

Retail

Valuation Newsletter Q1 2015

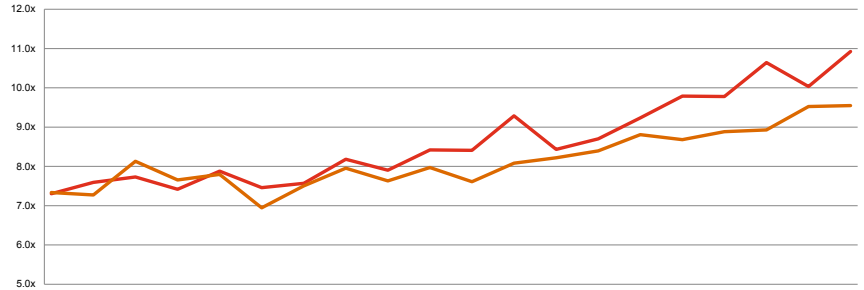
Will 2015 be the worst year for store closures?

April will mark the end of Target's Canadian operations as the last of its Canadian 133 stores closed on April 12 and as the Canadian website and twitter account were officially inactivated. Best Buy shut down all Future Shop operations leading to the closure of 66 stores in the wake of other retailers such as Sony Canada, Jacob and Mexx Canada Company.

This high rate of retail closure will challenge some malls to redefine their space and transform the big-box stores into smaller format stores.

Public market valuations: Historical Average TEV/ EBITDA multiples¹

TEV/EBITDA (North-American and Canadian companies)



	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
TEV/EBITDA Canada	7.3x	7.6x	7.7x	7.4x	7.9x	7.5x	7.6x	8.2x	7.9x	8.4x	8.4x	9.3x	8.4x	8.7x	9.2x	9.8x	9.8x	10.6x	10.0x	10.9x
TEV/EBITDA North America	7.3x	7.3x	8.1x	7.7x	7.8x	6.9x	7.5x	8.0x	7.6x	8.0x	7.6x	8.1x	8.2x	8.4x	8.8x	8.7x	8.9x	8.9x	9.5x	9.5x

TEV (Total Enterprise Value): Market capitalization + Short-term debt + Long-term debt + Preferred equity + Minority interest - Cash and equivalents
 EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization

TEV/EBITDA multiples for the North American retail sector in Q1 2015 remained stable with an average multiple of 9.5x. The TEV/EBITDA multiples for the Canadian retail sector averaged at 10.9x, based on 24 companies.

Industry	Number of companies	Total TEV capitalization (in US\$M)	Total market capitalization (in US\$M)	TEV/EBITDA								5-yr avg.
				Jun-13	Sep-13	Dec-13	Mar-13	Jun-14	Sep-14	Dec-14	Mar-15	
Apparel Retail	42	172,452	174,310	7.5x	7.3x	7.7x	7.3x	7.4x	7.4x	8.0x	8.2x	6.9x
Automotive Retail	17	136,645	100,556	9.6x	10.0x	10.0x	10.2x	11.1x	10.6x	11.4x	11.0x	10.1x
Catalog Retail	5	23,046	17,991	11.1x	10.6x	11.7x	11.1x	11.3x	11.3x	11.4x	11.0x	9.8x
Computer and Electronics Retail	9	20,211	21,115	5.8x	6.5x	6.0x	6.5x	6.4x	7.7x	7.8x	7.4x	5.9x
Department Stores	9	94,604	71,980	7.1x	6.8x	6.8x	6.6x	8.3x	8.3x	7.8x	7.8x	6.8x
Drug Retail	5	241,563	223,804	8.9x	9.4x	9.0x	11.3x	11.9x	10.9x	11.0x	12.1x	10.0x
Food Retail	22	206,226	153,349	8.3x	8.6x	8.6x	8.7x	8.9x	8.9x	9.4x	10.3x	8.2x
General Merchandise Stores	12	148,275	129,371	7.8x	8.4x	8.8x	8.8x	8.9x	10.0x	10.8x	11.4x	8.5x
Home Furnishing Retail	11	37,786	35,810	8.7x	8.3x	9.3x	8.6x	8.8x	8.0x	9.1x	8.8x	8.2x
Home Improvement Retail	6	249,447	222,709	10.5x	10.2x	10.0x	11.0x	11.0x	11.4x	13.2x	11.0x	9.6x
Hypermarkets and Super Centers	3	377,907	334,328	9.9x	10.1x	10.5x	10.1x	10.1x	10.7x	11.5x	12.6x	9.8x
Internet Retail	22	300,311	305,376	9.4x	9.7x	10.8x	11.2x	10.8x	10.7x	10.5x	10.9x	9.0x
Specialty Stores	28	86,330	78,688	8.0x	8.6x	9.8x	8.8x	8.8x	8.5x	9.4x	8.9x	8.4x
Total retail	191	2,094,802	1,869,387	8.2x	8.4x	8.8x	8.7x	8.9x	8.9x	9.5x	9.5x	8.1x
Canadian companies	24	169,716	125,319	8.4x	8.7x	9.2x	9.8x	9.8x	10.6x	10.0x	10.9x	8.6x

Source: Capital IQ and PwC analysis

¹ Companies in the Retail industry listed in United States and Canada. We have excluded outliers (TEV/EBITDA multiple below 2.0x and above 15.0x).



Performance of selected Canadian companies

(all amounts in CAD unless otherwise specified)

Company	Industry	Share price (CAD)		Market Capitalization (CADM)		Performance	TEV/EBITDA (LTM)			LTM EBITDA Margin
		Dec-14	Mar-15	Dec-14	Mar-15		Share price var.	Dec-14	Mar-15	
Le Chateau Inc.	Apparel Retail	0.80	0.51	23.97	15.28	▼ -36.3%	NM	NM	NA	-5.3%
Reitmans Canada Ltd.	Apparel Retail	7.71	6.41	488.41	407.14	▼ -16.9%	7.6x	5.7x	3.5x	6.7%
Lululemon Athletica Inc.	Apparel Retail	64.61	81.06	9,173.95	11,508.01	▲ 25.5%	17.1x	19.7x	18.6x	23.8%
AutoCanada Inc.	Automotive Retail	44.50	31.67	1,086.26	773.05	▼ -28.8%	18.3x	14.2x	14.4x	4.7%
Advent Wireless Inc.	Computer and Electronics Retail	1.69	1.19	20.17	14.20	▼ -29.6%	4.0x	0.2x	NA	7.7%
Glentel Inc.	Computer and Electronics Retail	25.19	23.61	561.59	526.79	▼ -6.3%	10.1x	10.7x	8.2x	3.3%
Sears Canada Inc.	Department Stores	11.24	11.72	1,145.11	1,194.01	▲ 4.3%	NM	NM	NM	-3.9%
Hudson's Bay Company	Department Stores	24.56	26.22	4,472.38	4,774.66	▲ 6.8%	16.0x	16.7x	12.8x	7.2%
The Jean Coutu Group	Drug Retail	28.31	27.07	5,284.46	5,071.99	▼ -4.4%	15.9x	15.4x	13.9x	12.0%
Liquor Stores NA Ltd	Food Retail	15.40	14.56	419.28	397.00	▼ -5.5%	15.9x	13.0x	11.1x	5.4%
North West Company Inc.	Food Retail	26.20	25.03	1,268.89	1,212.23	▼ -4.5%	10.7x	10.1x	9.0x	8.4%
Empire Company Limited	Food Retail	87.62	88.31	8,090.14	8,136.19	▲ 0.8%	8.7x	8.4x	7.9x	5.2%
Metro Inc.	Food Retail	31.10	34.32	7,855.95	8,630.50	▲ 10.4%	10.9x	11.7x	11.9x	6.8%
George Weston Limited	Food Retail	100.35	100.32	12,850.32	12,831.03	▶ 0.0%	11.5x	12.8x	8.5x	5.8%
Alimentation Couche-Tard Inc.	Food Retail	48.69	50.47	27,782.18	28,787.92	▲ 3.7%	15.7x	13.3x	12.8x	5.0%
Loblaw Companies Limited	Food Retail	62.17	61.92	25,665.45	25,540.82	▼ -0.4%	15.1x	12.4x	10.3x	7.0%
Dollarama Inc.	General Merchandise Stores	59.40	70.80	7,808.19	9,173.78	▲ 19.2%	19.2x	21.3x	18.6x	19.5%
Canadian Tire Corp. Ltd.	General Merchandise Stores	122.74	129.03	10,022.88	10,355.88	▲ 5.1%	11.1x	11.2x	10.1x	10.2%
BMTC Group Inc.	Home Furnishing Retail	16.01	15.56	720.21	698.55	▼ -2.8%	10.2x	10.5x	9.9x	9.1%
Leon's Furniture Ltd.	Home Furnishing Retail	17.90	14.61	1,271.74	1,039.06	▼ -18.4%	9.7x	8.9x	8.3x	8.1%
Rona Inc.	Home Improvement Retail	13.85	16.20	1,606.48	1,748.92	▲ 17.0%	11.2x	11.0x	8.2x	4.7%
easyhome Ltd.	Specialty Stores	20.06	20.36	267.40	273.52	▲ 1.5%	10.0x	10.2x	7.1x	14.9%
Indigo Books & Music Inc.	Specialty Stores	11.90	11.82	302.22	301.35	▼ -0.7%	93.8x	1.5x	0.5x	1.0%
New Look Eyewear Inc.	Specialty Stores	22.19	28.45	294.18	378.75	▲ 28.2%	14.8x	17.3x	13.3x	18.2%

NTM: Next twelve months

LTM: Last twelve months

NM: Not meaningful

NA: Not applicable

Source: Capital IQ and PwC analysis

The Canadian apparel retail sector is experiencing challenges. Over the last year, Jacob Inc. and Mexx Canada Company filed for bankruptcy, Reitmans Canada Ltd. dropped its Smart Set banner, and Le Château Inc. continued to underperform.

Le Château Inc.

Share price decrease: -36.3%

Despite the release of "After the ball" a romantic comedy featuring Le Chateau' clothing collection, the market continues to sell-off Le Chateau. Its share price decreased by 36% during the last quarter. During the past year, the Company's share price has dropped by 83%. Meanwhile, the Company continues to seek financing for its new concept renovation program in place since 2011. On April 1, 2015, the Company announced that it had entered into an agreement with related parties for a \$5M loan.

Lululemon Athletica Inc.

Share price increase: 25.5%

Lululemon continued its positive momentum. The Company reported an increase in revenues of 16% to \$602.5M in Q4 from 521M for the same quarter last year. Gross profit as a percentage of revenues decreased slightly to 51.5% from 53.5% for the same quarter last year. During Q4, the Company repurchased 400k of its common stock at an average price of \$43.30/share. Comparable store sales increased by 5% and direct to consumer sales increased by 20% compared to the same period last year. The Company opened 13 new stores during the quarter for a total of 302 stores. On January 11, 2015, the Company entered into a license and supply agreement with a partner in the Middle East which gives it the right to operate Lululemon branded retail locations in the United Arab Emirates, Kuwait, Qatar, Oman and Bahrain during five years.

AutoCanada Inc.

Share price decrease: 28.8%

AutoCanada operates 48 dealerships in eight provinces. Last year, AutoCanada's share performance was stellar driven by acquisitions and strong organic growth. The share price increased to a high of \$91.72 in June 2014 but is now trading at its 52-week low. During the last quarter, the Company's share price has been strongly impacted when management announced that Q1 2015 results will be significantly lower than forecasted as a result of declining consumer confidence and job losses in Alberta amid lower oil prices as well as harsh winter conditions across Eastern Canada. The Company is also still facing the costs of integrating the 17 dealerships that were acquired in 2014.

Advent Wireless Inc.

Share price decrease: 29.6%

Advent Wireless Inc. is an independent specialty retailer of personal wireless and wireline communication products and services. The Company carries Rogers and Fido products. During Q4 2014, the Company's share price benefitted from the Glentel / Bell transaction and increased by 33%. The recent decrease in price reflects the volatility inherent to companies with very small capitalization (\$14 million capitalization as at March 31, 2015).

Dollarama Inc.

Share price increase: 19.2%

Dollarama posted another strong quarter. Sales increased by 15% to \$669M compared to the same period last year. Same store sales increased by 8.5% due to increased traffic and transaction size. Dollarama reported an increase in sale of holiday merchandise. Gross margin increased to 38.8% due to operating leverage and efficiency amidst a weakening Canadian dollar. Dollarama was able to increase by \$0.25 a majority of its products in order to compensate for foreign exchange losses. Products with a price from \$1.25 to \$3 now represent 71.5% of sales. Dollarama opened 27 new stores, and revised its total store count target from 1,200 to 1,400. Between 70 and 80 stores are expected to be opened in fiscal year 2016. Dollarama continues its share buyback program and also announced a 12.5% increase in its annual dividend to \$0.36/share. The Company expects to install Wi-Fi and mobile scanning technology in its stores during fiscal year 2016 which should decrease check-out times and improve inventory management.

New Look Eyewear Inc.

Share price increase: 28.2%

New Look reported strong results for the year ended December 27, 2014 with a growth of 54% in revenues and increased EBITDA margin from 16.9% to 18.2%. This growth has been driven by the recent acquisitions of Vogue Optical in December 2013 (65 stores) and Greiche & Scaff in October 2014 (49 stores) as well as same-store orders increase by 4.4%. The Company is now the second largest optical retailer in Canada with 192 stores.

Leon's Furniture inc.

Share price decrease: 18.4%

Leon's reported higher revenue (+16.5%) however the Company is struggling to maintain its profitability margins. EBITDA margin continue declining year-over-year from 13% in 2011 to 9% in 2013 and 8% in 2014. The recent decrease in share price is most probably due to the investors anticipating the impact of tougher market conditions in Western Canada (a fifth of Leon's stores are located in Alberta) and of the weakening of the Canadian dollar on 2015 financial results.

Rona Inc.

Increase in share price: 17.0%

RONA reported a second consecutive quarter of positive same-store sales growth after four years of same-store sales decline, with a growth of 6.0% and an increase in distribution sales to dealers of 9.3%. The re-positioning of the Reno-Depot stores in Quebec, the improvements made at RONA totem stores in Alberta and growth of installation sales has helped contribute to the growth. The expansion of the banner is expected in Alberta and Ontario during 2015. Atlantic Canada had the poorest performance. The economy remains challenging with the weakening of the Canadian dollar, and there is tough competition in the industry. RONA has adopted cost cutting initiatives and closed underperforming stores over the last two years. The Company bought 5.4M shares at an average price of \$13.46/share.

Update of other store closures

Target Canada Co.

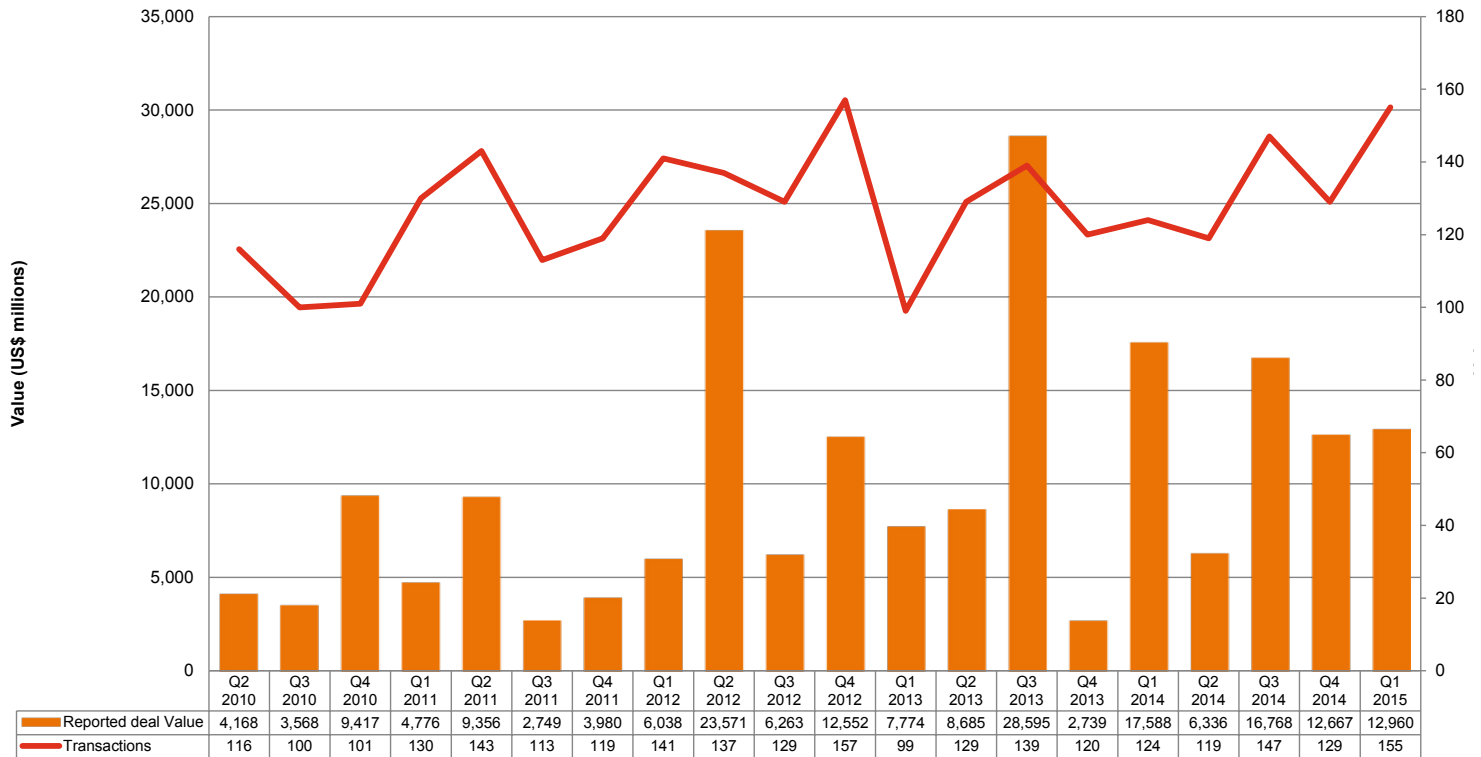
The Company was granted protection under the Companies' Creditors Arrangement Act with the Ontario Superior Court of Justice on January 15, 2015.

The final store closures occur amid controversy surrounding a \$1.9 billion intercompany claim owed by Target Canada to Target Canada Property LLC, the entity that financed leasehold improvements. The termination of the sublease agreement triggered the termination payment of \$1.9 billion.

Future Shop

On March 31, 2015, Best Buy Canada announced its intention to close 66 of its Future Shop stores and to rebrand the other 65 under the Best Buy banner. Best Buy has suffered recently from the lack of differentiation between its two banners as well as the changing consumer habits. Increasingly consumers relied on brick-and-mortar stores as showrooms before actually buying products online.

Quarterly deal trend



Source: Capital IQ

Recent transactions

Surprisingly Q1 2015 remained strong compared with a record number of 155 transactions (second best quarter in the last 20 quarters, previous record of 157 transactions in Q4 2012).

- On March 28, 2015, Switzerland's **Dufry AG** made an offer to acquire World Duty Free, an Italian company controlled by the holding company owned by the Benetton Family. **Fidelity Investments**, a U.S. mutual fund is one of the major institutional shareholders and holds approximately 10% of equity interest in the Company. The Enterprise Value is estimated at €3.6 billion and the price offered represent approximately a **13x EV/EBITDA** multiple.
- On February 20, 2015, **Berkshire Hathaway inc.** announced that it had agreed to buy German motorcycle apparel and accessories retailer **Detlev Louis Motorrad-Vertriebs GmbH** for approximately €400 million. According to Warren Buffett, Europe offers good transaction opportunities despite its problems.
- Expedia Inc.** entered into a definitive agreement to acquire **Orbitz Worldwide, Inc.** for \$1.4 billion on February 12, 2015, representing an implied EV/EBITDA multiple of **12.0x**. This acquisition will

strengthen Expedia's customer base and expand its workforce of well-needed programmers, marketers and designers. This acquisition is the latest in a series that has seen the two rival companies, **Priceline** and Expedia, spend billions in the last two years to consolidate the market. Expedia bought Travelocity in January (\$280 million), Wotif Group which manages Hotels.com and Hotwire (\$660 million) in November 2014 and Trivago in 2013 (\$632 million for 62% stake) whereas Priceline acquired OpenTable in June 2014 for \$2.6 billion and Kayak for \$1.8 billion back in 2012.

- The most important announcement of the quarter occurred on February 4, 2015 when **Staples** announced that it will acquire **Office Depot**, in a deal estimated at **\$6.3 billion**, eighteen years after their first attempted merger. Ron Sargent, Staples chairman and CEO commented that the deal is expected to generate "at least \$1 billion of synergies as we aggressively reduce global expenses and optimize our retail footprint." Analysts expect that store closures in addition to existing store closure plan will occur following the approval of the proposed deal by authorities. 400 locations are already scheduled to be closed by Office

Depot following its integration of Office Max acquired in 2013 for \$1 billion.

- On February 3, 2015, **Macy's Inc.** announced its acquisition of **Bluemercury, Inc.** for \$210 million in cash. The Company presents itself as a high-growth luxury beauty retail chain, e-commerce provider and cosmetics brand developer. It owns 60 specialty stores as well as online businesses.
- On a much smaller note, on March 24, 2015, **Boutique La Vie en Rose Inc.** agreed to acquire substantially all assets of **Groupe Bikini Village Inc.** for \$3.8 million. As part of transaction, La Vie en Rose will keep 48 stores under the Bikini Village banner but will close its four liquidation outlets, all in Quebec. La Vie en Rose plans to expand Bikini Village stores across Canada and abroad. Bikini Village filed for creditor protection under the Bankruptcy and Insolvency Act in February 015.

**Q1 2015: 90 days,
155 transactions,
\$12.96 billion in total
reported deal value for
34 transactions**

Your valuation specialists: Independent. Experienced. Objective.

We provide valuations, fairness opinions, loss quantification, expert testimony and business modelling to help individuals, companies and their counsel.

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