



# **Alimentation Couche-Tard's Acquisition of CST BRANDS**

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## **Executive Summary**

In 2017, Alimentation Couche-Tard Inc. acquired CST Brands Inc. for \$4.4 billion (USD). The merger occurred during a period of moderate economic growth, low interest rates, and strong in-store sales within the United States convenience store industry, despite declining fuel prices and tight profit margins.

The acquisition aimed to speed up Couche-Tard's geographic expansion, improve operational efficiency, and generate cost synergies. CST's strong presence in the U.S. Southwest, Southeast, and Eastern Canada complemented Couche-Tard's growth strategy and added nearly 2,000 stores to its global network. The deal also supported Couche-Tard's initiative to unify its operations under the Circle K brand, launched in 2015.

At the time of the transaction, CST faced challenges such as activist investor pressure and underperforming stock, which made the company a strategic acquisition target. Two valuation approaches were used to assess the deal. The Comparable Company Analysis indicated a fair value range of \$42.45 to \$46.76, derived from peers such as Murphy USA Inc. and Casey's General Stores. Couche-Tard's acquisition price of \$48.53 represented a slight premium over this range, signaling a strong conviction in the asset. Similarly, the Discounted Cash Flow (DCF) method estimated CST's standalone intrinsic value at \$45.30. Although Couche-Tard paid a 7.1 percent premium over this DCF value, the cost was fully justified by the \$22.07 per share in projected net synergies.

Couche-Tard anticipated achieving \$150 million to \$300 million in annual cost savings within three years. These efficiencies were expected to result from economies of scale, improved supply chain logistics, brand integration, and streamlined administrative functions. Such benefits were projected to enhance profitability and long-term shareholder value.

Overall, the acquisition of CST Brands was a strategically sound and financially beneficial decision. It expanded Couche-Tard's market presence, strengthened its operational capabilities, and reinforced its position as a leading global convenience store operator. The transaction successfully aligned with the company's long-term growth and value-creation objectives.

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## **Couche-Tard Overview**

In 1980, the first Couche-Tard was opened in Laval, Quebec when it was founded by Alain Bouchard. Over the years, the company quickly expanded through a series of acquisitions, including Sept-Jours (1987), Mac's/La Maisonnée (1993), Perrette (1994), and C-Corp/Provi-Soir (1997). This allowed the company to establish its presence across Quebec, Ontario and Alberta. (Couche-Tard, n.d.) In 1997, Couche-Tard purchased 245 Provi-Soir stores in Quebec along with 50 Wink's locations in Ontario and Western Canada from Provigo Inc. (Alimentation Couche-Tard Inc., 2014) By 2000, Couche-Tard acquired Silcorp Limited and had become Canada's leading convenience-store operator and ranked ninth in North America, employing over 11,000 people. (Couche-Tard, n.d.)

In 2001, the company began expanding into the United States with the purchase of 172 Bigfoot stores in Indiana, Illinois, and Kentucky. In 2002, the company added another 287 locations operating under the Dairy Mart name across those states, as well as in Pennsylvania and Michigan. Just over a year later, Couche-Tard acquired 1,663 Circle K stores from ConocoPhillips, along with 627 additional franchised or licensed locations across 16 states. After purchasing Circle K, the company continued completing multiple acquisitions over the following fiscal years, strengthening its presence in existing markets and entering new ones in both the United States and Canada (Alimentation Couche-Tard Inc., 2014).

In 2008, Couche-Tard expanded its reach to all ten Canadian provinces and into the New England states. This broader footprint was achieved when the company expanded its commercial partnership with Irving Oil Limited, which added 252 convenience stores across Canada's Atlantic provinces and the New England region (Alimentation Couche-Tard Inc., 2014).

By acquiring all outstanding shares of the publicly traded Statoil Fuel & Retail ASA in July 2012, Couche-Tard entered the European market. This acquisition brought approximately 2,300 Statoil branded locations in Scandinavia, Poland, the Baltic countries, and Russia. About 18,500 employees joined Couche-Tard through this acquisition (Alimentation Couche-Tard Inc., 2014).

As of July 2015, Couche-Tard employed around 80,000 people across its stores and service offices in North America. The company's network included 7,987 convenience stores with 6,556 locations providing motor fuel. Couche-Tard's 15 North American business units include 11 in the United States, reaching across 41 states and four in Canada, covering all ten provinces (Alimentation Couche-Tard, 2015).

Finally, on September 22, 2015, Couche-Tard replaced its existing store and service station brands, Circle K, Statoil, Mac's and Kangaroo Express, with a single global brand called Circle K in Canada, the United States, Scandinavia, and Central and Eastern Europe. The company also introduced the Circle K brand to licensed stores in Asia, acting as a key element of the company's growth approach. This move introduced Couche-Tard's single global convenience brand, strengthening its role as a top retailer in the industry (Alimentation Couche-Tard, 2015).

## **CST Brands Overview**

Valero Energy Corp., a large refining company that also became strong in retail, split off its retail business to create CST Brands, Inc., which began its operations and started trading on the New York Stock Exchange on May 1, 2013 (CSP Daily News, 2014).

The company operates in two segments: U.S. and Canadian Retail. The U.S. Retail segment operates under the Corner Store name in nine states. In six eastern Canadian provinces, primarily in Quebec, the Canadian Retail segment operates convenience stores under the Corner Store and Dépanneur du Coin brands, offering Ultramar-branded fuel, merchandise, and additional services (Forbes, n.d.).

Since the initial launch of the company, it began growing its presence in the Northeast, Texas, and Arizona by building new sites and acquiring existing convenience stores. The company also increased its workforce, adding over 1,400 employees to reach about 13,500. In 2014, CST made multiple acquisitions to strengthen its U.S. operations, these include: the general partner of

CrossAmerica Partners LP, 32 Nice N Easy Grocery Shoppes in New York, Erickson Oil of Wisconsin and its 64 Freedom Valu stores, etc. In 2015, CST continued to expand, building several dozen new stores in the United States and Canada. In February 2016, CST completed the acquisition of Flash Floods, adding 164 additional sites. New locations opened in Texas (Waco, Austin, Stockdale, El Paso) and in Phoenix, Arizona. CST operated both company-run convenience stores and gas stations across the United States and Canada, with over 5,000 retail and branded wholesale outlets across North America and the Caribbean. In Canada, CST's Corner Store and Dépanneur du Coin locations sold Ultramar fuel and featured signature offerings such as Transit Café coffee and pastries (CSP Daily News, 2016).

## **Industry Overview**

U.S. convenience stores achieved record in-store sales of \$233 billion in 2016, marking the third consecutive year in which the sector posted more than \$10 billion in pre-tax profits. Refer to Appendix A to see the industry's performance in 2015 and 2016:

Although fuel margins experienced a slight dip in 2016, falling to 23.1 cents per gallon from 23.4 cents the year before, higher sales volume helped push monthly fuel gross profit up by 1.6% per store. Convenience stores that supply more than 80% of the nation's fuel, saw fuel volumes grow by 2.6% as the economy continued to recover. However, overall fuel sales revenue still declined by 9.2%, mainly because gas prices averaged only \$2.17 in 2016, down for \$2.44 in 2015.

In 2016, in-store revenue at convenience divided across multiple major product groups:

- Tobacco products made up the largest share at 36% of in-store sales.
- Foodservice items accounted for 21.7%
- Packaged drinks represented 15% of sales.
- The center of the store contributed 9.8%
- Beer sales reached 6.7% overall and 12.2% for stores selling beer.

- All remaining categories combined made up the final 10.8%

For the second year in a row, the costs of running convenience stores rose faster than the profit earned from in-store sales. These operating costs include things like wages, card processing fees, maintenance, supplies and other expenses such as franchise and property taxes. Even with record in-store sales, this cost growth is making it harder for retailers to expand or invest in their businesses.

As for the Canadian industry of the Convenience Store and Fuel Sector, according to the Canadian Convenience Stores Association report from 2017, the number of convenience stores in Canada has increased by 2.8% from 26,486 in 2015 to 27,239 in 2016. Larger convenience store chains had fewer locations in 2016 than the year prior because of corporate consolidation. Therefore, their total number of stores went down from 9,668 to 9,550 which is a 1.2% drop. However, independent convenience stores increased from 16,798 to 17,689 which is a 5.2% increase. In 2016, sales surpassed the \$56 billion mark and Quebec had the highest increase in number of stores of 205, from 2015 to 2016. Refer to Appendix B to see a visual representation of the number of Convenience Stores in Canada by type and region.

However, since they sell the most taxed products in the market such as alcohol, tobacco, gas and lotteries, they end up collecting and remitting over \$22 billion per year, in sales tax, which is roughly equivalent to the total GST collected by the federal government in every province (except Ontario). Refer to Appendix C to see a visual representation of taxes collected by Convenience Stores in Canada.

Of the top 10 Categories in Convenience Stores (excluding gas and lottery tickets), the ones that experienced a sales increase from 2015 to 2016 are cigarettes (being the highest increase), beer products, chocolate, and candy confections. The ones that experienced a sales decrease in the same time frame are milk (being the highest decrease), energy drinks, juices & drinks, flavored soft drinks, flat water and snack foods. See Appendix D for a visual representation of the Top 10 Categories in Convenience Stores (excluding lottery and gasoline).

## **Main merger motives**

Couche Tard decided to acquire CST Brands because it was a fast and effective way to expand across the United States and Canada. CST already had a strong presence in high growth regions such as Texas, the Southeast, New York, and Eastern Canada, so buying the company allowed Couche Tard to add almost two thousand stores without the cost and time of building new ones. The acquisition also fit Couche Tard's long term strategy of growing through size, since being a larger player helps with purchasing power, logistics, fuel sourcing, and the ability to compete with major rivals. Another major motive was the chance to save money by combining operations. Couche Tard expected significant cost reductions through shared supply chains, better distribution efficiency, stronger supplier negotiations, and lower administrative costs. These savings were projected to reach between one hundred fifty million and three hundred million dollars per year. In addition, the deal supported Couche Tard's global plan to unify its stores under the Circle K brand, which CST's network could adopt quickly. The timing of the deal also worked in Couche Tard's favor, because CST was experiencing pressure from activist investors and a declining stock price, making the company more open to being acquired. By acting at the right moment, Couche Tard prevented competitors from taking advantage of CST's situation and strengthened its own competitive position. Overall, the acquisition offered Couche Tard geographic growth, major cost savings, a stronger brand rollout, valuable real estate, and a strategic edge in the convenience and fuel retail market.

## **Strategic Alternatives Considered**

Before acquiring CST Brands in 2016, Couche-Tard had several strategic paths available:

**Focus on Organic Growth & Integration:** One option was to pause major acquisitions and concentrate on internal growth initiatives. Couche-Tard had just digested sizable deals (e.g. *The Pantry* in 2015 and *Topaz* in early 2016) and could have chosen to optimize those new assets, improve same-store sales, and open new stores rather than buy another large chain. This conservative approach would allow time to de-leverage (pay down acquisition debt) and strengthen the balance sheet. Indeed, Couche-Tard's CEO later acknowledged that organic

growth needed to play a bigger role alongside acquisitions (CSNews, 2016). Building new stores and improving operations organically carry less immediate risk than a big takeover, though organic expansion is slower in the convenience retail industry, acquisitions offer a “*quick way*” to grow compared to the lengthy process of site-by-site development (ExpressNews, 2016).

**Pursue Smaller Acquisitions or Regional Deals:** Couche-Tard could have continued its growth via acquisitions of smaller chains or asset packages. In fact, around the same time, Couche-Tard was already buying up regional assets – for example, in March 2016 it agreed to purchase 279 Esso-branded fuel stations (~ 7 times less than CST 2000 stores) in Canada for C\$1.7 billion (Reuters, 2016). This strategy of targeting mid-sized chains or fuel networks (in North America or Europe) would expand Couche-Tard’s footprint more gradually, avoiding the cost and integration challenges of a single huge deal. Industry observers noted that after the big players like CST, future consolidation would likely come from “*smaller buys*”, as most of the largest targets had already been taken (ExpressNews, 2016). The benefit of this approach is lower acquisition price per deal and potentially less regulatory hurdle; however, smaller acquisitions might not move the needle as dramatically in market share or synergy potential.

**Target a Different Major Acquisition:** Couche-Tard could also have set its sights on another large competitor instead of CST. One theoretical candidate was Casey’s General Stores, a major Midwestern U.S. chain with a similar store count to CST. However, Casey’s had fiercely resisted Couche-Tard’s prior hostile takeover attempt in 2010 (even engaging 7-Eleven as a white knight) (ExpressNews, 2016). Pursuing Casey’s again would likely have been costly and difficult. International expansion was another option: having already acquired Statoil’s retail network in Europe, Couche-Tard could have looked to new regions (Asia, Australia, etc.) for growth. Indeed, analysts noted that globally there were “*many more potential consolidation opportunities*” on the horizon. Still, CST Brands itself was considered “*one of the last major acquisition targets on the continent*” at that time (ExpressNews, 2016). In short, there were few alternative targets of CST’s scale that were both available and fit Couche-Tard’s strategic needs, making the opportunity cost of not acquiring CST extremely high.

When comparing these alternatives, CST offered the strongest mix of scale, availability, and strategic fit.

## **Why the CST Acquisition Was Optimal**

Couche-Tard ultimately chose to acquire CST Brands, and this proved to be the optimal strategy given the circumstances and strategic goals.

CST offered a unique complementary footprint. It operated over 2,000 stores concentrated in the U.S. Sun Belt (especially Texas and the Southeast) as well as New York and Eastern Canada, regions where Couche-Tard's presence was comparatively weaker. CEO Brian Hannasch noted that acquiring CST would “*strategically strengthen our positioning in both the Sun Belt and the East Coast of North America.*” (Couche-Tard Press Release, 2016)

Furthermore, the CST deal, at \$4.4 billion, was Couche-Tard's largest ever and added significant scale. Post-merger, Couche-Tard would have over 10,000 stores in North America – putting it nearly equal to 7-Eleven as the continent's largest convenience operator (ExpressNews, 2016). Founder Alain Bouchard has emphasized that in convenience retail “*size matters*” for purchasing power, logistics, and brand recognition. Acquiring CST's large store base in one move gave Couche-Tard a scale boost that smaller acquisitions or organic growth could not match (Couche-Tard Investor Statements, 2016). In comparison, CST added 2,000 stores at once, while organic growth adds ~100 per year. CST was one of the final opportunities to grab a top-five industry player, so seizing it was critical to prevent a rival from doing so.

Looking at the synergies and performance upside, CST had expanded quickly, but this also led to higher debt and weaker operating results. Several reports pointed out that CST wasn't performing as efficiently as its competitors, which is why activists were pressuring the company (ExpressNews, 2016). For Couche-Tard, this created an opportunity: they have a strong history of improving the performance of acquired stores. Applying their operating model to CST's network offered clear room for synergies and better profitability.

CST was already under pressure from activists and was basically open to being acquired, which made a friendly deal much easier to complete. Couche-Tard offered \$48.53 per share in cash, a price that gave CST shareholders an immediate premium and made the offer attractive. Because the deal was all-cash and within Couche-Tard's financing capacity, it avoided the complications that come with stock offers or hostile bids. To help with regulatory approvals, Couche-Tard also agreed to sell CST's Canadian assets to Parkland Fuel (Couche-Tard Press Release, 2016). Overall, the structure of the deal made it relatively straightforward and showed that CST was a large, but still manageable, opportunity for Couche-Tard to take on at that point.

In summary, acquiring CST Brands was the best option for Couche-Tard at that moment. It gave them immediate scale, helped them grow in key regions, and was one of the last big opportunities to expand their North American network. Couche-Tard's experience with integrations also made CST a realistic project for them. Compared to the other alternatives, this deal brought much more in terms of growth and improvement potential. For these reasons, CST ended up being the most convincing and practical choice for Couche-Tard.

## **Target Valuation**

### **DCF Valuation:**

[Click here](#)

The core of our valuation of CST Brands, Inc. is a two-stage Discounted Cash Flow (DCF) analysis. This model first determined the Standalone Equity Value of CST, representing the intrinsic value of the company if it had continued operating independently.

### **Cost of Capital (WACC)**

To properly discount future cash flows, we calculated the Weighted Average Cost of Capital (WACC) [[see Appendix E](#)].

**Beta:** To accurately determine the systematic risk of CST Brands, the levered equity beta was calculated using a bottom up beta approach. This was necessary because CST operates in two

distinct segments: Oil/Gas Distribution and Retail/Wholesale Food. Using Damodaran's industry betas for Oil/Gas Distribution and Retail/Wholesale Food allowed us to compute a weighted unlevered beta for CST brands. We then "re-levered" this beta according to CST's capital structure to compute the WACC. [[see Appendix F](#)]

**Cost of Equity:** This was determined using the Capital Asset Pricing Model (CAPM). We utilized a long-term risk-free rate of 1.46% (based on the 10-year U.S. Treasury yield at the time) and an estimated Equity Risk Premium of 5.69%. Based on CST's market-derived beta, the resulting Cost of Equity was 6.13%.

**Cost of Debt:** The after-tax cost of debt was determined using the firm's interest expense and total debt, adjusted for our projected effective corporate tax rate of 38.77%.

**WACC:** The final calculated WACC used as the discount rate for all cash flows was 4.91%.

### **Free Cash Flow to Firm (FCFF) Forecasting**

Our model projects Free Cash Flow to Firm (FCFF) over a five-year explicit forecast period, followed by a Terminal Value.

**Projection Inputs:** Financial metrics were forecasted based on current operational performance and long-term industry expectations [[see Appendix G](#)]. We used a stable Revenue growth rate of 1.0% per year, reflective of a mature retail sector. Key drivers like EBIT Margin (2.57%), Depreciation and Amortization (D&A) as a percentage of Revenue (2.10%), and changes in Net Working Capital (NWC) as a percentage of Revenue (0.49%) were stabilized based on historical performance [[see Appendix H](#)].

**Capital Expenditures (CapEx):** During the explicit forecast, CapEx was maintained at an aggressive, expansionary level relative to D&A to account for continued store modernization and network investment.

### **Terminal Value Calculation**

The Terminal Value (TV) captures the value of all cash flows beyond the five-year forecast.

**Normalization:** For the final year of the forecast, we normalized CapEx down to a maintenance level (approximating 105% of D&A) to reflect an end to aggressive growth spending.

**Perpetuity Growth:** The TV was calculated using the Perpetuity Growth Model, utilizing a long-term, sustainable growth rate of 2.0%, which is aligned with long-term macroeconomic inflation expectations.

### **Standalone DCF Result**

The Present Value (PV) of the explicit-period FCFF was summed with the PV of the Terminal Value to determine the Enterprise Value (EV). After adjusting for Net Debt (Total Debt minus Cash) and dividing by the 75.62 million shares outstanding, the Standalone DCF Price per Share was determined to be \$45.30.

### **Synergy Valuation: Deal Justification**

The acquisition price of \$48.53 per share paid by Couche-Tard creates an acquisition premium over the standalone value, which can only be justified by the value of the anticipated synergies created by the merger. We valued these incremental cash flows separately.

### **Synergy Modeling**

**Synergy Target:** We adopted a conservative, publicly cited pre-tax synergy target of \$150 Million in annual cost savings, primarily derived from eliminating CST's corporate overhead, optimizing supply chain procurement, and consolidating IT systems.

**Phase-In Period:** To provide a realistic valuation, we did not assume immediate full realization. Instead, we modeled a ramp-up over three years: 30% in Year 1, 60% in Year 2, and 100% in Year 3 and perpetuity thereafter [[see Appendix H](#)].

**Integration Costs:** We factored in a one-time pre-tax integration cost of \$175 Million upfront, which was appropriately adjusted for tax deductibility and subtracted from the total synergy value.

### **Net Synergy Value**

The after-tax synergy cash flows during the ramp-up and the subsequent perpetuity were discounted using the WACC. This analysis resulted in a Net Synergy Value of \$22.07 per share.

## **Comparable Analysis:**

The relative valuation method that we chose to value CST brands Inc. was the comparable company analysis. This method uses available market data from various companies. The goal is to essentially compare how much our company is worth relative to the other comparables we identified. Later, we use the comparable company financials to come up with average multiples which can then be used to find the relative valuation range of our target company.

### **Choosing the comparables**

Identifying the companies we will compare CST to is the most difficult part of this valuation method. This is mainly due to the fact that not many companies perfectly fit within the same category as CST. It is important to find companies that operate in similar sectors, that have similar geographic reaches and that are similar in size. Some other characteristics are also considered, when looking at the financial profile, the size and profitability can make a big difference in the multiples calculated. Our selection was driven by sector alignment and financial scale to ensure efficient multiples. Due to this, we excluded Dollar General and Dollar Tree as outliers due to their pure-retail business models and excessive market capitalization relative to CST. Conversely, TravelCenters was rejected due to its high asset intensity and insufficient valuation metrics. We found that Murphy USA and Casey's and Sunoco were the optimal to compare. The three firms mirror CST's US-based gas/convenience model, share similar distribution channels, and trade within a comparable range of Equity Value and Net Debt (See appendix I).

### **Enterprise Value and Multiples**

Using the Net Advantage database and company 10-K filings, we extracted the necessary financial data for CST Brands and its selected peers: Murphy USA, Casey's, and Sunoco LP.

First, we calculated the Equity Value using fully diluted shares outstanding and the share prices as of the one-year prior to announcement date. CST Brands traded at \$39.14 with 76 million

shares. Among the comparables, share prices ranged from \$33.61 (Sunoco) to \$120.45 (Casey's), with share counts ranging between 39 million and 74 million.

Next, we determined Net Debt from the respective balance sheets. CST Brands carried \$1,142 million in net debt. The peer group showed a wide variance in leverage, with Murphy USA holding \$388 million, Casey's holding \$780 million, and Sunoco holding \$1,885 million.

By combining Equity Value and Net Debt, we derived the Enterprise Value (EV) for each firm. CST's implied EV was \$4,619 million, while the peers ranged from \$2,956 million (Murphy) to \$5,479 million (Casey's). Finally, we calculated valuation multiples by dividing EV by LTM EBITDA. CST Brands traded at 9.7x EV/EBITDA. The peer group displayed multiples of 8.6x (Murphy), 9.9x (Casey's), and 13.2x (Sunoco), resulting in a peer average EV/EBITDA multiple of 10.4x (Appendix J).

Our Comparable Companies Analysis indicates that CST Brands is currently undervalued by the market. Applying the peer group's average multiples results in an implied valuation range of \$42.45 – \$46.76 per share, which represents a premium over the share price before announcement of \$39.14.

## **Analysis of Synergies and recommendations:**

Valuation Metric	Value / Range	Note
<b>1. Market Context</b>		
Share Price (Pre-Announcement)	\$39.14	The unaffected trading price before the deal.
Comps Analysis Range	\$42.45 – \$46.76	The fair value range based on peer multiples.
<b>2. Standalone Valuation</b>		
DCF Intrinsic Value	\$45.30	The value of CST "as is" (Standalone).
<b>3. Transaction Cost</b>		

Acquisition Price	-\$48.53	The price Couche-Tard paid to buy CST.
<b>4. Value Creation (Synergies)</b>		
Net Synergy Value	+\$22.07	Present value of improvements per share.
Total Pro Forma Value	\$67.37	(DCF Standalone \$45.30 + Synergies \$22.07)
<b>5. Conclusion (Accretion)</b>		
Net Value Created	+\$18.84	Deal is Accretive. (Total Value \$67.37 - Cost \$48.53)

Despite paying a purchase price of \$48.53, which implies a premium over both the comparable firms' valuation range (\$42.45 – \$46.76) and the standalone DCF value (\$45.30), the transaction is highly accretive for Couche-Tard. This value creation is driven by the significant operational synergies, estimated at \$22.07 per share, which raise the total pro forma value of the asset to \$67.37. Consequently, by acquiring CST Brands for less than its total potential value, Couche-Tard effectively captures \$18.84 per share in net value, validating the strategic rationale behind the acquisition price.

## **Post-merger analysis**

The purchase of CST Brands gave clear and material benefits to Alimentation Couche-Tard's financial and strategic performance. Adjusted net earnings grew from \$327 million to \$380 million USD in the first full post-transaction reporting period, with adjusted diluted EPS up 16.5% year over year to \$0.67 (Alimentation Couche-Tard, 2018). Such results constitute synergy capture well before the expected three-year horizon, underpin a sound integration discipline, and validate the strategic rationale for the acquisition premium. Performance also varied geographically as a function of rebranding effects, consumer habits, and local pricing pressures. Same-store merchandise revenues climbed 1.4% in the United States and Europe (CSP, 2017), as forecast by industry analysts, although Canadian performance was briefly impacted by brand transition disruption in the newly integrated Circle K identity, showing a 0.2% retreat. These disparate regional outcomes illustrate the thesis that where CST's legacy

business more closely aligned with Couche-Tard's merchandising and logistics platform, operating synergies are most rapid to emerge.

The fuel performance was temporary dilutive. U.S. fuel margins post-acquisition were 20.75 cents per gallon, a little shy of the estimated 21.20 cents that would have been achieved without CST stores in the mix. This short-term dilution was expected given CST's historically lower per-store profitability and the competitive fuel dynamics of the U.S. Southwest and Southeast. Couche-Tard nonetheless reaffirmed its projected synergies of \$150–\$215 million USD through procurement scale, logistics consolidation, and operational standardization. These findings show that there was short-term margin pressure, which was taken deliberately for long-term cost and efficiency benefits.

The following benchmark table compares the pre-acquisition performance of CST, the expected trajectory of Couche-Tard without the merger, and the actual results following integration to provide the quantitative clarity necessary for a post-merger evaluation.

### Post-Merger Benchmark Comparison

<b>Metric (FY2017–FY2018)</b>	<b>CST Pre-Acquisition (Est.)</b>	<b>Couche-Tard Without CST (Projected)</b>	<b>Actual Post-Merger Result</b>
Adjusted EPS Growth	4–6%	5–7%	<b>+17.6%</b>
Net Earnings	~\$330M	~\$345M	<b>\$380M</b>

<b>Metric (FY2017–FY2018)</b>	<b>CST Pre-Acquisition (Est.)</b>	<b>Couche-Tard Without (Projected)</b>	<b>Actual Post-Merger CST Result</b>
Same-Store Merch Sales	0–0.5%	~1.0%	<b>1.4% (U.S./EU)</b>
Fuel Margin (cents/gal)	~21.2	21.2–21.3	<b>20.75</b>
Annual Synergies	\$0	\$0	<b>\$150–\$215M</b>
ROIC	8–9%	9–10%	<b>&gt;10%</b>

A counterfactual analysis further supports the strategic rationale for the transaction. Without the acquisition of CST, EPS would likely have continued to grow at its historical pace of 5–7% per year, significantly lower than the 17.6% realized in the first year after the merger. The company would have expanded far more slowly as well, adding ~100 new stores annually, compared with almost 2,000 stores in a single transaction through the purchase of CST—a delay in achieving scale economies of 5–7 years. Scale economies in supply chain, private-label penetration, and procurement leverage would not have been accelerated by integrating CST. Couche-Tard's negotiating leverage would have been weakened and North American brand cohesion would be lower if the global rollout of Circle K had been slower because of the absence of the deal. Perhaps more important, the company would have given up \$150–\$215 million in synergies per year, leading to significantly lower long-term profitability and ROIC.

Evaluating stakeholder performance further supports the value created from the transaction. Shareholders benefited from strong earnings growth, accelerated synergy realization, and improved ROIC—all indications that the premium paid was more than justified. U.S. and European customers benefited from better assortment and service quality as a result of integrated

supply chains, while Canadian customers suffered only short-term adjustment effects before benefiting from Circle K's standardized offer. Employees benefited from streamlined processes and improved operational systems, although administrative consolidation reduced some back-office positions. Suppliers and fuel partners benefited from greater purchasing scale, more stable contracting, and improved inventory coordination under a unified brand. Regulators and local markets observed stable post-merger competition, with fuel margins remaining within a few cents of the national industry benchmark of 22 cents per gallon (NACS, 2018). Lastly, corporate leadership enhanced their reputation as disciplined acquirers capable of integrating large networks quickly without compromising capital discipline.

In all, CST's acquisition considerably improved the competitive positioning of Couche-Tard, its financial strength, and consistency of its brand across North America. Quantitative evidence, counterfactual analysis, and stakeholder impact assessment together demonstrate that this merger brought about substantial long-term value and strategically advanced the company's growth trajectory beyond what could have been achieved by organic expansion alone.

## **Conclusion**

The acquisition of CST Brands Inc. by Alimentation Couche-Tard Inc. represented a strategically important milestone that enhanced the company's geographic reach, operational scale, and market presence in high-growth regions across the United States and Eastern Canada. CST's network provided access to valuable customer segments and strengthened Couche-Tard's purchasing power, distribution capabilities, and brand positioning.

From a financial perspective, the acquisition was justified by projected synergies and strong post-integration earnings performance. Although the purchase price exceeded the valuation generated by a Discounted Cash Flow analysis, the premium was supported by expected cost savings and operational gains projected in the range of 150 to 215 million dollars over the integration period. These synergies were tied to economies of scale, supply chain integration, and administrative efficiencies that reinforced long-term value creation.

Post-merger performance confirmed the strategic soundness of the transaction. Couche-Tard realized synergies ahead of schedule, strengthened its return metrics, accelerated the rollout of the Circle K global identity, and preserved financial stability through disciplined integration management. The successful execution of this acquisition reinforced the company's reputation as a skilled acquirer capable of delivering growth without compromising capital discipline.

Overall, the CST acquisition enhanced Couche-Tard's market leadership, supported its global branding strategy, and delivered sustainable value to shareholders. It stands as an example of how a well-timed and strategically aligned acquisition can generate competitive advantage and long-term growth in the convenience and fuel retail industry.

## Appendices

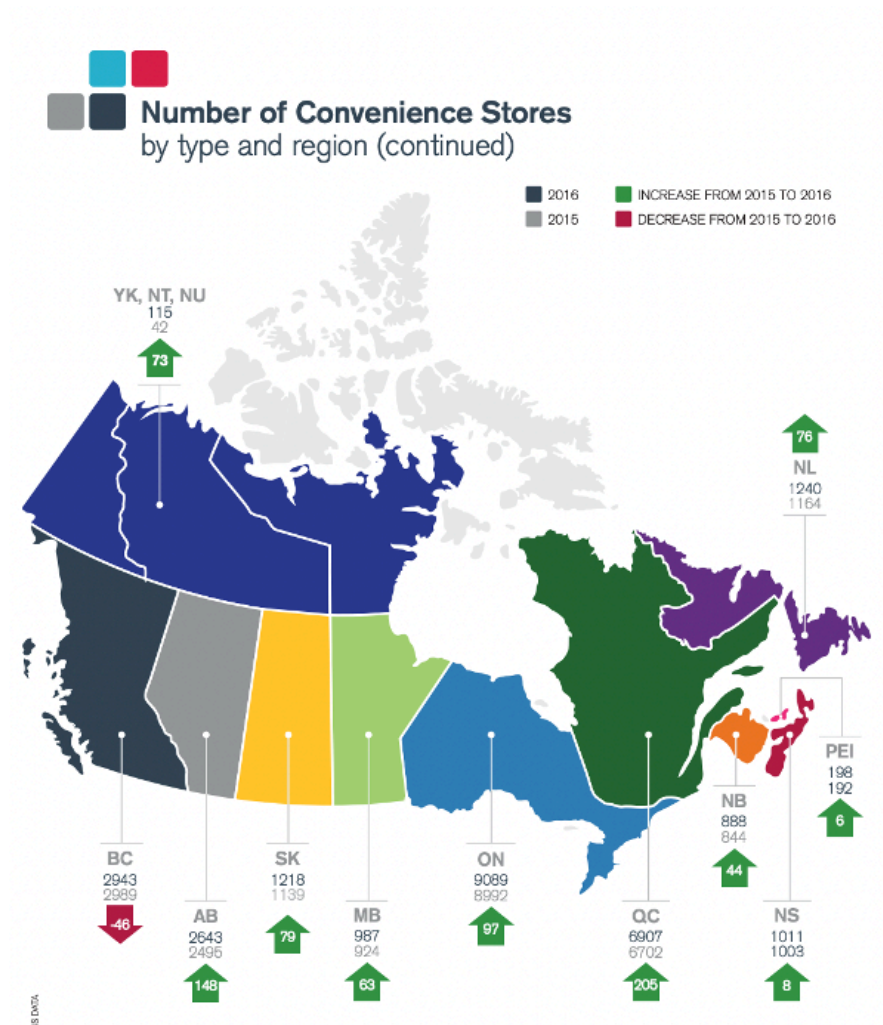
### Appendix A: United States Convenience Store Industry Snapshot

#### Industry Snapshot

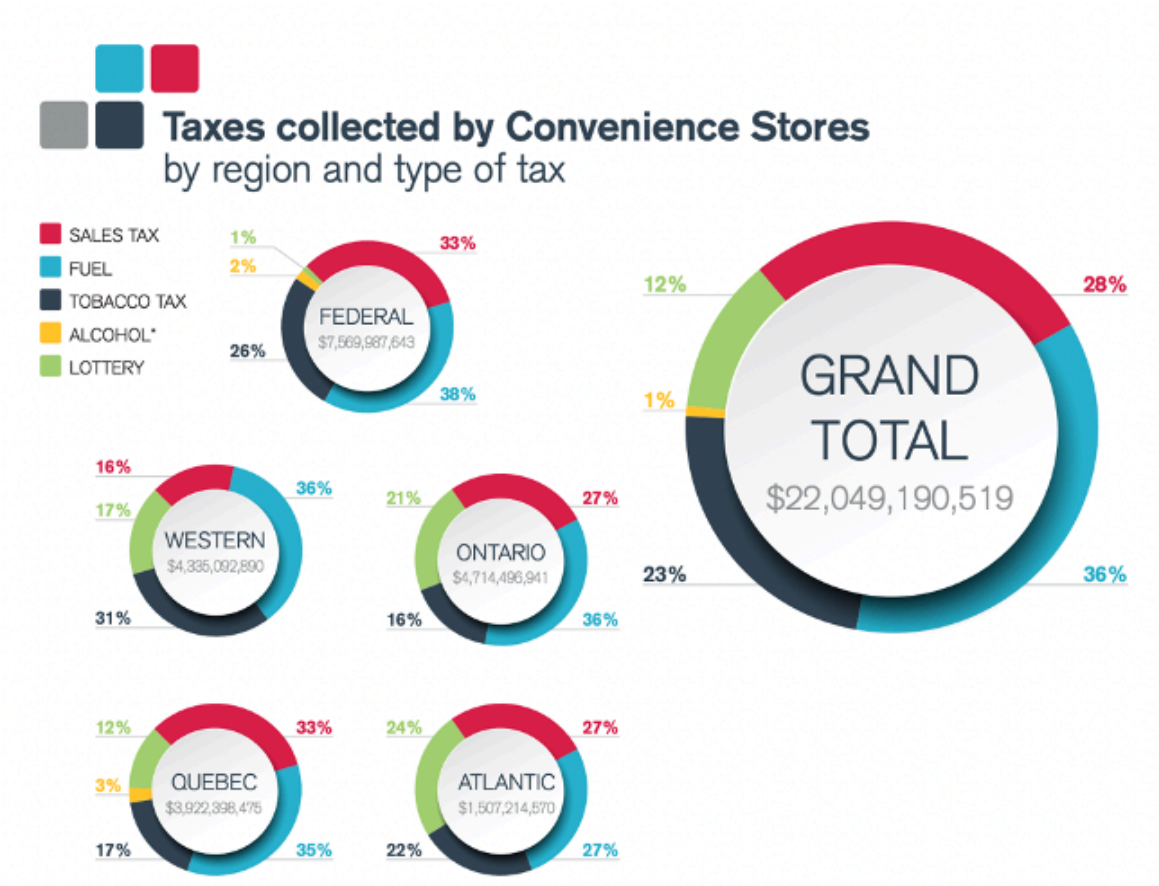
	2015	2016	% Change
<b>U.S. Store Count</b>	154,195	154,535	FLAT
<b>Inside Sales</b>	\$225.8B	\$233.0B	3.2%
<b>Fuel Sales</b>	\$349.0B	\$316.8B	(9.2)%
<b>Total Sales</b>	\$574.8B	\$549.9B	(4.3)%
<b>Pretax Profit</b>	\$10.6B	\$10.2B	(3.8)%

**Sources:** Nielsen/TDLinx; NACS; U.S. Energy Information Administration (EIA)

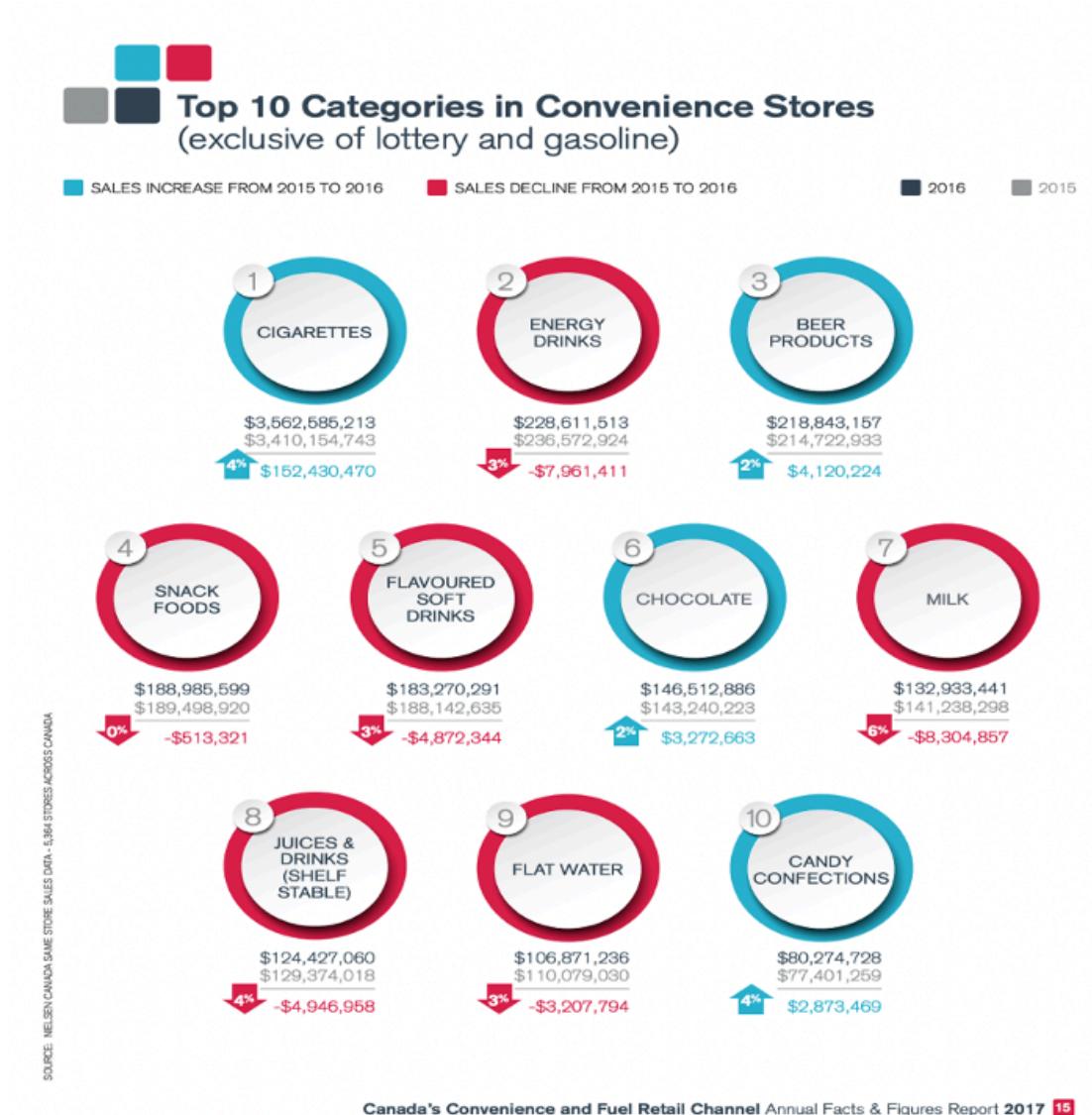
## Appendix B: Number of Convenience Stores in Canada by type and region



## Appendix C: Taxes Collected by Convenience Stores by region and type of tax



## Appendix D: Top 10 Categories in Convenience Stores (excluding lottery and gasoline)



## Appendix E: WACC

Levered beta	0.820499424
risk free rate (1 july 2016)	1.460%
ERP	5.69%
Cost of equity	6.129%
interest expense	\$58
total debt	\$1,456
pre-tax Cost of debt	3.984%
After tax cost of debt	2.439%
weight of debt	0.329739426
weight of equity	0.670260574
WACC	4.912%

## Appendix F:

Industry Name	Market D/E Ratio	Tax Rate	Unlevered Beta		Number of shares outstanding	75,615,939
Oil/Gas Distribution	53.39%	18.11%	0.71		Share market price (end of 2015)	39.14
Retail/Wholesale Food	34.84%	31.18%	0.55		Market Value of equity	\$2,959,607,852
					Book value of debt	\$1,456,000,000
Industry Name	EBIT	Weights	Unlevered Beta		CST D/E	49.196%
Oil/Gas Distribution	585	0.503442341	0.71			
Retail/Wholesale Food	577	0.496557659	0.55		<b>Levered Beta</b>	<b>0.820499424</b>
CST Brands		1	0.630550775			




## Appendix G:

Assumptions	
Revenue growth	1.0000%
EBIT Margin	2.5678%
D&A %	2.1034%
risk free rate (1 july 2016)	1.4600%
NWC %	0.4917%
CapEx %	3.4511%
g stable	2.0000%
<b>Tax Rate</b>	<b>38.7665%</b>

## Appendix H: Synergies breakdown

Year		% of synergies realized	Dollar amount	After tax amount	in millions usd	
					Discount factor	Discounted amount
	1	30%	\$45.00	\$27.56	0.953178877	\$26.26
	2	60%	\$90.00	\$55.11	0.908549972	\$50.07
	3	100%	\$150.00	\$91.85	0.866010642	\$79.54

## Appendix I: Comparables selection table

<i>COMPS</i>	<b>Murphy USA</b>	<b>Casey's</b>	<b>Sunoco</b>	<b>Dollar Tree</b> 	<b>Dollar General</b> 	<b>TravelCenters</b> 
<b>Market Cap</b>	4,698	2,531	2,944	18,131	20,909	360
<b>Enterprise Value</b>	5,478	2,956	5,397	25,363	23,833	704
<b>Net Debt</b>	780	388	1,885	7,232	2,924	174
<b>LTM Revenue</b>	12,431	8,798	10,731	12,608 (retail only)	20,020 (retail only)	5,778
<b>LTM EBITDA</b>	403	596	343	1,499 (retail)	2,258 (retail)	56
<b>Business Model</b>	Fuel + c-store	Fuel + c-store	Fuel + c-store	Retail (no fuel)	Retail (no fuel)	Truck stops + Fuel
<b>Asset Intensity</b>	Medium	Medium	Medium	Low	Low	Extremely high (real-estate heavy)

*All numbers shown are in \$US(M) from LTM before announcement*

## Appendix J: Comparable firms analysis (table)

Comparable Companies Analysis											
Company	Ticker	Market Data				Financials				Valuation	
		Share Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA
CST Brands Inc.	CST	\$39.14	76	2,960	1,142	4,619	9,510	476	149	0.5x	9.7x
Murphy USA Inc.	MUSA	\$60.74	42	2,532	388	2,956	10,731	342	116	0.3x	8.6x
Casey's	CASY	\$120.45	39	4,698	780	5,479	6,584	551	181	0.8x	9.9x
Sunoco LP	SUN	\$33.61	74	2,944	1,885	5,337	12,430	403	253	0.4x	13.2x
High										0.8x	13.2x
75th Percentile										0.6x	10.8x
Average										0.5x	10.4x
Median										0.5x	9.8x
25th Percentile										0.4x	9.4x
Low										0.3x	8.6x
CST Valuation										EV/Revenue	EV/EBITDA
Implied Enterprise Value										4,351	4,677
Net Debt										1,142	1,142
Implied Market Value										3,209	3,535
Shares Outstanding										76	76
Implied Value Per Share										\$42.45	\$46.76
Implied Value Market Cap										3,209	3,535

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