



Analyst Deal Competition

Team Metro (TSE:MRU)

September 27th, 2018

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Agenda

Company Overview

Acquisition Details

Industry Overview

Case Study

Valuation

Key Company Details

365 locations across Ontario and Quebec

Founded by Rolland Jeanneau in 1947 in Verdun, Quebec

Eric Richer La Fleche appointed CEO in 2008

3rd largest grocery store in Canada by revenue

Greatest market share of any Canadian grocer in Quebec

Differentiating Factors

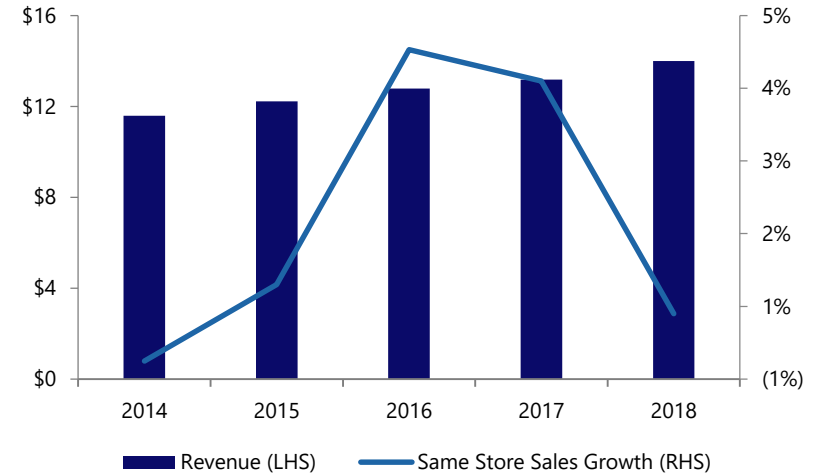
Superior Fixed Cost Spreading

Reputable Private Label Brands

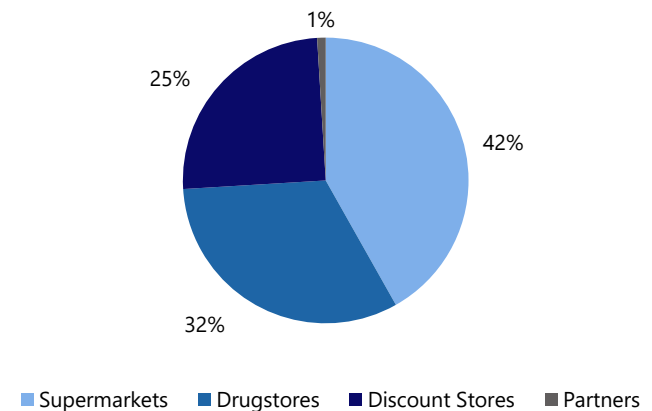
Brand Diversity Through Partnership

\$350 Million Store Expansion Plan

Revenue (\$B) and Growth



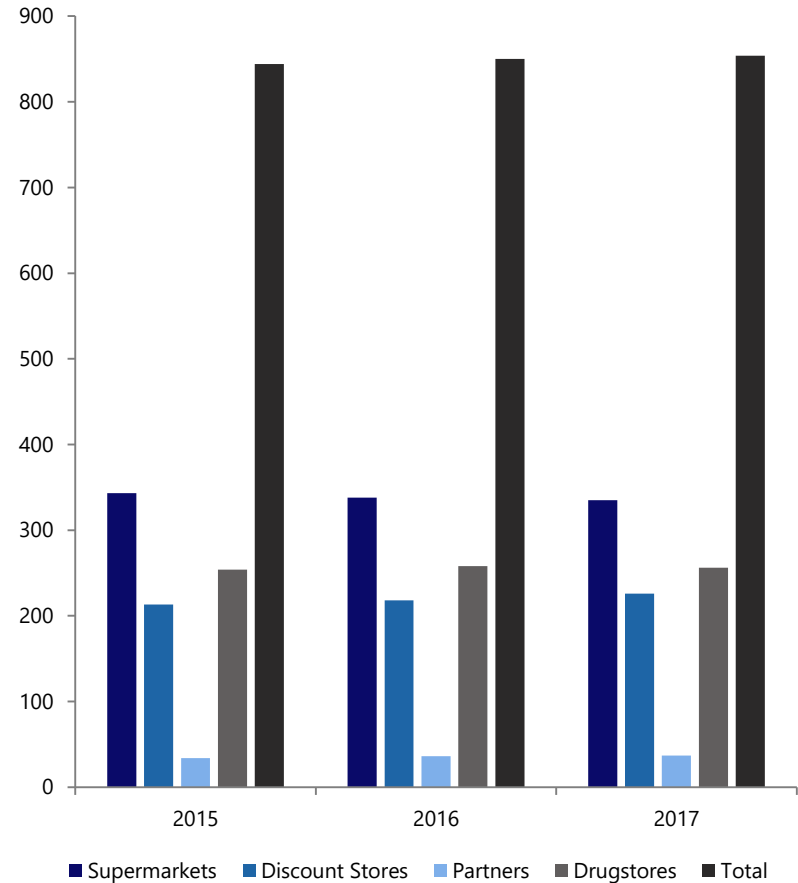
2018 Revenue Segmentation



Distribution Channels



Store Composition



Metro's continuing brand expansion plan is allowing it to spread fixed costs across a wider cost base

Industry Comparison: Canada's "Big Three"

Metro

Revenue: \$12B

Employees: 65,000

EBITDA Margin: 7.54%

Geography: Ontario & Quebec (>900 stores)

Empire

Revenue: \$23.9B

Employees: 125,000

EBITDA Margin: 3.50%

Geography: Canada wide with focus on Western Provinces (>500 stores)

Loblaw

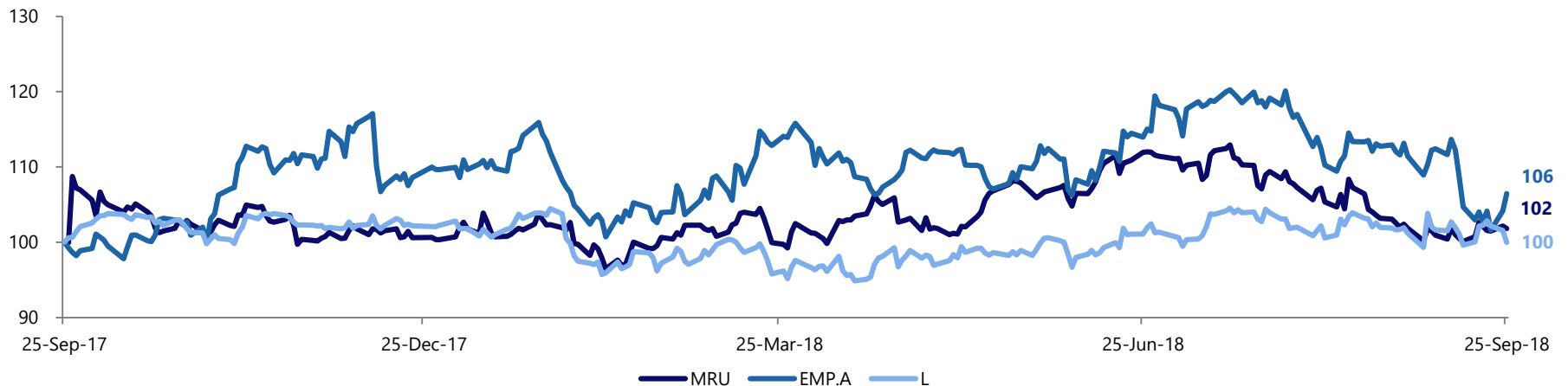
Revenue: \$45.6B

Employees: 135,000

EBITDA Margin: 9.28%

Geography: Canada wide representation (>1,000 stores)

Historical Share Performance



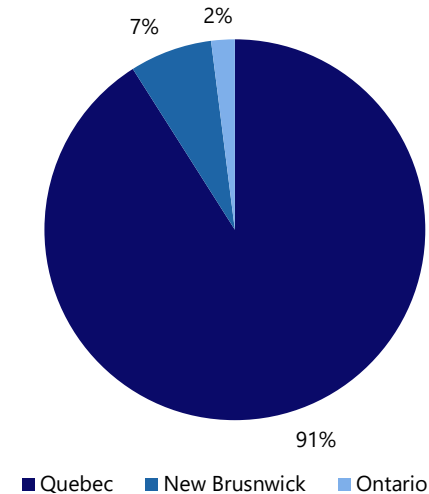
Business Overview

- PJC was started in Quebec in 1969 and has continually adapted to consumer trends since that time, from the roll-out of pharma-care to the emergence of megastores
- The company operates through two segments: franchising and generic drug
 - Current network of 418 franchised stores creating low capital intensity and high free cash flow conversion
 - Pro Doc Ltd, a subsidiary of PJC, manufactures and sells generic drugs to wholesalers and pharmacists
- Predominantly family owned business even after being brought public, with the Coutu family holding 93% of voting rights at the time of takeover

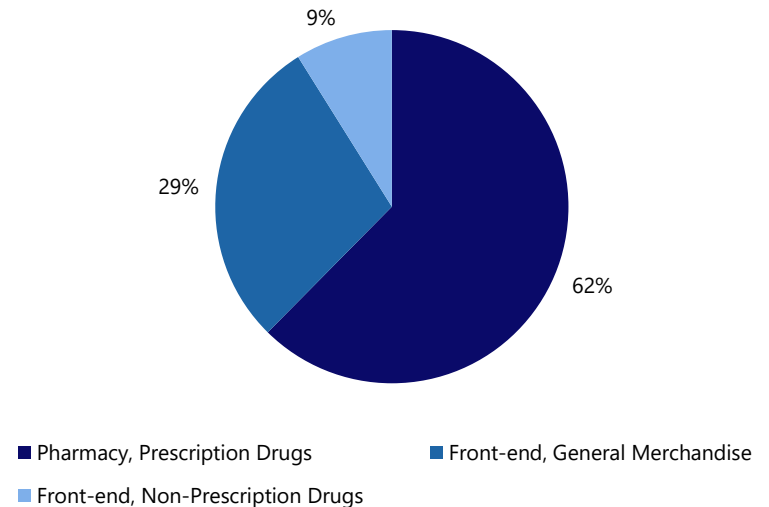
Differentiating Factors

- Strong Public Perception and Customer Loyalty
- Highest Industry Sales Per Square Foot in North America
- Commitment to Innovation
- Pro Doc Generic Drug Manufacturing

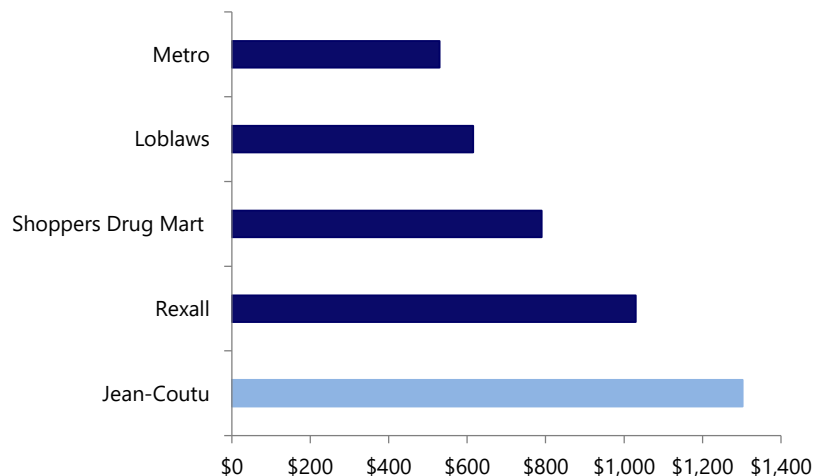
Geographic Segmentation



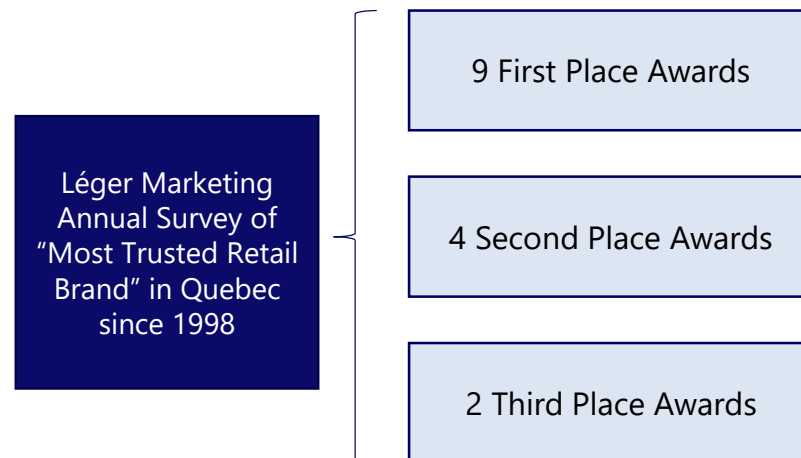
2017 Revenue Segmentation



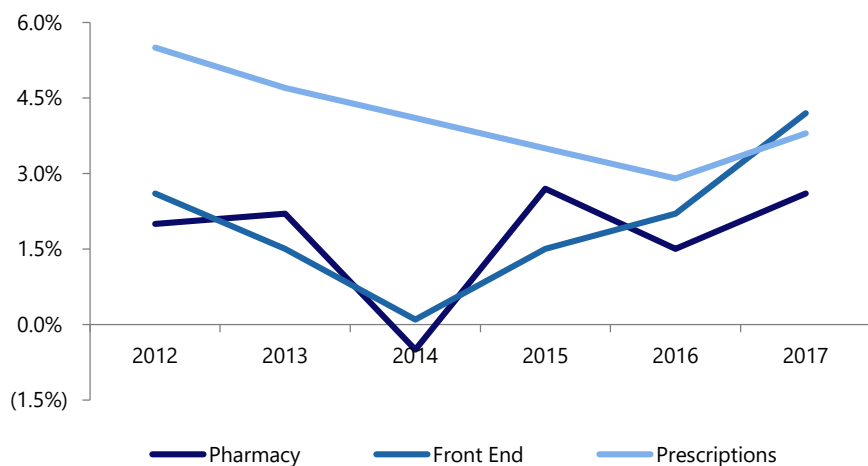
Sales per Square Foot



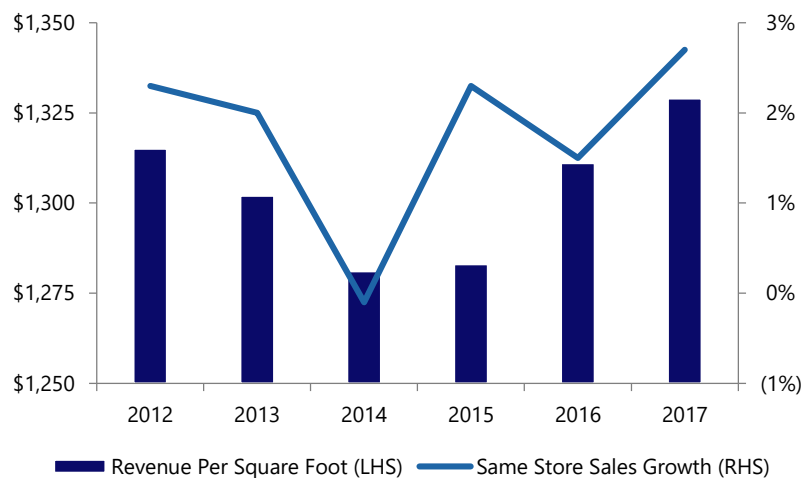
Consumer Loyalty (1998-2017)



YoY Segment Growth



Revenue and Same Store Sales Growth



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Strategic Intentions of Acquisition

1

Enhanced Scale, Efficiency and Retail Footprint

Urban footprint: combination of strong urban footprint allows for best in-class convenience with ~1,300 stores in Canada

Cross-selling potential: increased distribution for private label brands such as Selection, Irresistibles and Quo

Reduced redundancies: \$75MM annual run-rate cost synergies in procurement, warehousing and operations

2

Better Positioned for Demographic/Market Trends

Evolving competitive landscape: Loblaw's Shoppers Drug Mart acquisition indicates need to respond to retail consolidation

Demographic trends: growth of pharmacy, health, beauty and wellness signals need for product mix diversification

Profit driver: drugstore products provide defense against falling profits in grocery market

3

Food and Pharmacy Dominance in Quebec

Combined market leadership: Metro is a leader in grocery in Quebec and Ontario while Jean Coutu is the #1 pharmacy in Quebec

Strong brand equity: Jean Coutu was voted favourite company for millennials in Quebec in 2017

Defense against budget cuts: Quebec government's 35% generic drug budget cut jeopardized Jean Coutu's independent survival

Deal Overview

Acquisition price of **\$4.5B**, representing a **15.4%** premium to the weighted average price of the **20 trading days** ending Aug 21, 2017

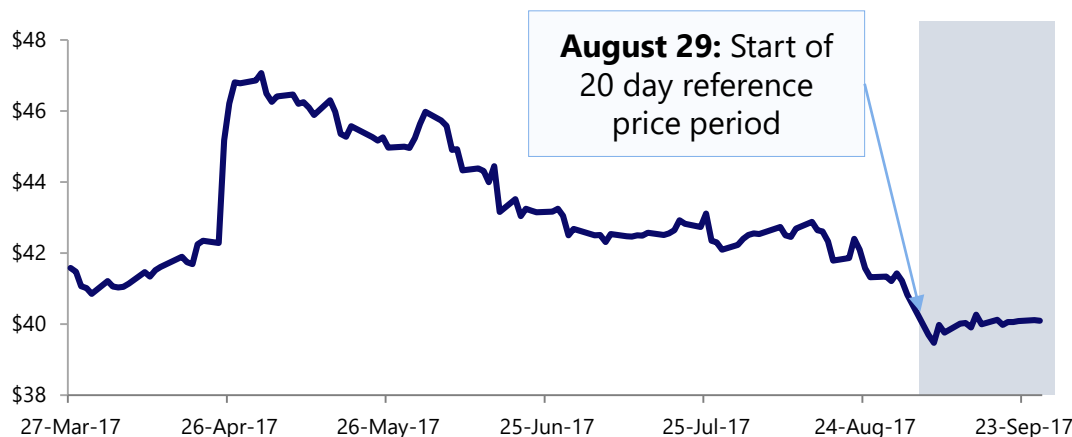
Combination of **75% debt and 25% equity** at **\$24.50 cash/share** or **0.61006 common shares**

Jean Coutu shareholders & family hold **11% and 8%** equity interest respectively

Deal Structure Considerations

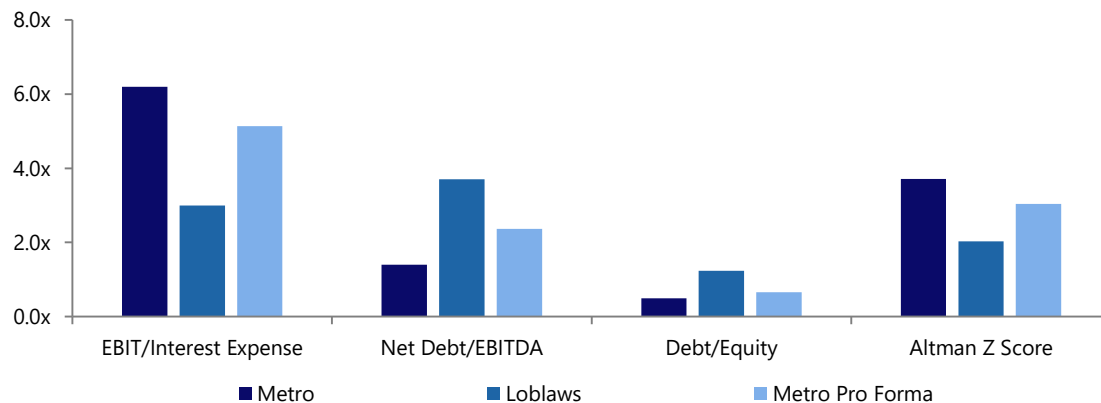
I. Recent Stock Performance

- Metro stock price reflected some of the **poorest performance** in recent months, making a cash-heavy offer a prudent choice
- Fixed number of shares exacerbates magnitude of depressed prices, since JCG shareholders capture upside in case of performance improvement



II. Significant Debt Capacity

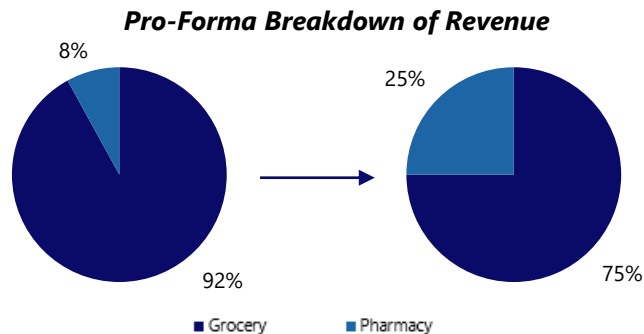
- Metro is significantly less leveraged than its peers, and will continue to be so after completing the acquisition
- ~\$150M in cash and cash equivalents
- Flexibility to sell the \$313MM remaining stake in Alimentation Couche-Tard



While Metro will finance the acquisition predominately using debt, a less conservative debt-heavy approach could have been taken to maximize shareholder returns

Diversification Across Grocery and Pharmacy

- Combination of brands will improve product mix and customer convenience by offering more pharmaceuticals
- PJC's new 900,000 ft² facility in Varennes should support growth in pharmaceutical sales

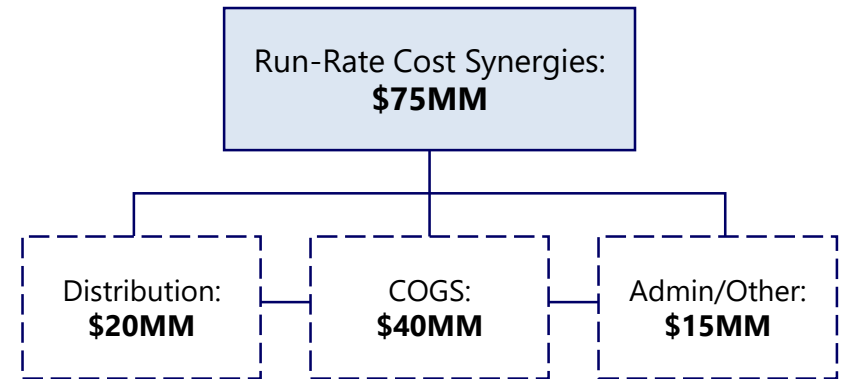


Opportunity to Leverage Leading Banners

- JC is ranked first overall for drugstore chains by Canadian Business survey
- Opportunity to extend Metro's private label brands at Jean Coutu's urban locations, such as the placement of their MissFresh meal kits
- The integration of Jean Coutu's Personelle brand into Metro grocers also presents an attractive opportunity



Realization of Cost Synergies



- Equity research suggests that \$75MM may be conservative
- These cost synergies will primarily come from warehouse rationalization, procurement, and reduction in operating and admin expense
- Procurement synergies are the simplest to realize, as they involve moving to the cheaper costing of the two parties, and then utilizing the scale for bargaining. We believe that these should be realized within the first two years
- PJC's distribution facility in Varennes still has excess capacity. Therefore, we expect Metro's existing distribution centers in Quebec to be closed over the next few years
- While there are possible revenue synergies, these can often be more elusive, and therefore, were not factored into the valuation

Other Key Considerations

Customer Data:

- Combined presence in retail market provides better insight into customer needs
- Larger customer spending and share-of-wallet allows for better understanding of purchasing trends and price sensitivity
- Use of data allows for better product mix and more targeted promotional efforts

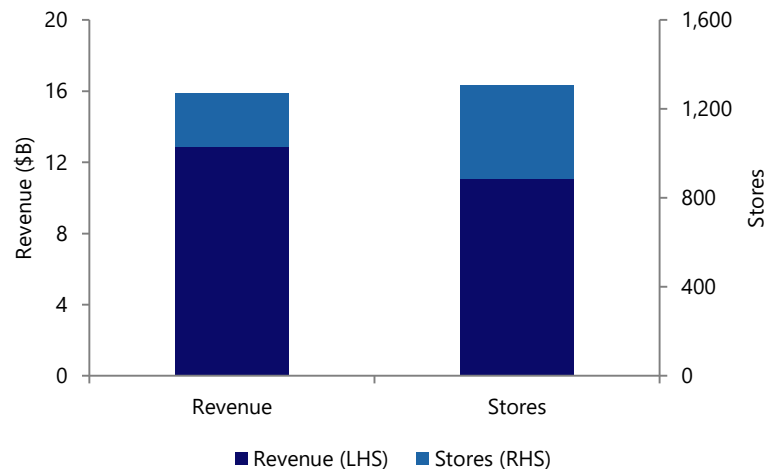
Improved Retail Footprint:

- Acquisition will create a 1,307 store conglomerate with 677 pharmacies and 630 food stores
- Retail platform will provide a formidable base for Metro to continue to expand
- Greater network provides enhanced scale and reach, and will allow for operational efficiency improvements

Quebec Market Dominance:

- Both Metro and Jean Coutu are market leaders in the Quebec grocery and pharmacy industry, respectively
- Jean Coutu is admired in Quebec and perceived as a favourite company by millennials
- Merger will create an undisputed grocery-pharmacy player in Quebec with strong brand perception and loyalty

Data Improvements: More Volume and Sources



Greater Geographic Penetration



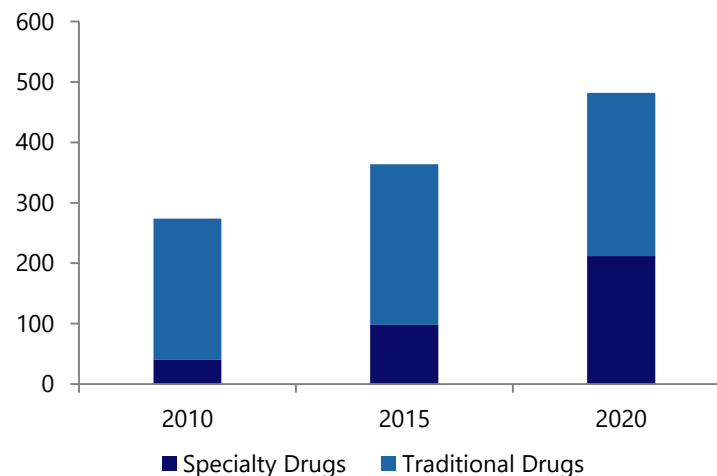
Risk I: Threat of Specialty Drugs on Retail Pharma

- High-priced specialty drugs are increasingly dominating the drug landscape in Canada; spending on specialty drugs has grown from 13% of total drug spending in 2007 to 30% in 2016
- High-cost claimants (plan members with drug spending of over \$10,000/year) increased by 43% in five years
- Health and wellness “boom”, exemplified by 10.6% global growth in the past two years may be showing signs of a polarized pharmaceutical space
- Jean Coutu’s strategy is heavily based on their ownership of Pro Doc, a generic drug manufacturer that lies right between wellness brands such as Whole Foods offerings and more niche specialty products

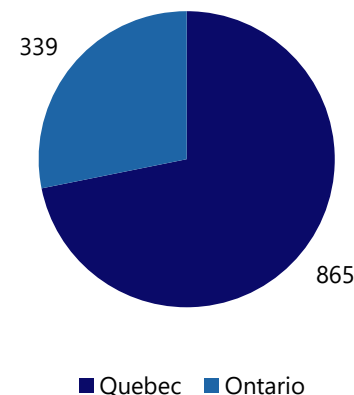
Risk II: Political Risk of Quebec and Ontario Concentration

- In 2010, Quebec’s government announced a policy to have the province offer the lowest price in Canada for generic drugs; greatest hit was suffered by Jean Coutu, Quebec’s pharmacy leader
- In 2017, Quebec government revealed plans to issue tenders for generic drugs to lower costs incurred by the provincial prescription drug insurance plan, to save \$1.5B over five years
- Ontario minimum wage increase will cost Metro ~\$50M in 2018
- Jean Coutu increases Metro’s exposure to the Ontario and Quebec grocery and pharmaceutical markets

Canadian Drug Spending (\$MM)



Metro Canadian Stores



Risk III: E-commerce Entrants and Digitization of Pharma

- Amazon’s acquisition of start-up PillPack targets those who pay cash for their meds, who are most likely shopping for generic drugs
- PopRx, an app that launched in Winnipeg and operations with independent pharmacies across Canada allows patients to take pictures of their prescriptions and getting the medication delivered the same day
- U.S. medication-delivery startup market has seen a lot of new entrant activity, with introduction of apps such as Zipdrug, GetMyRx and QuiQui
- Personalized nature and regularity of the pharmaceutical industry may render it especially vulnerable to this industry trend

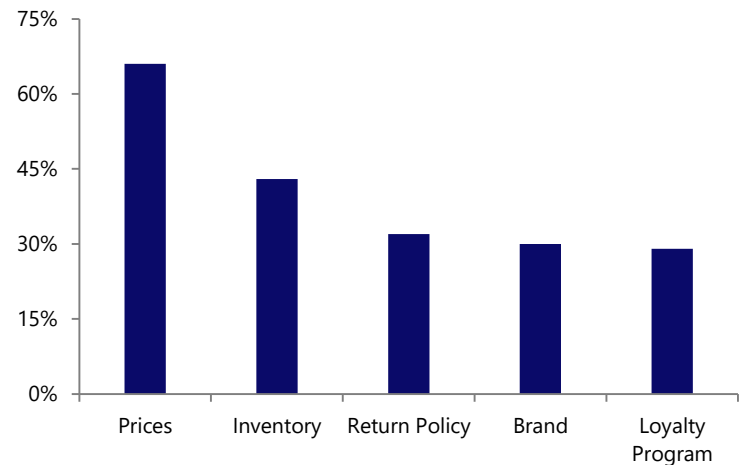
Risk IV: Growth of General Merchants in Retail

- While retail food stores sale rose by 4% in 2017, traditional grocery convenience stores were flat last year while general merchants (such as Walmart and Costco) grew 15%
- Costco and Walmart’s food expansion create economies of scale that are increasingly competitive in the grocery market with razor-thin margins
- In Q2 2004, traditional grocery stores had sales of about \$12.3BN (90% of the market) and general merchandisers sold about \$1.3BN (roughly 9.8%). Today, traditional grocers’ share fell about 10% and general merchandise has more than doubled
- As these merchandisers continue to gain traction, Metro may have increasing pressure to compete on price

Prescription Delivery Startups



Customer Loyalty Determinants



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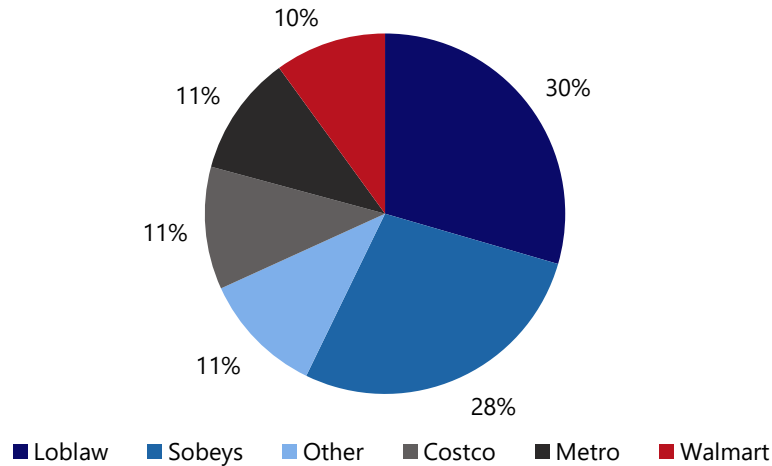
Acquisition Details

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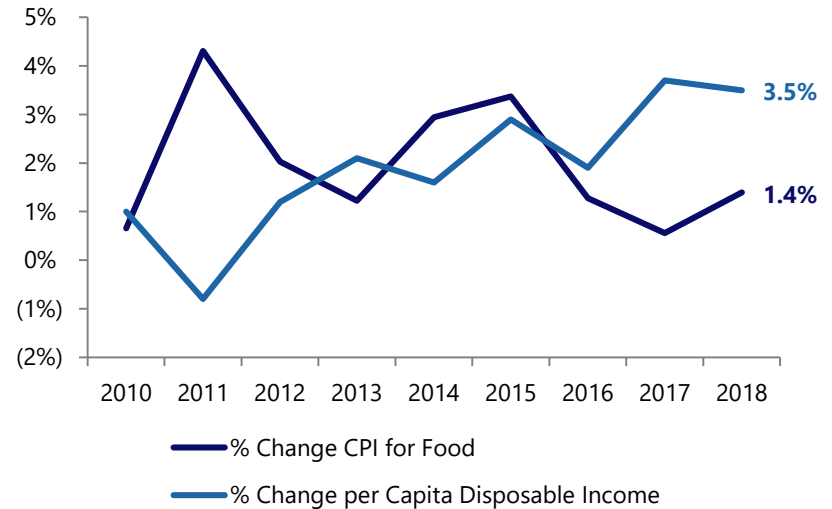
Case Study

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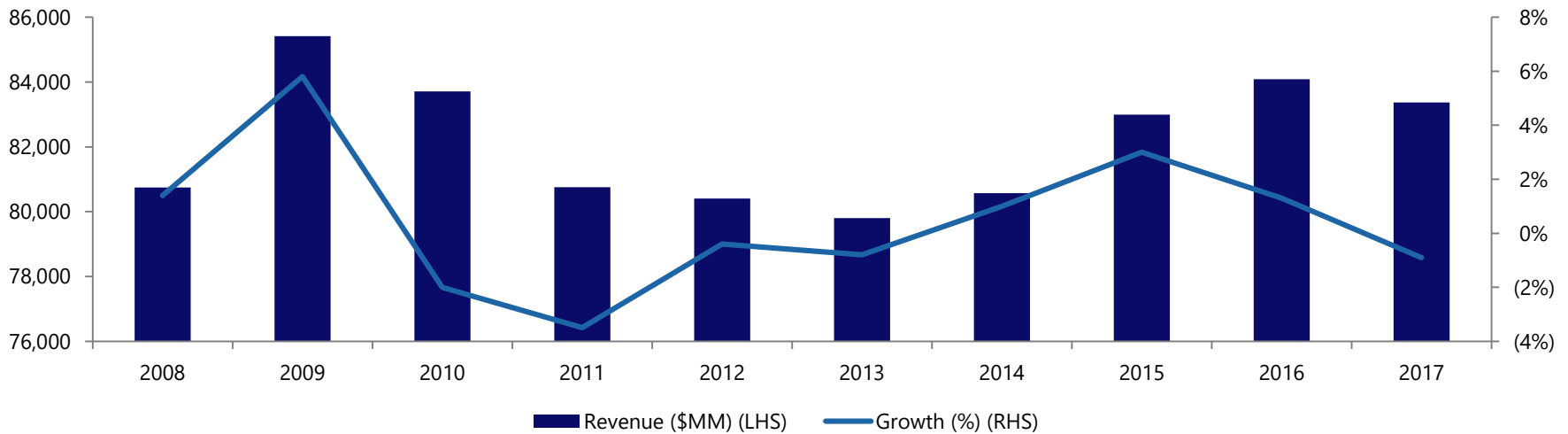
Canadian Grocery Market Share



Per Capita Disposable Income vs CPI for Food



Canadian Industry Revenue Growth





1

E-commerce Disruption



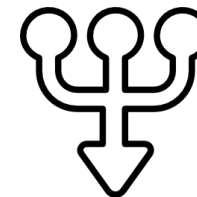
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Growth of Hard Discount



3

Rising Competition



4

Increased Consolidation

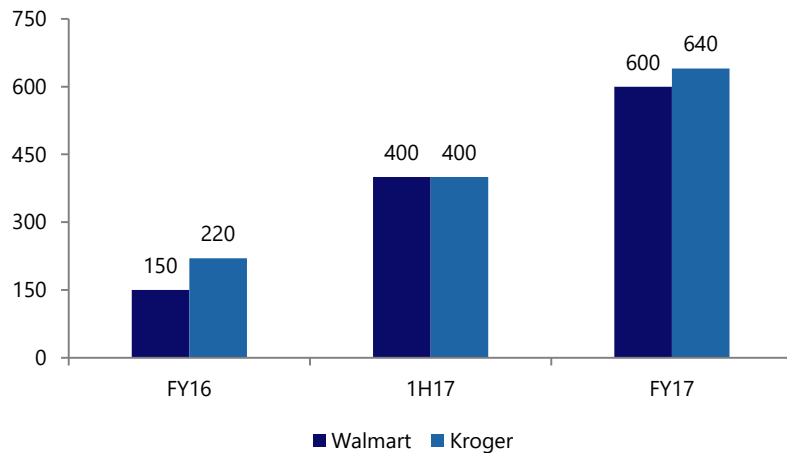
Leading Canadian Grocers Developing E-commerce Platforms

Loblaw and Instacart to team up to deliver groceries to millions of Canadian homes

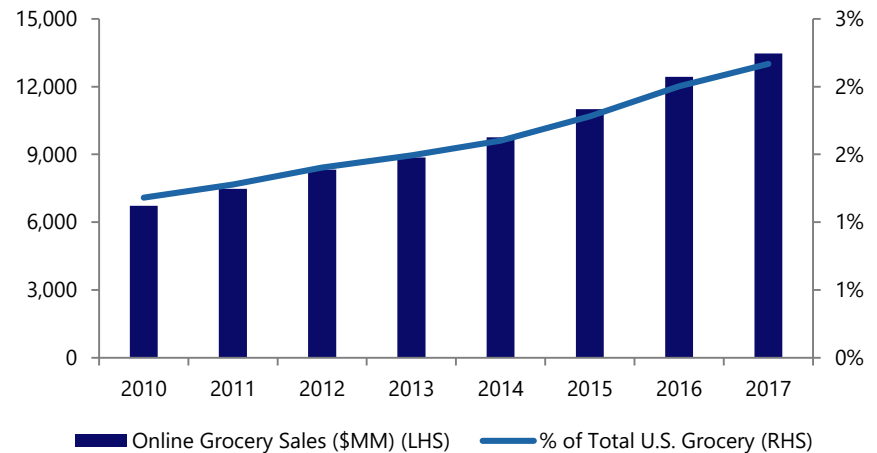
Empire will partner with Ocado to launch an online grocery store that will allow customers to have their order delivered to their door

Metro to expand their online grocery services across Ontario and Quebec

Walmart and Kroger Increasing Pickup Points



U.S. Online Grocery Sales



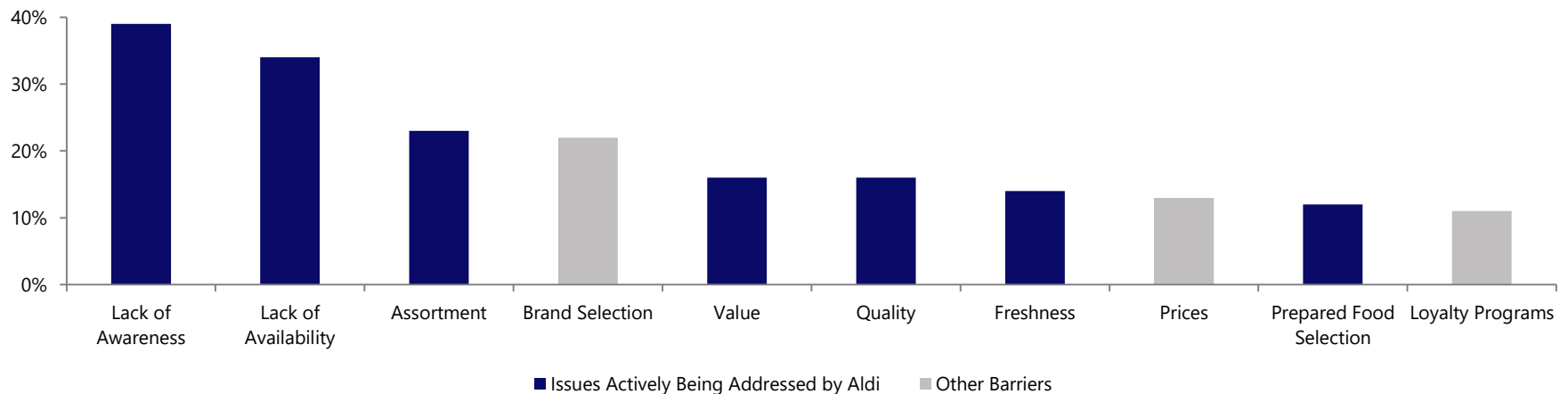
Increasing Presence of Hard Discount Players

On average, 61% of shoppers that have never been at Aldi said they would try the discounter. 71% said that they would try Lidl

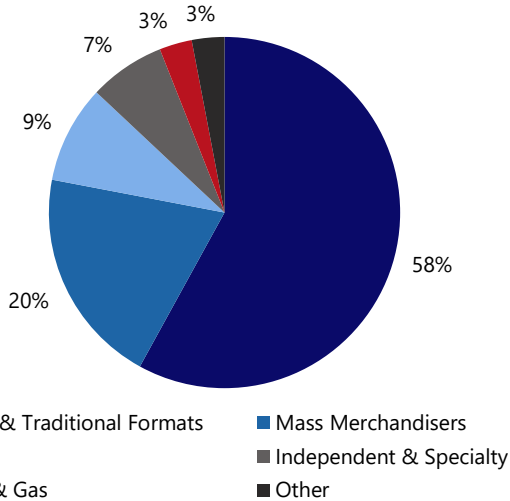
Traditional shoppers already perceive Aldi to be superior in price and value

85% of all shoppers are open to private-label brands – over 50% would agree that quality is equal or greater than brand-name products

Reasons Why Consumers Haven't Tried Aldi



Canadian Retail Food Sales by Channel

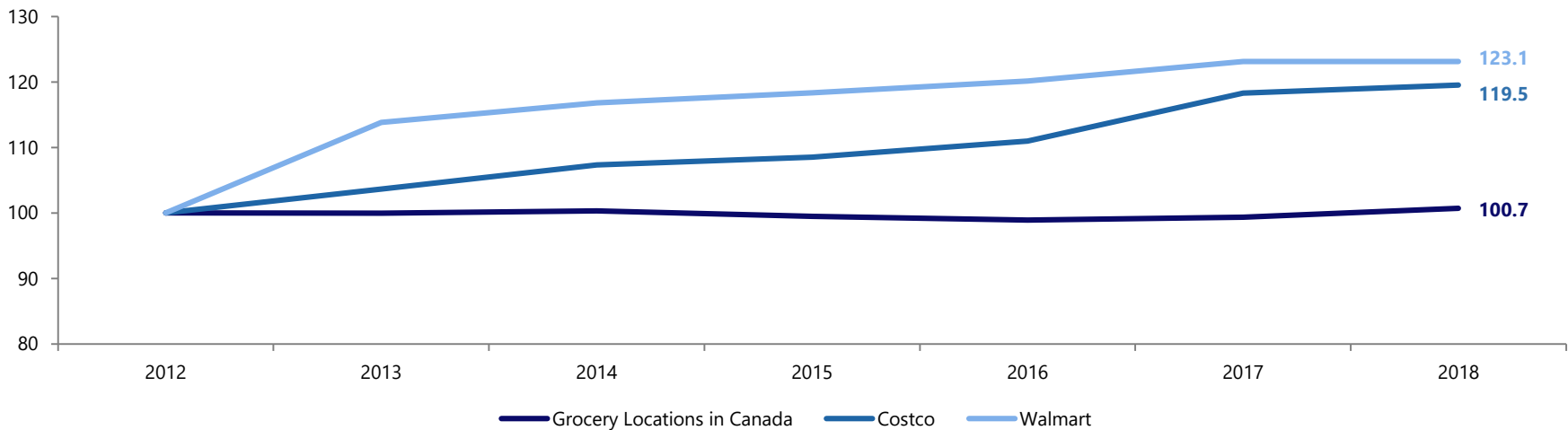


Traditional Grocers Declining Market Share

In 2004, traditional grocers accounted for 90% of food sales. General merchandisers had 9.8%

By 2016, traditional grocers fell to 79.2%. General merchandisers had over 19%

Costco and Walmart Relative Growth to Grocers in Canadian Market



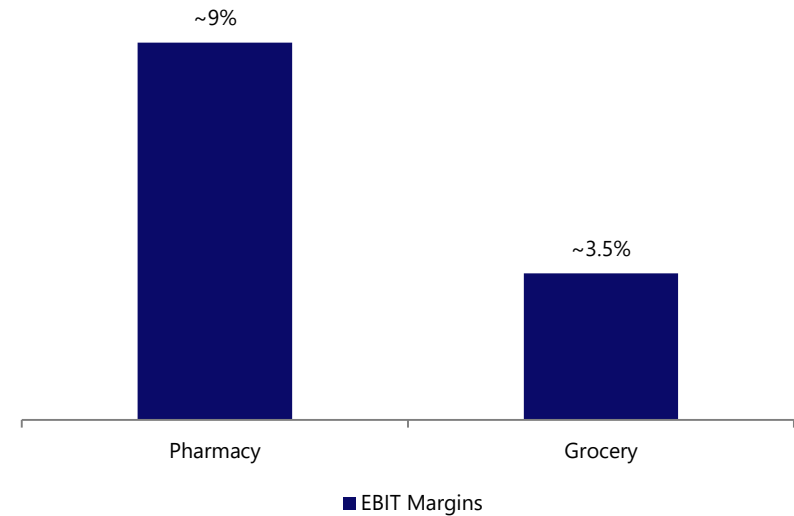
Industry Consolidation

The Canadian grocery landscape has been consolidating with several large M&A transactions

As the number of independent pharmacies and grocers shrinks, competition intensifies

Grocery chains have begun looking to pharmacies for their e-commerce potential and higher margins

Pharmaceuticals Present Attractive Opportunity



Recent M&A Activity

2013

EMPIRE
COMPANY LIMITED

Acquires

SAFEWAY

For \$5.8B

2014

Loblaws

Acquires

SHOPPERS
DRUG MART

For \$12.4B

2016

McKesson

Acquires

Rexall

For \$2.9B

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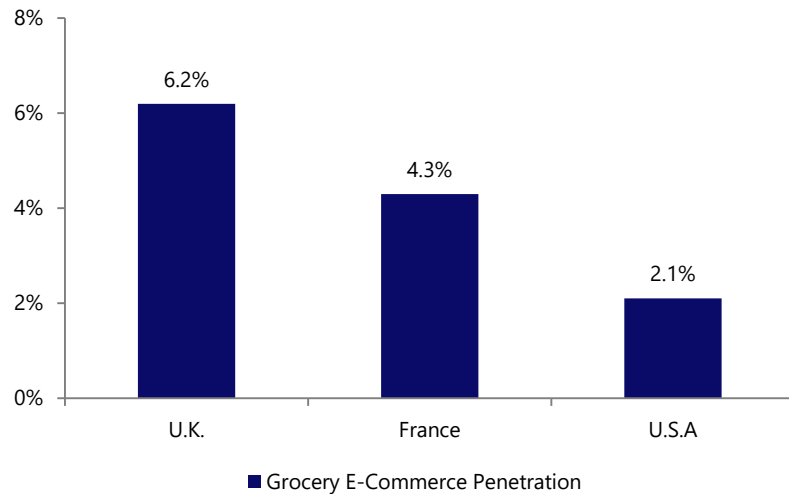
Overview

European countries have much higher grocery e-commerce penetration than N. America

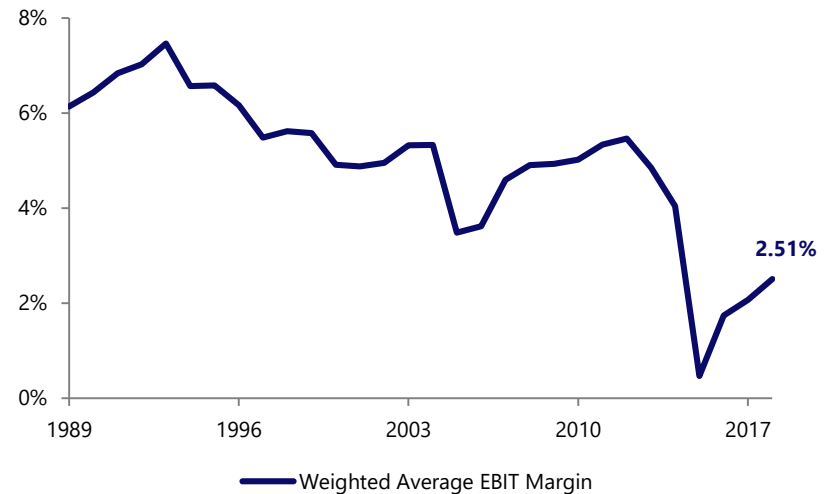
Grocers like Tesco have led the push for grocery e-commerce in the west

Relatively high adoption of e-commerce and competition from hard discounters has evaporated margins

Global Online Grocery Penetration, 2016



U.K. Historical EBIT Margins



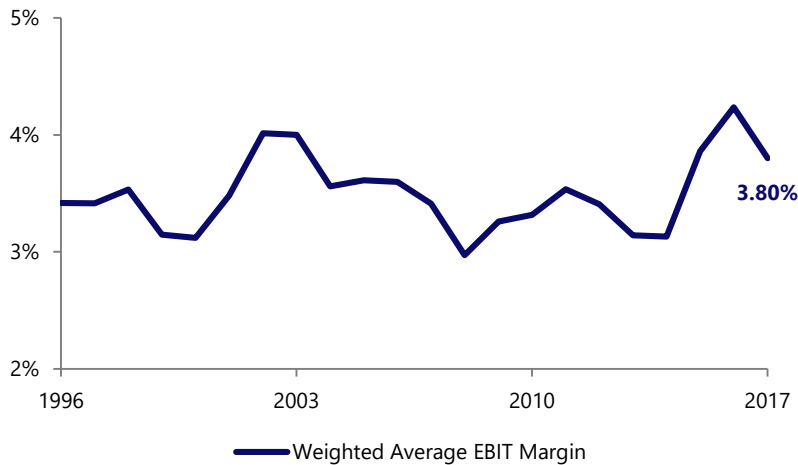
The Canadian Experience

Canadian grocers currently face less e-commerce penetration and hard discount competition

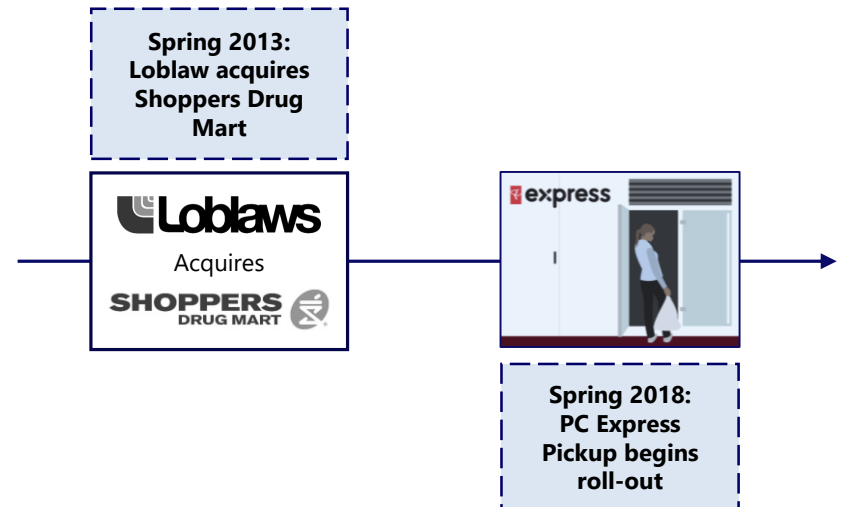
Operating margins have held up over the past two decades

Moves by competitors into the e-commerce model threaten this performance

Canadian Historical EBIT Margins



Evolution of Canadian Grocery Landscape





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The Jean Coutu Group: Comparable Universe

Company	Market Price	Market Cap	Enterprise Value	Price / Earnings		EV / EBITDA		EV / EBIT		EV / UFCF	
				2017A	2018E	2017A	2018E	2017A	2018E	2017A	2018E
Cerner Corporation	\$64.00	\$21,046	\$20,602	33.96x	24.46x	15.67x	15.06x	21.66x	21.45x	81.96x	42.73x
Walgreens Boots Alliance, Inc.	\$72.77	\$71,662	\$85,623	18.89x	19.16x	10.77x	11.15x	13.24x	13.65x	15.45x	19.32x
Loblaw Companies Limited	\$67.94	\$25,006	\$39,175	28.34x	17.95x	10.97x	9.73x	17.35x	14.49x	17.27x	19.96x
BCE Inc.	\$52.00	\$46,687	\$74,719	15.62x	16.69x	9.17x	8.86x	14.37x	14.22x	19.25x	35.80x
Sprouts Farmers Market, Inc.	\$27.83	\$3,504	\$4,075	32.98x	23.74x	13.88x	12.59x	19.14x	17.97x	58.59x	55.58x
SpartanNash Company	\$20.61	\$727	\$1,422	13.60x	-14.59x	6.26x	6.63x	9.62x	10.92x	nmf	34.66x
SUPERVALU INC.	\$32.29	\$1,251	\$2,809	1.89x	27.27x	6.67x	6.43x	11.33x	11.70x	nmf	nmf
The Jean Coutu Group (PJC) Inc.	\$24.48	\$4,514	\$4,185	22.53x	25.38x	13.45x	15.04x	\$15.46	\$17.57	33.75x	18.61x
Median				18.89x	19.16x	10.77x	9.73x	14.37x	14.22x	19.25x	35.23x
Average				20.75x	16.38x	10.48x	10.06x	15.24x	14.91x	38.50x	34.67x

The Jean Coutu Group: Implied Metrics

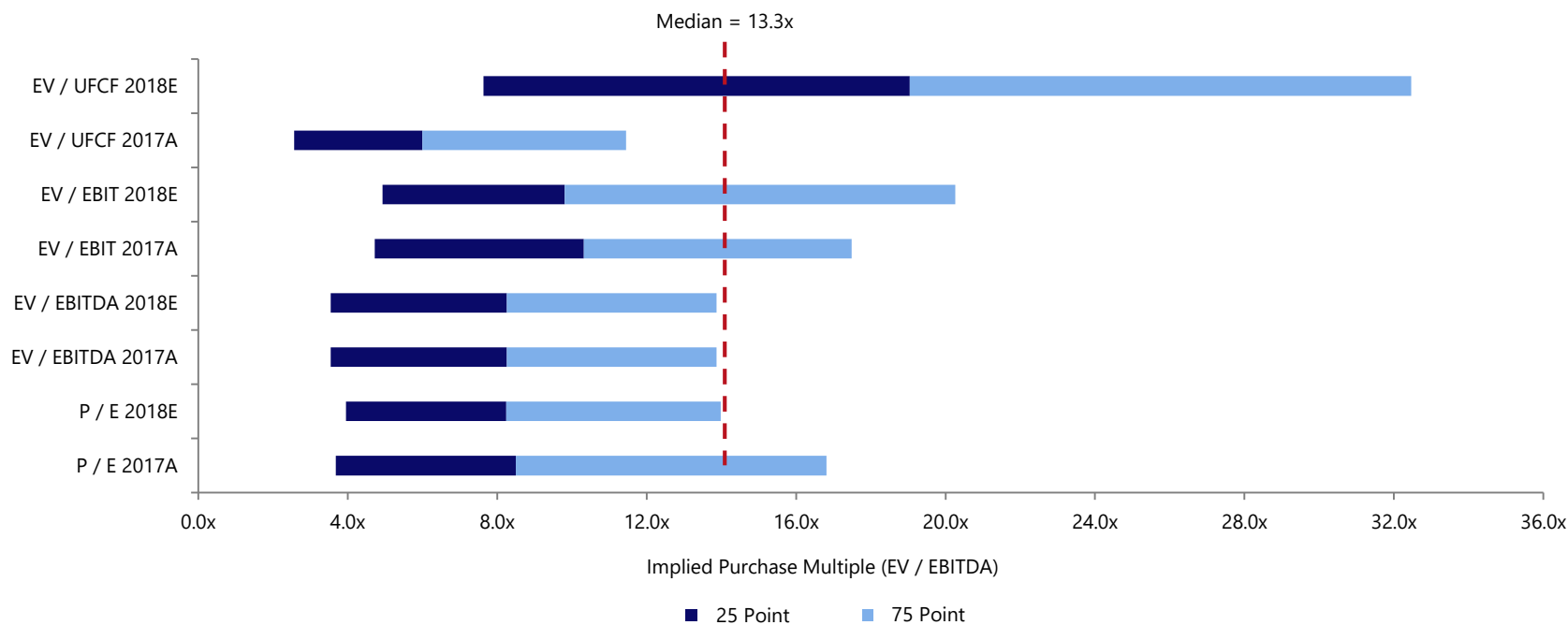
Metric	Multiple			Implied Share Price			Implied Return			Implied Purchase Multiple (EV / EBITDA)		
	Low	Median	High	Low	Median	High	Low	Median	High	Low	Median	High
P / E 2017A	18.59x	18.83x	28.46x	\$20.20	\$20.46	\$30.92	(17.49)%	(16.41)%	26.32%	12.98x	13.11x	18.15x
P / E 2018E	18.83x	21.07x	24.08x	\$18.17	\$20.32	\$23.23	(25.79)%	(16.99)%	(5.10)%	12.00x	13.04x	14.44x
EV / EBITDA 2017A	11.00x	11.12x	12.49x	\$18.79	\$19.07	\$22.26	(23.26)%	(22.08)%	(9.07)%	12.30x	12.44x	13.97x
EV / EBITDA 2018E	10.56x	11.25x	11.91x	\$15.17	\$16.61	\$17.98	(38.03)%	(32.16)%	(26.55)%	12.30x	12.44x	13.97x
EV / EBIT 2017A	11.31x	13.36x	17.59x	\$16.10	\$20.24	\$28.79	(34.21)%	(17.34)%	17.59%	11.01x	13.00x	17.12x
EV / EBIT 2018E	13.26x	14.24x	15.51x	\$16.81	\$18.56	\$20.82	(31.32)%	(24.20)%	(14.96)%	11.35x	12.19x	13.28x
EV / UFCF 2017A	16.55x	17.51x	38.03x	\$8.56	\$9.45	\$28.44	(65.02)%	(61.38)%	16.16%	7.38x	7.81x	16.95x
EV / UFCF 2018E	25.05x	27.66x	40.20x	\$35.29	\$39.68	\$60.72	44.16%	62.07%	148.03%	20.25x	22.36x	32.50x
Implied Metric							(23.87)%	(16.06)%	19.05%	12.45x	13.30x	17.55x

Commentary

Comparable Analysis **implied** an average purchase multiple of **13.7x**, while the **actual** purchase multiple is **14.0x**

Low EV / UFCF metric in public comparables imply a **high EV / EBITDA** purchase multiple of **22.36x** due to strong **2018E** cash flows

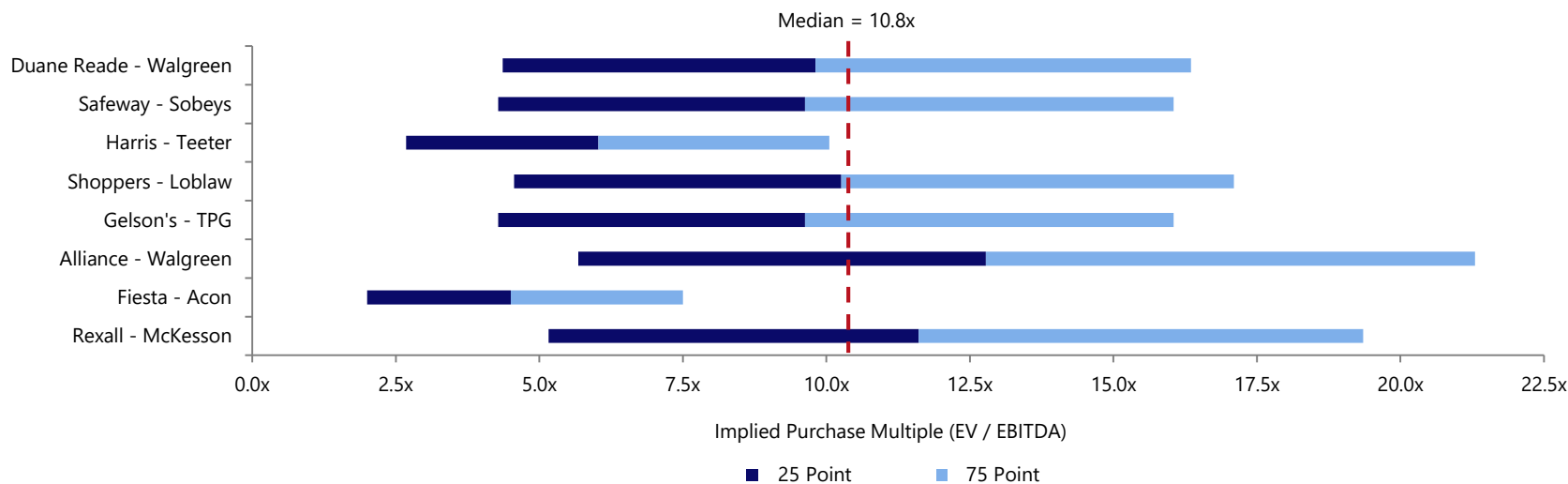
Implied Purchase Multiples (EV / EBITDA)



Precedent Transactions Analysis

Entities Involved				Operating Metrics			Profitability Multiples	
Target	Acquiror	Date Announced	Currency	EV	LTM Revenue	LTM EBITDA	EV / Revenue	EV / EBITDA
Rexall Health	McKesson Corporation	2-Mar-16	CAD	\$2,900.00	\$2,250.00	\$224.81	1.29x	12.90x
Shoppers Drug Mart Corporation	Loblaw Companies Limited	15-Jul-13	CAD	\$13,713.00	\$13,050.00	\$1,202.89	1.05x	11.40x
Alliance Boots GmbH	Walgreen Co.	6-Aug-14	English Pound	£21,392.00	£23,400.00	£1,506.48	0.91x	14.20x
Duane Reade Holdings Inc.	Walgreen Co.	17-Feb-10	USD	\$1,075.00	-	\$98.62	-	10.90x
Harris Teeter	The Kroger Co.	8-Jul-13	USD	\$2,497.00	\$4,711.32	\$372.69	0.53x	6.70x
Gelson's	TPG Capital	20-Dec-13	USD	\$370.00	\$440.48	\$34.58	0.84x	10.70x
Fiesta Mart	Acon Investments	29-Apr-15	USD	\$120.00	-	\$24.00	-	5.00x
Canada Safeway Limited	Sobeys	12-Jun-13	USD	\$5,555.00	\$6,385.06	\$519.16	0.87x	10.70x
Average				\$5,952.75	\$8,372.81	\$497.90	0.92x	10.31x
75th Percentile				\$7,594.50	\$11,383.76	\$690.09	1.02x	11.78x
Median				\$2,698.50	\$5,548.19	\$298.75	0.89x	10.80x
25th Percentile				\$898.75	\$2,865.33	\$82.61	0.85x	9.70x
The Jean Coutu Group (PJC) Inc.	Metro Inc.	02-10-2017	CAD	\$4,221.00	\$2,895.10	\$295.17	1.46x	14.30x

Implied Purchase Multiples (EV / EBITDA)



Precedent Valuation Commentary

The median purchase multiples implied by the M&A comparables are **10.3x Trailing EV/EBITDA** and **0.9x Trailing EV/Revenue**

The median purchase prices for the public comparables are **13.3x Trailing EV/EBITDA**

The M&A comparables imply a share price of **\$18.28**, public comparables imply a share price of **\$24.49**

Precedent Valuation Share Price Calculation

Implied Share Price	
Average Purchase Multiple	10.3x
EBITDA	\$295
Enterprise Value	\$3,044
<i>Less: Debt</i>	0
<i>Less: Preferred Shares</i>	0
<i>Less: Minority Interest</i>	0
<i>Add: Cash</i>	\$314
Equity Value	\$3,358
FDSO	183.7
Share Price	\$18.28

Comparable Company Share Price Calculation

Implied Share Price	
Average Purchase Multiple	13.3x
EBITDA	\$295
Enterprise Value	\$4,185
<i>Less: Debt</i>	0
<i>Less: Preferred Shares</i>	0
<i>Less: Minority Interest</i>	0
<i>Add: Cash</i>	\$314
Equity Value	\$4,499
FDSO	183.7
Share Price	\$24.49

Seller Discounted Cash Flow Calculations

Discounted Cash Flow Analysis									
	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Revenue	2,733.3	2,813.6	2,854.8	2,977.9	3,004.8	3,058.9	3,128.7	3,199.9	3,272.8
Cost of sales	2,137.5	2,196.9	2,235.1	2,361.6	2,411.8	2,405.5	2,460.3	2,516.3	2,573.7
Gross Profit	595.8	616.7	619.7	616.3	593.0	653.5	668.4	683.6	699.2
<i>Gross Margin</i>	22%	22%	22%	21%	20%	21%	21%	21%	21%
General and operating expense	261.3	284.8	288.4	305.1	314.8	332.1	333.3	334.3	335.3
EBITDA	334.5	331.9	331.3	311.2	278.2	321.4	335.1	349.2	363.9
<i>EBITDA Margin</i>	12%	12%	12%	10%	9%	11%	11%	11%	11%
Depreciation & amortization	32.5	32.0	32.8	40.5	40.0	36.8	37.6	38.4	39.2
Operating income (EBIT)	302.0	299.9	298.5	270.7	238.2	284.6	297.5	310.9	324.7
Income taxes	79.5	81.6	86.3	73.3	65.3	70.2	71.8	73.5	75.2
NOPAT	222.50	218.3	212.2	197.4	182.9	219.4	225.7	237.4	249.6
Add: D&A	32.5	32	32.8	40.5	40.0	36.8	37.6	38.4	39.2
Less: CapEx	50.0	96.9	114.2	38.5	48.8	51.9	53.3	54.8	56.3
Less: Change in NWC	n/a	(33.6)	45.5	37.9	(107.2)	41.4	36.9	43.4	30.7
UFCF	\$205.0	\$187.0	\$85.3	\$161.5	\$281.4	\$162.9	\$173.1	\$177.6	\$201.7
Discount Period					0.5	1.5	2.5	3.5	4.5
Discount Factor					0.9684	0.9083	0.8519	0.7990	0.7494
PV of Unlevered FCF					\$272.5	\$147.9	\$147.4	\$141.9	\$151.1

Capital Structure				
	2014	2015	2016	2017
Debt value of operating leases	397	382	372	363
Book value of equity	932	1,027	1,120	1,210
Total Capital	1,329	1,409	1,492	1,573

<i>Debt/TC</i>	29.8%	27.1%	24.9%	23.1%
<i>Equity/TC</i>	70.2%	72.9%	75.1%	76.9%

WACC Calculation	
AT Cost of Debt	3.1%
Cost of Equity	7.9%
<i>Risk-free rate</i>	2.1%
<i>Levered Beta</i>	0.89
<i>Equity risk premium</i>	5.0%
<i>Size premium</i>	1.5%
WACC	6.6%
Terminal GR	3.0%

Gordon Growth Model	
Sum of PV of Projected Periods	\$861
Terminal Value	
UFCF 2022E	\$201.7
PV of Terminal Value	\$3,763
Implied EV	\$4,825
Add: Cash	255.9
Less: PV of Op. leases	362.7
Implied Equity Value	\$4,718.4
FDSO	184.4
Implied Share Price	\$25.59
Purchase Price	\$24.50
<i>Purchase Price Discount</i>	4.43%

Terminal Multiple Model	
Sum of PV of Projected Periods	\$861
EBITDA 2022E	\$364
Terminal Multiple (EV / EBITDA)	13.3x
Add: PV of Terminal Value	\$4,185
Implied EV	\$5,046
Add: Cash	255.9
Less: PV of Op. leases	362.6914
Implied Equity Value	\$4,939.2
FDSO	184.4
Implied Share Price	\$26.78
Purchase Price	\$24.50
<i>Purchase Price Discount</i>	9.32%

Summary and Assumptions

Transaction Summary					
Purchase Price Per Share	\$	24.50	Equity Purchase Price	\$	4,540
% Cash		0%	Cash Used		0
% Debt		75%	Debt Used		3,389
% Stock		25%	New Shares Issued (000s)		28,125
Foregone Cash Interest Rate		1.5%	Debt Interest Rate		4.14%

Buyer - Financial Profile	
Buyer Name	Metro Inc.
Share Price	\$ 40.84
Diluted Shares Out.	228
Diluted Equity Value	\$ 9,314
Enterprise Value	\$ 10,476
Tax Rate	24%

Seller - Financial Profile	
Seller Name	Jean-Coutu
Share Price	\$ 24.50
Diluted Shares Out.	184
Diluted Equity Value	\$ 4,540
Enterprise Value	\$ 4,284
Tax Rate	27%

Sources & Uses			
Sources:		Uses:	
Sale of ACT minority stake	1,534	Cash to PJC shareholders	3,389
Senior unsecured notes	1,200	MRU equity to PJC shareholders	1,151
Term credit facility	405		
Bridge loan	250		
Equity issued to PJC shareholders	1,151		
	<u>4,540</u>		<u>4,540</u>

Income Statement

Merger Analysis - MRU & PJC			
Proforma Income Statement			
	LTM	2018E	2019E
Revenue			
Total Revenue	16,310	16,504	16,787
% Growth		1%	2%
COGS			
Metro	10,692	10,777	10,982
JC	2,398	2,408	2,405
Synergies:		(20.0)	(15.0)
Total COGS	13,091	13,165	13,373
COGS as a % of Revenue	80.3%	79.8%	79.7%
Gross Profit	3,220	3,339	3,414
GP as a % of Revenue	19.7%	20.2%	20.3%
SG&A Expenses			
Metro	1,658	1,662	1,695
JC	309	331	332
Synergies:		(12.5)	(10.0)
Total SG&A Expenses	1,968	1,980	2,017
SG&A as a % of Revenue	12.1%	12.0%	12.0%
Depreciation & Amortization	241	291	260
EBIT	1,012	1,068	1,137
EBIT Margin	6.2%	6.5%	6.8%
Interest Expense (Incl. New Debt)	63.7	115.6	115.6
Taxes	303	267	286
Tax rate	32.0%	28.0%	28.0%
Foregone interest on cash		48.50	48.50
Net Income	645	637	687
Net Margin	4.0%	3.9%	4.1%
Net Income Growth		-1.1%	7.8%
EPS		\$2.49	\$2.69
Accretion/ Dilution %		3.7%	3.0%

Assumptions

COGS synergies of **\$35M** and SG&A synergies of **\$22.5M** in years 2018E and 2019E –in line with management and analyst guidance

Interest rate of **4.14%** to calculate interest expense on new debt

Metro uses proceeds of ATD sale, **\$1,200 in unsecured notes**, and **\$750 term and bridge facilities** to fund cash portion of acquisition

Acquisition proves to be **accretive** to in 2018E and 2019E

Financial Output

Accretion/ Dilution - Base Case	2018E	2019E
Proforma Net Income	637	687
Proforma Shares Outatanding	255.71	255.71
Earnings Per Share	\$2.49	\$2.69
EPS Accretion/ Dillution	3.64%	2.99%

Synergy Assumptions	Bear Case	Base Case	Bull Case
Revenue Improvement	0.00%	0.00%	0.00%
Gross Margin Improvement	0.10%	0.12%	0.15%
SG&A as % of Sales Improvement	0.07%	0.08%	0.10%

Income Statement Statistics			
2018E	Bear Case	Base Case	Bull Case
Revenue	16,484	16,484	16,484
EBITDA	1,353	1,357	1,366
Net Income	631	636	693
<i>EBITDA Margin</i>	8.2%	8.2%	8.3%
<i>Net Income Margin</i>	3.8%	3.9%	4.2%

Income Statement Statistics			
2019E	Bear Case	Base Case	Bull Case
Revenue	16,760	16,760	16,760
EBITDA	1,391	1,395	1,401
Net Income	682	685	692
<i>EBITDA Margin</i>	8.3%	8.3%	8.4%
<i>Net Income Margin</i>	4.1%	4.1%	4.1%

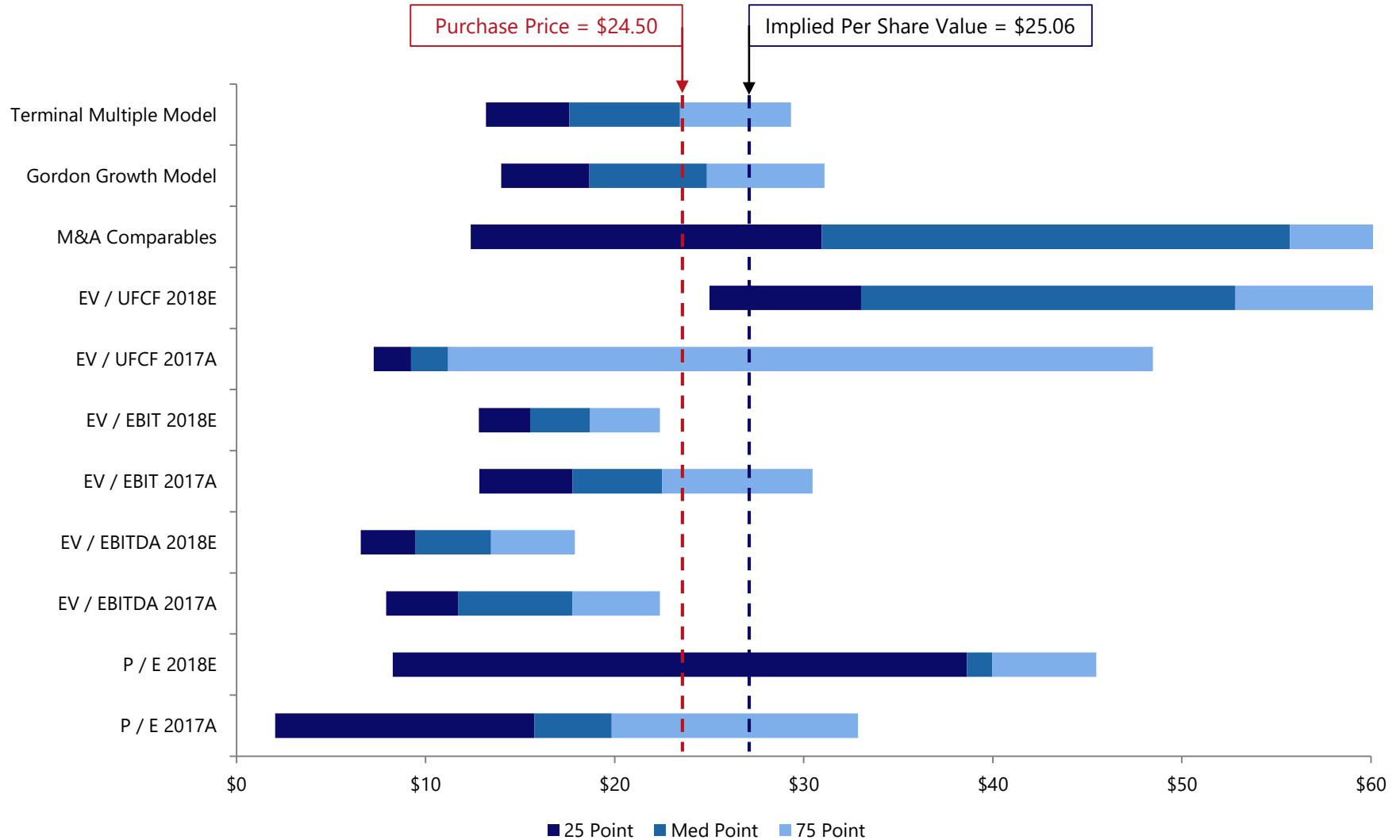
Synergies Sensitivity Analysis 2018E

		COGS Synergies				
		(10.0)	(15.0)	(20.0)	(25.0)	(30.0)
SG&A Synergies	(7.5)	1.92%	2.51%	3.09%	3.68%	4.26%
	(10.0)	2.21%	2.80%	3.38%	3.97%	4.56%
	(12.5)	2.51%	3.09%	3.68%	4.26%	4.85%
	(15.0)	2.80%	3.38%	3.97%	4.56%	5.14%
	(17.5)	3.09%	3.68%	4.26%	4.85%	5.43%

Synergies Sensitivity Analysis 2019E

		COGS Synergies				
		(5.0)	(10.0)	(15.0)	(20.0)	(25.0)
SG&A Synergies	(7.5)	1.68%	2.22%	2.76%	3.30%	3.84%
	(10.0)	1.95%	2.49%	3.03%	3.57%	4.11%
	(12.5)	2.22%	2.76%	3.30%	3.84%	4.38%
	(15.0)	2.49%	3.03%	3.57%	4.11%	4.65%
	(17.5)	2.76%	3.30%	3.84%	4.38%	4.92%

Football Field Valuation Summary



Valuation

Additionally, the pro-forma financial statements reflect that the deal is **accretive to EPS** immediately

We performed two forms of relative valuation, a **discounted cash flow** model and a **merger model** to evaluate the implications of this transaction

The price Metro has offered to pay for PJC is **lower than its intrinsic value**

Synergies

We believe that two types of synergies will arise from the merger: **COGS** and **SG&A Expenses**

COGS synergies are projected to range from **0.11% (bear case) to 0.15% (bull case)** in 2018E

SG&A synergies are projected to range from **0.07% (bear case) to 0.10% (bull case)** in 2018E

Merger Analysis - Metro acquires Jean-Coutu			
FYE July 1 (\$ in millions)			
		Synergies Analysis	
	LTM PF	2018E	2019E
<u>Revenue</u>			
Metro	13,312	13458.4	13727.6
Jean-Coutu	2687.8	2747.1	2767.3
Synergies			
<i>% Revenue Increase</i>		0.0%	0.0%
<u>COGS</u>			
Metro	10,692	10776.61	10982.08
Jean-Coutu	2398.3	2408.00	2405.45
Synergies		(20.0)	(15.0)
<u>COGS as % of Sales</u>			
Metro	80.3%	80.1%	80.0%
Jean-Coutu	89.2%	87.7%	86.9%
<i>% of Rev, COGS Margin Improvement</i>		0.1%	0.1%
<u>SG&A Expenses</u>			
Metro	1255.2	1249.5	1274.3
Jean-Coutu	309.5	330.6	332.1
Synergies		(12.5)	(10.0)
<u>SG&A as % of Sales</u>			
Metro	9.4%	9.3%	9.3%
Jean-Coutu	11.5%	12.0%	12.0%
<i>% of Rev, SG&A Margin Improvement</i>		0.1%	0.1%

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