

BMP Blackmore Partners

LIQUOR RETAIL CHAIN ALBERTA CANADA

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1. Executive Summary
2. Company Overview
3. Post-acquisition Value Creation
4. Projections
5. Market – Regulatory Environment
6. Market – Growth & Competition
7. Risk Mitigation & Opportunities
8. Management Team
9. Contact.

Blackmore Partners has partnered with a highly accomplished retail executive on an investment thesis in the Liquor Retail industry.

Target Company: founded in 1997, the company is one of the largest independent private Wine & Spirit retail chains in Alberta, with highest sales per square foot. The company generates \$95M CAD revenue and \$6.2M CAD EBITDA, and consists of 22 mature stores, 14 newly opened stores, 8 new stores opening March-May 2016, and additional 22 stores to be fixtured between March and November 2016.

Market: The company is located in Alberta, the only province in Canada that has a fully privatized retail distribution system for adult beverages. The Alberta Gaming and Liquor Commission (AGLC) regulates liquor in the province. Based on the AGLC performance data, **the Alberta's liquor retail market experienced well- above GDP growth rate in 2014-2015:** AGLC liquor sales has increased by 5.7%, reaching \$2.5B CAD. Due to the collapse of oil prices and a drop in energy investment, certain geographic locations, such as Fort McMurray and Grande Prairie, have experienced a decline in liquor sales. **The Liquor industry is relatively recession-proof: during economic downturns the sale of lower-priced products increases.**

Key Value Creation opportunities to achieve \$195M Revenue and \$20M EBITDA by 2020.

- Aggressive marketing for the mature and new stores
- Gradual targeted pricing strategy
- Launch and growth of a digital platform
- Operational improvements
- Addition of 10 Super Store concept locations.

Executive: CEO with 25-year tenure as a Senior Retail Executive: COO of a \$2.2 billion Canada firm, President of a 64-store international retail chain, Vice President of six operational divisions with 34 retail locations, Regional Vice President of Canada's largest discount retail chain, and a Board Member of two international retail organizations. Accomplishments include: (a) grew a 34 store retail chain to 64 stores in Canada & the US through expansion, re-location, and acquisitions; (b) increased the retail chain revenue from \$205M to \$800M; (c) increased same store sales from \$205M to \$410M in less than 4 years, as well as increased profit from \$2.5M to \$30M during the same period.

Company Overview

The company is one of the **largest independent private Wine & Spirit retail chains in Alberta, with one of the highest sales per square foot in the marketplace.**

The target customer segment is low to mid income. Retail sales include liquor, wine, and beer of well-known brands focused on a low price proposition. The company operates under a well-recognized and established brand, competing on location, convenience, and price.

2015 Financials in CAD	
Revenue	95M
EBITDA	6.2M
Mature Stores	22
Newly opened stores	14
New Stores to open March - May 2016	8
New Stores with Fixturing in March - November 2016	22

Comparison	Company	LIQ	RUM
Gross Margin	18%	20%	21%
EBITDA Margin	6.5%	5.5%	4.1%
Average Revenue/Store	4.3M	3M	1.1M
Average EBITDA/Store	273,000	164,000	47,000

The company achieves significantly higher revenue/EBITDA per store and per square foot, with higher inventory turnover when compared to two public companies in the space: Liquor Stores NA Ltd (LIQ, clear market leader) & Rocky Mountain Liquor Inc. (RUM).

The seller confirms that by 2018 the new locations will achieve equivalent revenue/EBITDA as the mature stores.

The company is an attractive target because it outperforms the market share leader on both revenue and profitability. The target is poised to capture significant additional market share through Alberta's economic downturn and recovery due to its competitive pricing and lower SG&A expenses.

The company with its 66 stores is expected to dominant in the private operator market.

Post-acquisition Value Creation (1 of 3)

Post-Acquisition, the company will utilize experienced management, predatory pricing, enhanced technology, strategic procurement, and superstore concept as part of a **strategic platform to create Alberta's largest independent wine and spirit company.**

Value Creation initiatives include:

ORGANIC GROWTH & PROFITABILITY IMPROVEMENT OF 22 MATURE STORES

- **Aggressive marketing plan & predatory pricing.** Focus on price proposition to capture shifting customer needs to consumer price sensitivity through economic downturn.
- **Procurement strategy** designed to deliver basis for revenue goals:
 - introduce private label product targeting 10% of revenue
 - achieve 100% in-stock for top 100 sku's based on government provided statistics
 - create centralized model for procurement and pricing
- **In-store display strategy.** Exploit price proposition with:
 - price point ends, "point of purchase" material, products identified by wine ratings, wine rated specific end caps, competitive pricing
 - bulk merchandising displays, add on sales programs, bundling of products.
- **Gradual targeted price strategy** to increase gross margin % to targeted levels.
- **Management bonus plans** based on company defined annual budgets:
 - 20% revenue, 20% gross margin control and 60% EBITDA. Promotional spiff incentives for all eligible staff.
- **"Fine Tune" operations** by improving store layout, product offerings, promotions, tailoring price points and improving inventory management.

Post-acquisition Value Creation (2 of 3)

STABILIZATION AND ORGANIC GROWTH OF 23 NEW STORES

- **Aggressive marketing** of the new locations
- **Aggressive pricing** for the first 6 months; introduction of “we beat all competitor pricing”
- **Exceptional customer service**
- **Case lot purchase pricing** strategy
- **Target specific competition** based on government store specific data and in-store price comparison
- **“Fine Tune” overall network operational** effectiveness and inventory management.

LAUNCH AND GROWTH OF A DIGITAL PLATFORM

E-commerce is very undeveloped in Alberta’s liquor industry and presents a unique opportunity to exploit digital marketing and sales to further expand the retail network.

Establish e-commerce site to build brand and create omni-channel opportunity:

- Leverage social media to promote price specials and offers while building digital customer database (such as one day only specials; bulk purchase offers and similar)
- Bundle products and leverage price discrimination techniques focused on driving loyalty
- Differentiate digital pricing and offers from that of bricks & mortar
- Offer wider assortment online than in bricks & mortar locations
- Offer online purchase with in-store pick up or delivery options
- Achieve equivalent revenue of ten stores through e-commerce
- Introduce **“Amazon” concept** for on-line purchasing/delivery of product in a specific window.

Post-acquisition Value Creation (3 of 3)

NETWORK EXPANSION WITH TEN SUPERSTORE CONCEPTS

Superstore concepts, such as the “Total Wine” concept in the US, is a significant opportunity in Alberta as very few such stores exist.

- Large footprint stores with low pricing is a major opportunity to reach a diverse customer base and capture both price sensitive consumers, as well as those with less price sensitivity.
- As Alberta’s market recovers, the superstores can differentiate products and prices within the footprint to be relevant to shifting customer needs while gaining higher margins on key products such as craft beer.
- The superstore concept will differentiate the company from its competitors creating a market place advantage.
- **Add 10 Super Store concept stores in key locations** to generate additional EBITDA of \$12,000,000.

Financial Projections

Post-acquisition, management forecasts doubling revenue in under five years, with EBITDA CAGR of 28%.

<i>(in MM CAD)</i>	2015	2016	2017	2018	2019	2020	CAGR
Revenue							
Mature Stores		97.9	100.8	104.0	107.0	110.0	
Newly Opened Stores		34.0	44.0	55.0	61.0	65.0	
Digital Platform		6.0	9.0	12.0	16.0	20.0	
Total	95.0	137.9	153.8	171.0	184.0	195.0	
Y/Y Change		45%	12%	11%	8%	6%	15%
Gross Margin		18%	20%	21%	22%	23%	
Mature Stores		17.6	20.2	22.0	24.0	25.0	
Newly Opened Stores		6.1	8.8	12.0	13.5	14.5	
Digital Platform		1.2	2.0	2.7	3.6	4.5	
Total	17.1	24.9	31.0	36.7	41.1	44.0	
Y/Y Change		46%	24%	18%	12%	7%	21%
EBITDA Margin		7.4%	8.1%	9.2%	10.1%	10.5%	
Mature Stores		7.1	8.1	9.4	10.7	11	
Newly Opened Stores		2.5	3.5	5	6.1	7	
Digital Platform		0.6	0.9	1.4	1.8	2.4	
Total	6.0	10.2	12.5	15.8	18.6	20.4	
Y/Y Change		70%	23%	26%	18%	10%	28%

This does not include additional EBITDA of \$12,000,000 from 10 Super Store concept stores.

- **Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages.**
- Retail liquor stores are regulated both by the Alberta Gaming & Liquor Commission (AGLC) and by local municipalities.
- The AGLC is responsible for reviewing applications for liquor licenses, ensuring that proposed business meets the requirements of the Gaming and Liquor Act, and the associated Gaming and Liquor Regulation.
- The AGLC also regulates how the business operates by putting conditions on each business, dependent upon the circumstances surrounding each application. The AGLC enforces operation guidelines that limit the hours of operation, establish licenses fees, minimum distance between stores, and govern advertising, etc. All staff at licensed facilities are required to complete the AGLC's ProServe training program.
- AGLC is the primary purchaser of all alcohol on behalf of the licensed agents:
 - Wholesale prices are uniform to all licensees regardless of quantity purchased
 - Warehouse and delivery fees are uniform to all licensees regardless of distance from the distribution center.
- In addition, each municipality has the ability to regulate alcohol sales through its Land use Bylaw (LUB). Municipal regulations can establish the zoning districts where liquor stores can operate, separation distances between liquor stores and other uses (schools, parks), or regulate maximum size of stores in certain areas, as well as provide more specific direction around safety and security measures to incorporate into liquor store developments.
- The current regulatory environment in Alberta limits the potential competitive advantages of large scale retailers by, among other things, requiring liquor stores to be operated as a separate businesses; by prohibiting the sale of liquor in stores selling other goods; by requiring all retailers to pay the same wholesale price; and by a uniform "postage stamp" delivery charge.

MARKET GROWTH

AGLC performance data indicates the market growth rate is well above GDP growth. The number of private retail liquor stores in Alberta has increased by 9.4% over the past 4 years, it is continuing to increase at an average annual rate of approximately 2.25%, with the volume growth of 5.7% in the 2014-2015 period.

AGLC Performance Data as of 3/21/2015	Period 2014-2015	Change from 2013-2014
Liquor Licenses	8,627	1.6%
Private Retail Liquor Stores	1,368	2.9%
Liquor Sales by Type (in CAD thousands)	2,540,264	5.7%
Liquor Sales by Volume (in hectolitres, hL)	3,802,199	3.2%

Competition exists mainly on a local basis with the main competitive factors being location, convenience, price and service. The company competes with Liquor Stores' 173 stores under the Liquor Depot, Liquor Barn, and Wine and Beyond brand names in Alberta.

Additionally, the company competes with local single store operators, other local and regional chain operators, and liquor stores associated with national and regional grocery store chains.

MARKET LEADER

The clear market leader is Liquor Stores N.A. Ltd.. As of March 2015, it operates 173 stores in Alberta (out of the total of 244 stores). It's stock is trading at an all-time low due to: 1) same-stores sales drop of 0.9% primarily due to slower sales in oil-economy areas: Fort McMurray and Grande Prairie, while same-store sales continued to grow in Edmonton and Calgary; 2) Recent provincial increases in income and corporate taxes, and liquor tax; 3) Concerns about the potential for a dividend cut, however, the company paid its usual monthly 9 cent dividend on 12/15/2015.

Risk Mitigation & Opportunities

Risk	Mitigating Activity	Opportunity
Economic	Predatory pricing, aggressive marketing campaigns; Negotiate lowered leasehold costs; Well managed SG&A	Poised to expand network at market lows; strong value buy in USD which is currently strong against CAD \$. Further expand company through new locations, superstore concept and potentially mergers & acquisitions.
Competition	Aggressive marketing will place pressure on single and small multi-owned operators	Smaller operators unable to compete with a lower margin operator, leaving available market share / consolidation opportunities for the company.
Technological	Enhanced technology to create e-commerce platform and social media strategy.	Develop digital program to capitalize on under-developed e-commerce marketplace drive significant revenue and profit.
Regulatory	Current regulatory policies in place since 1993. Recent increase to wholesale prices. Strategic procurement strategies to support low prices while increasing margin on private label products.	Companies with higher margins and higher SG&A costs will be challenged to compete as wholesale costs rise.
New Stores	Capitalize on shifting consumer preferences for lower cost products	Expand market share; New locations drive new revenue and profit while maintaining low SG&A.

Management Team

NEW CHIEF EXECUTIVE OFFICER

Blackmore has partnered with a highly accomplished Senior Retail Executive with 25 years of industry experience, who provides the vision, industry expertise and will execute the post-acquisition value creation plan as the company's CEO.

Through an extensive career, the Executive excelled in driving growth and profitability, operational and fiscal excellence, strategic diversification, digital and Omni-channel management, and aggressive expansions that turned around negative profit companies and divisions into rapidly profitable/cash flow rich organizations.

Career Highlights

- President of Wholesale Sports Canada/United States a \$800m retail chain in Canada and the USA, negotiated the purchase of two separate organizations and merged them into a single, branded organization
- Chief Operating Officer Retail for United Farmers of Alberta a \$2.2 billion Canadian firm. This included International stores located in the United States.
- Vice President United Farmers of Alberta a \$400m Retail chain led the opening/re-model/re-location of 34 stores.
- Regional VP for Zellers Canada
- Regional VP for Kmart Canada
- Board of Director – Universal Coop – Minneapolis, Minnesota
- Board of Director - Wholesale Sports Canada and USA. Calgary and Seattle, Washington

Key Accomplishments

- Track record of turning loss companies and underperforming divisions into highly profitable organizations
- Considerable experience in M&As, having delivered five acquisitions and integrations.
- Turned a 34 store retail chain to 64 stores in Canada & the US through expansion, re-location, and acquisitions;
- Increased the retail chain revenue from \$205M to \$800M
- Increased same store sales from \$205M to \$410M in less than 4 years, as well as increased profit from \$2.5M to \$30M during the same period
- Created strategy to diversify businesses, executed strategy through 4 strategic acquisitions.

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