IFRS 16
INFORMATION SESSION

Alimentation Couche-Tard

August 13, 2019

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Forward-looking statements

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Non-GAAP financial measures and metrics

There are measures and metrics included in this IFRS 16 information presentation, such as EBITDA, adjusted EBITDA, adjusted earnings per share and free cash flow that do not have a standardized meaning under generally accepted accounting principles (“GAAP”) and therefore may not be comparable to similarly titled measures and metrics presented by other publicly traded companies. The Company includes these measures and metrics because it believes certain investors use these measures and metrics as a means of assessing financial performance.

For a complete description of Couche-Tard’s non-GAAP financial measures and metrics, please see Couche-Tard’s MD&A for the year ended April 28, 2019.

KEY MESSAGES

IFRS 16 has no impact on:

- Alimentation Couche-Tard's strategy and financial framework.
- Cash available and free cash flows.
- Leverage capacity.

IFRS 16 has an impact on:

- Alimentation Couche-Tard's consolidated financial statements:
  - increase in both total assets and liabilities of $2.4B to $2.8B recognized on opening balance sheet as at April 29, 2019;
  - improvement in annual EBITDA of $400M to $430M;
  - negative impact on annual net earnings of $20M to $40M.
- Certain financial KPIs such as debt leverage ratios and ROCE.

KEY PRINCIPLES

Income Statement

- Straight-line operating lease rental expense replaced by:
  - depreciation on right of use asset, straight-lines over lease term;
  - interest charge on lease liability which reduces over lease term.
- Over the life of any lease, the total charge to the income statement is the same as total cash rent paid both pre- and post-IFRS 16.
- Operating profit increases as the rental charge is removed from operating expenses and only partly offset by depreciation.
- However, the impact on earning before income taxes and net income depends on lease maturity:
  - IFRS 16 is dilutive to net income at the beginning of a lease and accretive at the end of a lease, as interest charge is higher in the earlier years and reduces over time.

Balance Sheet

- At the inception of a lease, an asset (ROUA) and a liability (lease liability) are created:
  - lease liability equal to present value of future payments;
  - ROUA equals lease liability (with some exceptions).
- Over the lease term, the asset and liability differ in value:
  - ROUA depreciates on a straight line basis;
  - lease liability decreases by cash rental payments, net of interest charged (which reduces over time).
- Asset and liability are also revalued following:
  - non-predetermined changes in rent (CPI clauses, renegotiations, etc.);
  - reassessment of lease term.

Cash Flow Statement

- Part of lease payment that represents principal portion:
  - cash flow resulting from financing activities.
- Part of lease payment that represents interest portion:
  - operating cash flow.
- Payments for short-term leases, for lease of low-value assets and variable lease payments not included in lease liability:
  - operating cash flow.

OUT OF SCOPE ITEMS AND EXCEPTIONS

Out of scope under new standard:

- Variable payments that do not depend on an index or a rate (e.g. payments based on performance, sales, volume, etc.).

Exceptions under new standard:

- Payments for rent of low value assets.
- Payments for short term leases (i.e. < 12 months).

These costs are not expected to be significant and will be recognized in earnings as they are incurred.

OUR APPROACH TO THE IFRS 16 TRANSITION

We have elected to use the cumulative catch-up approach with simplified ROUA.

Transition approach in F/S:

- No restatement of prior periods financial information.
- The ROUA is not recalculated and is equal to the lease liability at transition.
- Existing balance sheet items related to lease accounting (e.g. deferred charges, prepaid rent, etc.) are reclassified against or in addition to the ROUA.

Transition approach in MD&A:

- Annual and quarterly summary of estimated impact on significant line items.
  - our methodology estimates the impact based on actual FY’19 rent and projected FY’20 interest and depreciation.
- Adjustment of certain FY’19 key measures to ease analysis and comparability.

HIGH LEVEL IMPACTS OF IFRS 16

Balance Sheet	
Assets	↑
Liabilities	↑

Income Statement	
Rent expense	↓
Depreciation expense	↑
Interest expense	↑
Earnings before income taxes	↓
EBITDA	↑
EBITDAR	=

Statement of Cash Flows	
Cash flows provided by operating activities	↑
Cash flows provided by financing activities	↓

Performance Ratios	
Return on equity	=
Return on capital employed	↓
Leverage ratio	↑
Adjusted leverage ratio	↓

ESTIMATED IMPACT ON INCOME STATEMENT

	for the 52-week period ended April 28, 2019					
(in millions of US dollars)	Pre-IFRS 16 (as reported)	Exclude: rent under IAS 17	Include: depreciation and interest	Other[1]	Total estimated IFRS 16 adjustments	Post-IFRS 16
Revenues	**59,117.6**	**-**	**-**	**40**	**40**	**59,157.6**
Cost of sales	49,922.7	-	-	-	-	49,922.7
Gross profit	**9,194.9**	**-**	**-**	**40**	**40**	**9,234.9**
Operating, selling, administrative and general expenses	5,646.1	(405)	-	30	(375)	5,271.1
Restructuring costs	10.5	-	-	-	-	10.5
Gain on disposal of P&E and other assets	(21.3)	-	-	-	-	(21.3)
Depreciation, amortization and impairment of right-of-use asset, property and equipment, goodwill, intangible assets and other assets	1,070.7	(20)	395	-	375	1,445.7
Total operating expenses	**6,706.0**	**(425)**	**395**	**30**	**-**	**6,706.0**
Operating income	**2,488.9**	**425**	**(395)**	**10**	**40**	**2,528.9**
Share of earnings of joint ventures and associated companies accounted for using the equity method	23.4	-	-	-	-	23.4
Financial expenses	338.7	(20)	95	-	75	413.7
Financial revenues	(13.3)	-	-	-	-	(13.3)
Foreign exchange gain	(5.3)	-	-	-	-	(5.3)
Net financial expenses	**320.1**	**(20)**	**95**	**-**	**75**	**395.1**
Earnings before income taxes	2,192.2	445	(490)	10	(35)	2,157.2
Income taxes	370.9	105	(115)	5	(5)	365.9
Net earnings including non-controlling interests	**1,821.3**	**340**	**(375)**	**5**	**(30)**	**1,791.3**
Net loss attributable to non-controlling interests	12.6	-	15	(15)	-	12.6
Net earnings attributable to shareholders of the Corporation	**1,833.9**	**340**	**(360)**	**(10)**	**(30)**	**1,803.9**

[1] Related to the treatment of sub-lease contracts and accounting for lessors under IFRS 16.

ESTIMATED IMPACT ON BALANCE SHEET

(in millions of US dollars)	Balance, as at April 29, 2019	Adjustments due to adoption of IFRS 16	Adjusted balance, as at April 29, 2019
Assets			
Current assets			
Prepaid expenses	$83.7	(30)	$53.7
Property and equipment	11,129.9	(305)	10,824.9
Right-of-use assets	--	3,025	3,025.0
Intangible assets	944.4	(105)	839.4
Other assets	306.6	25	331.6
Total assets	**22,607.7**	**2,610**	**25,217.7**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3,917.1	5	3,922.1
Current portion of lease liabilities	--	405	405.0
Current portion of long-term debt	1,310.7	(40)	1,270.7
Long-term debt	5,640.7	(285)	5,355.7
Lease liabilities	--	2,705	2,705.0
Deferred credits and other liabilities	349.0	(160)	189.0
Total liabilities	**13,426.6**	**2,630**	**16,056.6**
Equity			
Retained earnings	9,053.5	(20)	9,033.5
Total equity	**9,181.1**	**(20)**	**9,161.1**

ESTIMATED IMPACT ON OTHER FINANCIAL METRICS

(in millions of US dollars, except EPS)	for the 52-week period ended April 28, 2019		
	Pre-IFRS 16 (as reported)	Total estimated IFRS 16 adjustments	Post-IFRS 16
EBITDA	$3,583.0	$415	$3,998.0
Adj. EBITDA	3,520.0	415	3,935.0
Net earning attributable to shareholders of the Corporation	1,833.9	(30)	1,803.9
Adj. net earnings attributable to shareholders of the Corporation	1,874.0	(30)	1,844.0
EPS	$3.25	($0.06)	$3.19
Adj. EPS	$3.32	($0.06)	$3.26

WHAT TO EXPECT GOING FORWARD

Q1 2020 documents will include:

- Balance sheet for Q1 2020 including ROUA and lease liability.
- Notes to consolidated financial statements presenting:
    - impact on opening balance sheet as at April 29, 2019;
    - reconciliation of lease obligation to operating lease commitments disclosed as at April 28, 2019.
- Annual and Q1 estimated impact of IFRS 16 on key measures in MD&A.

Other item to consider:

- Impact on earnings before income taxes is not linear and should decrease as we move through the year.

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