

# PALOS

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## Palos Funds

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### Alimentation Couche-Tard's All Star Year

Alimentation Couche-Tard's (TSX: ATD.B) year-end was on April 28th, 2019. On July 9th, they released their full year and Q4 results. ATD.B had a strong year with adjusted EBITDA growth of over 18%, and EPS growth of 27%. However, Q4 was a bit more difficult as the company's EBITDA and EPS contracted, when compared year over year (yoy). The weakness was driven by lower gross margins. In addition, SG&A increased by 5% which was as a result of inflation, minimum wage, and marketing costs.

It's important to note that the street was largely expecting a weaker Q4. Unfortunately, the expectations were still too elevated at US\$0.55. The actual EPS for Q4 was US\$0.52, not great, but also not terrible

The Q4 results do not change my long-term view on ATD.B. I'm of the opinion that the company is well-positioned to grow both organically and by acquisition; Especially considering their long history of executing on acquisitions and synergies. The CST acquisition, for example, was a homerun for ATD.B. With synergies that are higher than expected and ahead of schedule, it clearly shows the ability of management to integrate acquisitions efficiently. On that note, the next acquisition opportunity could be sooner than we think. As every quarter passes, ATD.B's debt levels are decreasing thanks to its strong cash flow. Its debt/EBITDA is now 2.2x, leaving them ample room for their next opportunity.

*Disclaimer: Palos Funds are shareholders of ATD.B.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.51	12.89%
Palos Equity Income Fund - RRSP	PAL101	\$5.75	11.27%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.55	6.72%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$9.54	1.53%
S&P TSX Composite (Total Return with dividends reinvested)			17.55%
S&P 500 (Total Return with dividends reinvested)			20.69%
S&P TSX Venture (Total Return with dividends reinvested)			5.29%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			2.06%
Canadian Government 10-Year			1.59%
Crude Oil Spot			US \$60.43
Gold Spot			US \$1,412.50
US Gov't10-Year/Moody BAA Corp. Spread			223 bps
USD/CAD Exchange Rate Spot			US \$0.7644

<sup>1</sup> Period ending July 10, 2019. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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