value		**4,186**

Foregone Cash Interest Rate	1.00%
Debt Interest Rate	3.91%
Buyer Share Price	$40.92
Buyer FDSO (millions)	228.8
PP&E Write up %	20%
% Allocated to Intangibles	5%
PP&E Write up amount	95
Intangibles Write up amount	165
Deferred Tax Liability Created	67
Depreciation Period (Years)	8
Amortization Period (Years)	5

Source & Uses of Financing

Sources	
Debt Financing	3,440
Equity Issued to PJC Shareholders	1,130
Total Sources	**4,570**

Uses	
Cash to PJC Shareholders	3,390
Metro Equity to PJC Shareholders	1,130
Purchase of PJC Equity	**4,520**
Est. Transaction Costs	50
Total Uses	**4,570**

Source(s): Bloomberg, Company Reports, S&P Capital IQ

Combined Company Analysis

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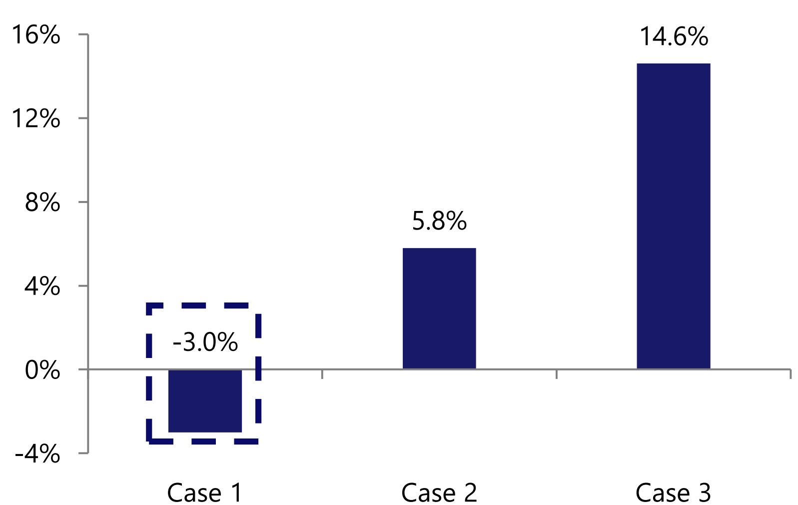
Synergy Scenarios

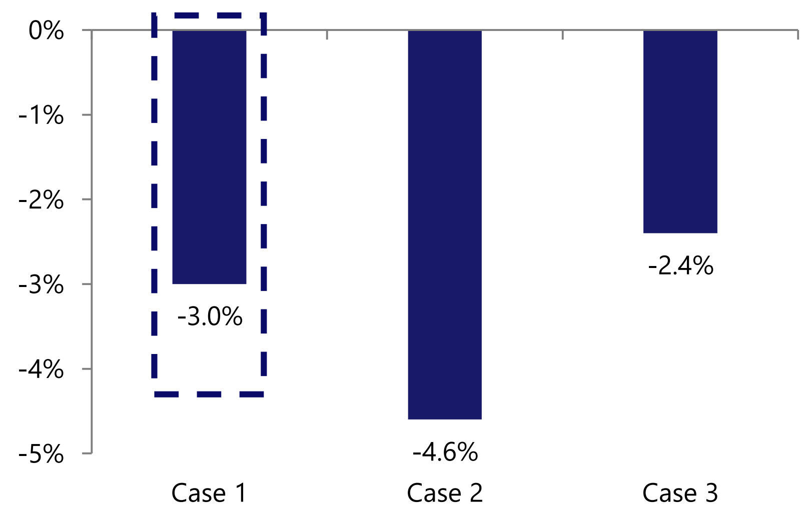
Revenue Synergy Cases		Year 1	Year 2	Year 3
1	No Synergies	0.0%	0.0%	0.0%
2	0.5% Synergies	0.5%	0.5%	0.5%
3	1% Synergies	1.0%	1.0%	1.0%
Cost Synergy Cases				
1	75M Synergies	35.0	25.0	15.0
2	45M Synergies	20.0	15.0	10.0
3	100M Synergies	40.0	35.0	25.0

COGS % of Synergies	**50%**
OpEx % of Synergies	**50%**

Yr 1 Accretion Sensitivity to Revenue Synergies



Yr 1 Accretion Sensitivity to Cost Synergies



Base Case Merger Model

Proforma Income Statement

	Year 1	Year 2	Year 3
Combined Revenue	16,608	17,117	17,640
Add: Revenue Synergies	0	0	0
Total Combined Revenue	16,608	17,117	17,640
Cost of Goods Sold	14,563	15,008	15,467
Less: COGS Synergies	18	13	8
Total Cost of Goods Sold	14,546	14,996	15,460
Gross Profit	**2,062**	**2,121**	**2,181**
Operating Expenses	902	930	958
Less: OpEx Synergies	18	13	8
Add: Depreciation of PP&E Write Up	12	12	12
Add: Amortization of New Intangibles	33	33	33
Total Operating Expenses	929	917	951
EBIT	**1,133**	**1,203**	**1,230**
Less: Interest Expense	61	61	61
Less: Foregone Interest on Cash	0	0	0
Less: Interest Paid on New Debt	133	133	133
EBT	**939**	**1,009**	**1,036**
Income Tax Expense	242	260	267
Minority Int in Earnings and Other	15	15	15
Net Income	**682**	**734**	**754**
Diluted Shares Outstanding	228.8	228.8	228.8
Shares Issued in Transaction	27.7	27.7	27.7
Total New Shares Outstanding	**256.5**	**256.5**	**256.5**
Combined EPS	**$ 2.66**	**$ 2.86**	**$ 2.94**
Buyer Standalone EPS	$ 2.74	$ 2.82	$ 2.91
Accretion / (Dilution)	$ (0.08)	$ 0.04	$ 0.03
Accretion / (Dilution) %	**-3.0%**	**1.4%**	**1.1%**

Source & Uses of Financing

Sources		Uses	
Debt Financing	3,440	Cash to PJC Shareholders	3,390
Equity Issued to PJC Shareholders	1,130	Metro Equity to PJC Shareholders	1,130
Total Sources	**4,570**	**Purchase of PJC Equity**	**4,520**
		Est. Transaction Costs	50
		Total Uses	**4,570**

Merger is **slightly dilutive** in Year 1, but becomes accretive to shareholders in following years

In our cost synergies bull case, the acquisition is **2.4% dilutive**. In our cost synergies bear case, the acquisition is **4.6% dilutive**. Revenue synergies were held at zero in both cases

Dilution is not necessarily negative for Jean Coutu, as it shows fact that Metro **overpaid in the transaction**

Source(s): Bloomberg, Company Reports, S&P Capital IQ

Appendix

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MRU Operating Model Assumptions	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
% Revenue Growth	n/a	4.61%	3.03%	3.00%	3.00%	3.00%	3.00%	3.00%
COGS % Revenue	89.58%	89.46%	89.35%	89.00%	89.00%	89.00%	89.00%	89.00%
SG&A % Revenue	3.39%	3.32%	3.39%	3.30%	3.30%	3.30%	3.30%	3.30%
D&A % Revenue	1.45%	1.43%	1.47%	1.50%	1.50%	1.50%	1.50%	1.50%
Int Exp % Debt	4.78%	4.71%	4.12%	4.50%	4.50%	4.50%	4.50%	4.50%
Effective Tax Rate	23.69%	24.67%	24.12%	25.80%	25.80%	25.80%	25.80%	25.80%

PJC Operating Model Assumptions	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E
% Revenue Growth	n/a	1.03%	5.62%	3.33%	3.33%	3.33%	3.33%	3.33%
COGS % Revenue	81.02%	81.55%	82.90%	81.82%	81.82%	81.82%	81.82%	81.82%
SG&A % Revenue	10.44%	10.64%	10.62%	10.57%	10.57%	10.57%	10.57%	10.57%
D&A % Revenue	1.15%	1.37%	1.37%	1.30%	1.30%	1.30%	1.30%	1.30%
Other Expenses % Revenue	(3.58%)	(3.66%)	(3.61%)	(3.62%)	(3.62%)	(3.62%)	(3.62%)	(3.62%)
Effective Tax Rate	27.20%	28.80%	26.90%	27.63%	27.63%	27.63%	27.63%	27.63%

Source(s): Bloomberg, Company Reports, S&P Capital IQ

Appendix – Combined Balance Sheet

Combined Balance Sheet				
	Pre-Transaction		**Adjustments**	**Pro-Forma**
	Buyer	Seller		
Cash & Short Term Investments	149	230	0	379
Accounts Receivable	332	236	0	567
Inventory	857	255	0	1,111
Prepaid Expenses	19	18	0	37
Total Current Assets	1,356	739	0	2,095
PP&E, Net	1,762	477	95	2,334
Long Term Investments	476	30	0	506
Goodwill	1,974	36	3,064	5,074
Other Intangibles	389	198	165	752
Deferred Tax Assets	2	0	(0)	2
Other Long Term Assets	92	66	0	158
Total Long Term Assets	4,694	806	3,325	8,825
Total Assets	**6,051**	**1,545**		**10,921**
Accounts Payable	1,035	253	0	1,288
Accrued Expenses	1	0	0	1
Short Term Borrowings	1	0	0	1
Current Portion of Long Term Debt	9	0	0	9
Current Portion of Cap Leases	4	0	0	4
Current Income Tax Payable	9	4	0	13
Other Current Liabilities	227	0	0	227
Total Current Liabilities	1,286	257	0	1,543
Long Term Debt	1,420	0	3,397	4,816
Capital Leases	33	0	0	33
Pension	93	0	0	93
Deferred Tax Liability	256	14	54	323
Other Non Current Liabilities	4	16	0	20
Total Non Current Liabilities	1,804	30	3,450	5,285
Total Liabilities	3,090	287		6,828
Common Stock	566	401	(401)	566
Additional Paid In Capital	20	59	1,073	1,152
Retained Earnings	2,344	799	(799)	2,344
Treasury Stock	(22)	(2)	2	(22)
Comprehensive Income & Other	4	0	0	4
Minority Interest	49	0	0	49
Total Shareholder's Equity	2,961	1,258	(126)	4,093
Total Shareholder's Equity and Liabilities	**6,051**	**1,545**		**10,921**

Source(s): Bloomberg, Company Reports, S&P Capital IQ

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