



Yale SCHOOL OF MANAGEMENT

Loblaw Companies Limited (L.TO)

Our analysis shows the Canadian grocery store brand Loblaw is currently underpriced 47%.

We see strong revenue growth from drug stores, apparels and beauty products as the economy continues to reopen. Food retail revenue growth slowed compared to 2020 figures, but still higher than pre-Covid. Financial services sector remains stable.

The Covid shocks have posed threat to COGS and SG&A in the sense of rising inflation concern, transportation cost and sales mix transition to higher SG&A sector. Cost increase is predicted by management.

Strategic deployment into infrastructure and e-commerce platform sees tailwind, which could drive down cost in the future.

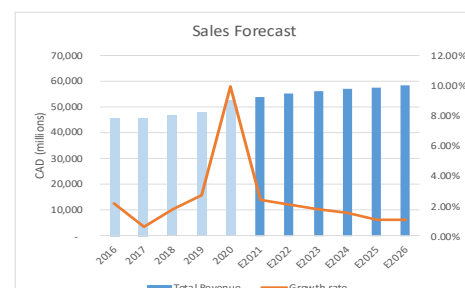
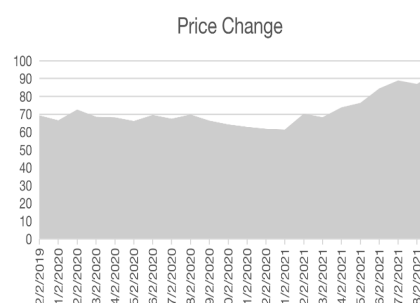
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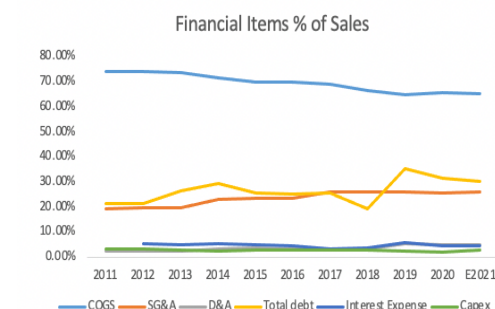
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Rating: Buy



	A2021	E2021	E2022	E2023	E2024	E2025	E2026
EBIT		2,018.19	2,137.25	2,169.65	2,187.17	2,183.73	2,168.67
Tax		(551.00)	(393.37)	(414.24)	(423.28)	(418.50)	(410.89)
NOPAT		1,467.19	1,743.88	1,755.42	1,763.88	1,765.22	1,757.78
D&A		2,628.00	1,765.86	1,797.24	1,825.33	1,845.48	1,865.86
Capex		(1,546.29)	(1,573.59)	(1,601.54)	(1,626.58)	(1,644.53)	(1,662.70)
(Inc.) dec in NWC		(331.00)	43.44	(73.64)	37.99	27.25	27.57
FCF		2,217.89	1,979.59	1,877.47	2,000.63	1,993.42	1,988.51
TV							56,227.08
Year count		0.19	1.19	2.19	3.19	4.19	5.19
All Equity Discount factor		0.99	0.95	0.91	0.87	0.84	0.80
PV of FCF		2,200.13	1,883.10	1,712.62	1,750.03	1,672.13	1,599.52
Sum of PV of FCFs		10,817.52					
PV of TV		45,227.82					
All Equity Value		56,045.34					
Interest Expense		714.00	677.44	632.42	616.36	630.66	643.86
Tax Rate		26.95%	26.95%	26.95%	26.95%	26.95%	26.95%
Debt Tax Shield		192.40	182.55	170.42	166.09	169.94	173.50
TV							4811.29
Year count		0.19	1.19	2.19	3.19	4.19	5.19
Discount factor		0.99	0.95	0.91	0.87	0.84	0.80
PV of DTS		190.83	173.51	155.23	144.97	142.15	139.07
Sum of PV of DTS		945.77					
PV of TV		3856.63					
Net Effect of Debt		4802.40					
Enterprise Value		60,847.74					
Net debt		14,092.00					
Equity Value		46,755.74					



Please see the disclaimer at the back of this report for important information

I. Company Overview

Loblaw Companies Limited, incorporated in 1956, is the largest Canadian retailer by market size of food, pharmaceutical and other products, and is headquartered in Brampton Canada. The company operates more than 2,400 stores and employs roughly 190,000 full time and part time employees. Key grocery banners include Loblaws, Real Canadian Superstore, and Maxi, while the pharmacy division comes from the acquisition of Shoppers Drug Mart, Canada's largest pharmacy and drug store by market share, in 2014. The company also has a strong private label presence with its President's Choice and No Name brands. Loblaw trades on the Toronto Stock Exchange (TSX).

Figure 1: Loblaw Past Year Price History



(Source: FactSet)

II. Business Segments & Geographical Distribution

Loblaw has two distinct operating segments, Retail and Financial Services, and Retail is by far the larger and accounted for 97.9% of total revenue in 2020. The Retail segment consists of retail food and drug stores, and includes groceries, in store pharmacies, health and beauty products, apparel, and other general merchandise. Revenue within the Retail segment is further divided into Food Retail and Drug Retail by management.

Under the Financial Services business, Loblaw offers credit cards, everyday banking, insurance brokerage, and PC Optimum loyalty program, with most revenue coming from interest income from credit card receivables and fees, and loyalty program fees.

For geographical distribution, Loblaw operates solely within Canada and has the most expansive store footprint in Ontario, but also has a strong presence in other provinces such as Quebec, Alberta, and British Columbia. With its roughly 2,400 physical stores, about 90% of Canadians live within 10km of a Loblaw location.

III. Current Trend Under the COVID

According to the earnings call, there are several trends under COVID affecting the sales and costs that are important to take into account when making projections.

3.1 COVID Cost

The cost incurred during COVID drove SG&A higher in the past 2 years. The last earnings call in June 2021 of Loblaw reported a \$ 70mn COVID cost which is now at a stabilized level and sees potential decline.

3.2 COVID Revenue

Revenue for both the Food Retail and Drug Retail segments benefited from changing trends caused by COVID in 2020. Based on management discussions, it's expected that the top line growth in 2021 will continue to have positive momentum, albeit less than in 2020 as Covid restrictions loosen, especially in the second half of the year.

3.3 Purchasing Habit

The management has found a shopping habit transition from food retail to drug consumption and beauty products. With the reopening of the Canadian economy, the revenue contribution from drug sales, including in-store prescription has increased. The allergy season also serves to spur the sales. This has some impact on the gross profits and SG&A which could be driven by the drug sales.

3.4 Inflation Expectation

The inflation expectation, especially from the US has transformed to the company's potential increase in article price, which will drive up the COGS. The rise in transportation costs is also a concern.

3.5 Discount & Conventional Stores

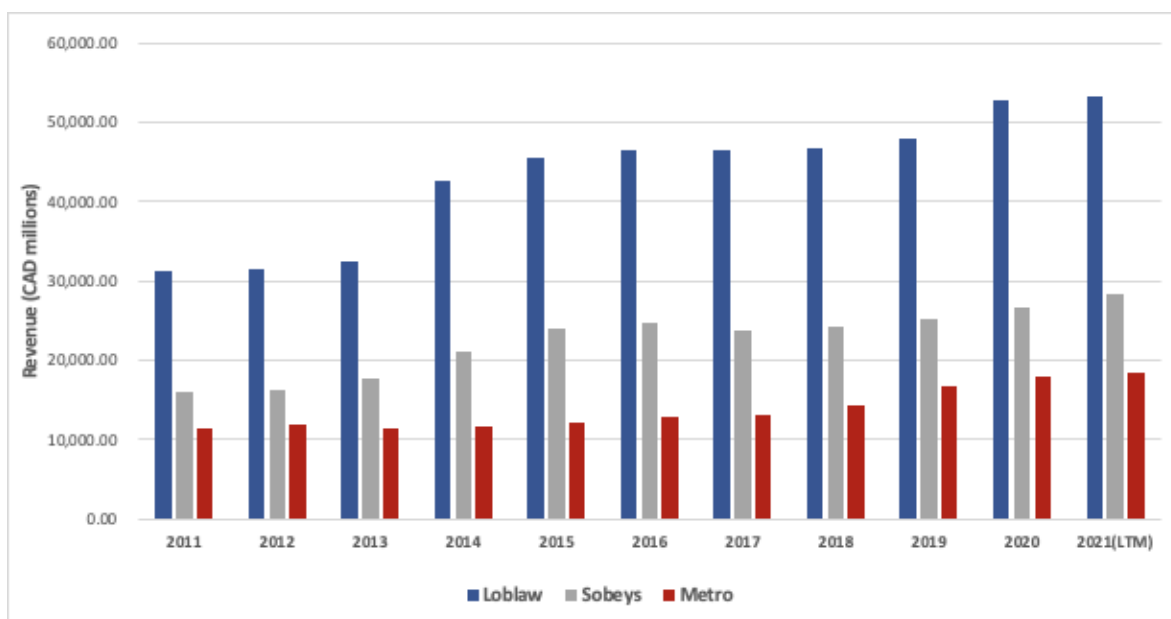
The management has seen re-emergence of value-seeking shopping trips which signals the popularity of the discount stores compared to the conventional stores. It's going to bring new market penetration with the discount store consumers returning to the pre-COVID purchasing height.

IV. Financial Discussions

4.1 Revenue

Loblaw is the largest grocery retailer in Canada by a large margin, and it's sales per year is approximately the sum of its two closest competitors Metro and Sobeys. Overall revenue increased by 9.7% from \$48,037 million CAD to \$52,714 million CAD in FY2020, primarily driven by Covid-19 and a shift from restaurant dining to increased grocery shopping and at home cooking. However, revenue growth has slowed in 2021 as the Q1 2021 year over year revenue growth is 0.6%, and the Q2 yoy revenue growth is 4.4%.

Figure 2: Loblaw and Competitors Past 10 Year Revenue

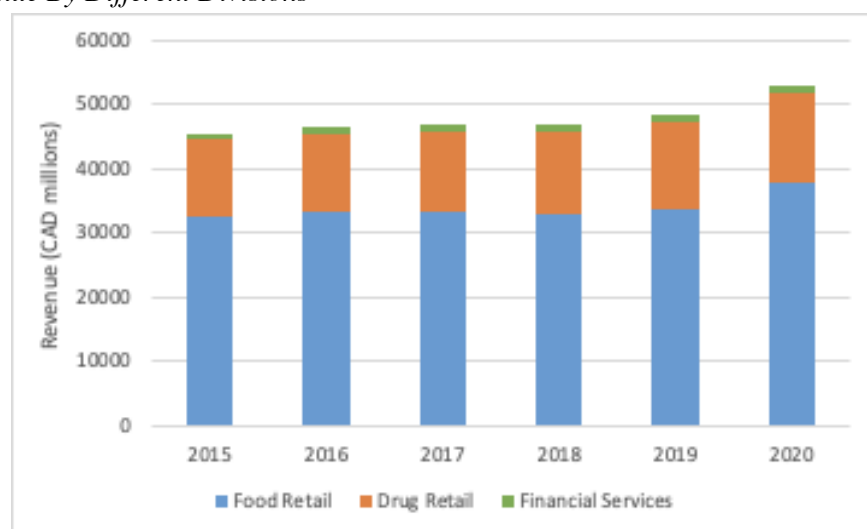


(Source: Loblaw Annual Reports)

Loblaw's historical 10 year sales CAGR is 5.49%, which is in line with that of its competitors', 5.84% and 4.84%, for Sobeys and Metro respectively. The jump in Loblaw's revenue in 2014 is caused by the acquisition of Shoppers Drug Mart, the largest drug store in Canada, and the jump in 2020 is caused by the Covid-19 pandemic.

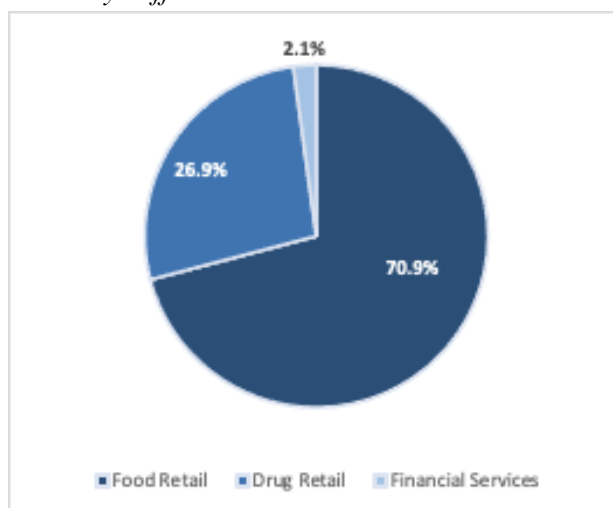
Loblaw operates multiple stores and sells a range of diverse products, but in its annual and quarterly reports, management breaks down sales into two main segments, Financial Services, and Retail, then further divides Retail into Food Retail and Drug Retail.

Figure 3: Revenue By Different Divisions



(Source: Loblaw Annual Reports)

Figure 4: 2021 1st Half Revenue By Different Divisions



(Source: Loblaw Annual and Quarterly Reports)

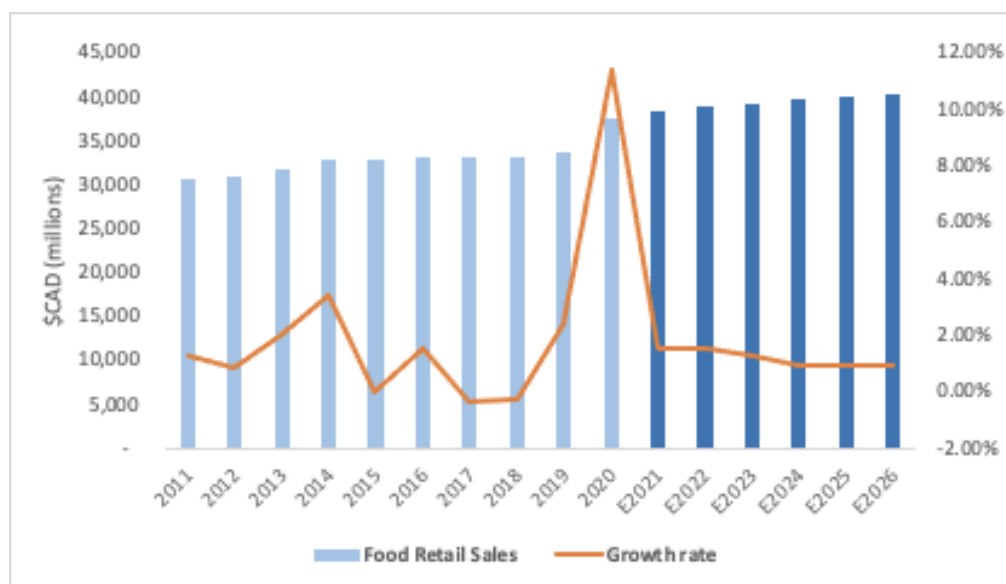
Given how distinct these business segments are, we forecasted revenue for these different segments separately, then aggregated them to get total revenue.

4.1.1 Food Retail

Food retail is the primary source of revenue and accounted for 70.9% of total revenue in the first half of 2021, and 71.0% in 2020. As mentioned earlier, Covid-19 has had a significant impact on grocery sales in 2020 and led to an increase in revenues of 11.4% compared to 2019 due to restrictions on restaurant dining. This level of revenue growth is unsustainable, and we are already seeing Food Retail revenue growth slow in the first two quarters of 2021 to 1.8% and 1.5% yoy for Q1 and Q2 respectively as they lap the previous year's surge. However, this is still higher than historical growth numbers. Moving forward, based on management discussion, we expect food retail sales growth for the rest of 2021 to be lower than in 2020, but still elevated compared to historical growth, and thus Q3 and Q4 growth rate should be similar to Q2's 1.5%.

Beyond 2021, we expect e-commerce and digital retail to continue to be a significant factor for grocery sales. Loblaw has been ahead of the digitalization curve and began building out its digital infrastructure in 2018. As of 2021, with its PC optimum loyalty program and digital apps and website, Loblaw has been able to capitalize on the changing trends caused by the pandemic with digital sales in 2020 increasing by 178%, and again increasing 133% yoy in Q1. These numbers are higher compared to its competitors'. Moreover, there's a trend of re-emergence of discount stores and cost-conscious consumers, and Loblaw is able to capitalize on this due to its large section of discount stores such as No Frills and Valu-mart. Given this existing digital infrastructure in e-commerce and available opportunities as the market leader in Canada, we expect Loblaw's Retail Food growth rate to be able to maintain at 1.5% for 2022 and then decrease to 1.25% in 2023, before returning to its historical 10-year CAGR of 0.94% from 2024 onwards.

Figure 5: Food Retail Revenue Forecast



(Source: Loblaw Annual and Quarterly Reports)

2016	2017	2018	2019	2020	2021 Q1+Q2	2021E	2022E	2023E	2024E	2025E	2026E
33,175	33,055	32,969	33,756	37,596	17,357	38,182	38,754	39,239	39,608	39,980	40,356

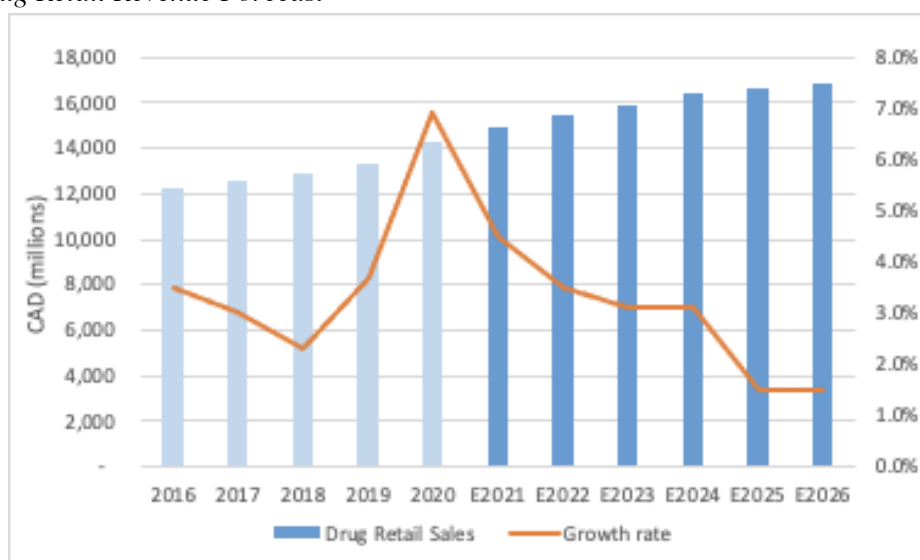
4.1.2 Drug Retail

Drug retail revenue comprised 26.9% of total revenue in the first half of 2021. Similar to Food Retail, Drug Retail benefited from the Covid-19 pandemic in 2020 as consumers stocked up on medications and other health products. In 2020, the revenue growth rate for Drug Retail was 6.9%.

For Q1 2021, Drug Retail sales declined by 1.7% yoy, which is understandable given the lapping of Covid related surge in spending on pharmaceutical drugs the year prior, and continued lockdowns across most of Canada in early 2021. For Q2 2021, Drug Retail sales increased by 12.7% yoy, mostly due to pharmacy sales lapping volatility of day supply restrictions implemented in the previous year. In addition, the lifting of lockdowns, and increased spending on beauty products, as well as increased spending on OTC medications caused by the flu season also helped sales.

Moving forward, based on Q2 earning call, and indication of continued strong top line momentum in Drug Retail, we expect 2021 Q3 and Q4 growth to be 4%, which is about 100bps higher than pre-Covid growth. For 2022, we expect Covid-19 to subside and Drug Retail sales growth to drop to 3.5%, and then drop to the 2015-2019 historical CAGR of 3.1% in 2023 and 2024. For 2025 and onwards we expect the growth rate to lower to 1.5%, which is in line with the average growth of pharmacies and drug stores in Canada.

Figure 6: Drug Retail Revenue Forecast



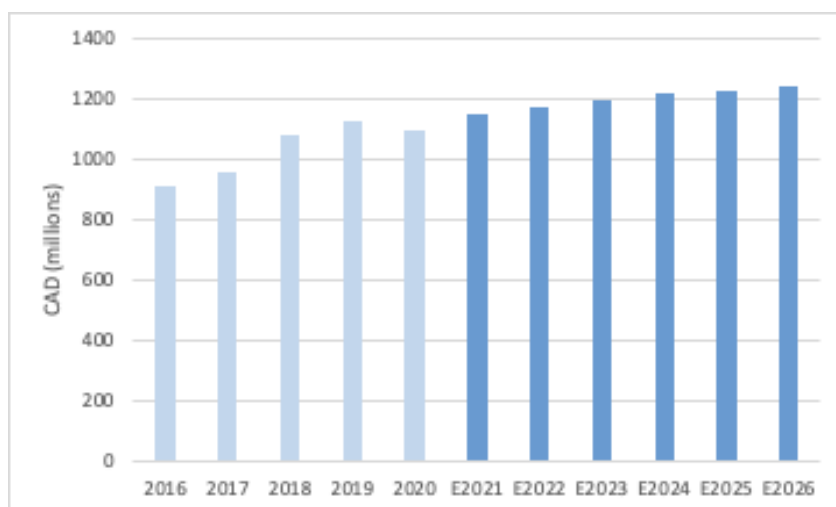
(Source: Loblaw Annual and Quarterly Reports)

2016	2017	2018	2019	2020	2021 Q1+Q2	2021E	2022E	2023E	2024E	2025E	2026E
12,209	12,579	12,867	13,343	14,263	6,595	14,904	15,426	15,904	16,397	16,643	16,892

4.1.3 Financial Services

Financial Services is the smallest business segment out of the three and only accounted for 2.1% of total sales in the first half of 2021. Looking at the revenue from Financial Services as a percent of revenues from Food and Drug Retail, we see that it stays fairly constant at around 2%. Therefore, for our projections, we assume that Financial Services sales as a percent of total sales from Food and Drug Retail will remain at the historical 5-year average of 2.17%.

Figure 7: Financial Services Revenue Forecast



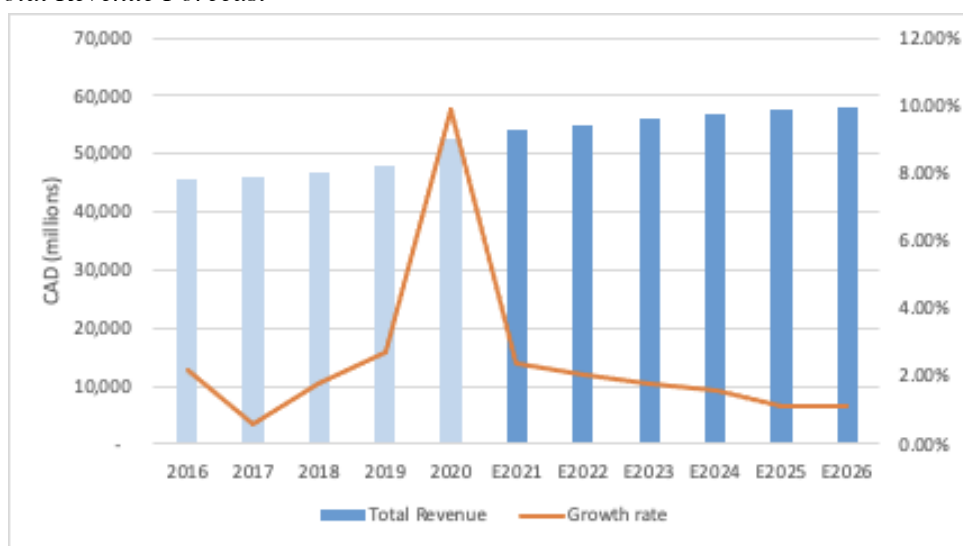
(Source: Loblaw Annual and Quarterly Reports)

2016	2017	2018	2019	2020	2021 Q1+Q2	2021E	2022E	2023E	2024E	2025E	2026E
911	956	1,082	1,126	1,097	525	1,152	1,176	1,197	1,215	1,229	1,242

4.1.4 Total Revenue

Total Revenue for Loblaw is simply the sum of the revenues from the three business segments, and then subtract off eliminations, which is forecasted to be 0.5% of gross sales. This elimination percentage is in line with the past 3-year historical trend.

Figure 8: Total Revenue Forecast



	2016	2017	2018	2019	2020	2021E		E2022	E2023	E2024	E2025	E2026
						Q1+Q2	E Q3+Q4					
Food Retail	33,175	33,055	32,969	33,756	37,596	17,357	20,825	38,754	39,239	39,608	39,980	40,356
Drug Retail	12,209	12,579	12,867	13,343	14,263	6,595	8,309	15,426	15,904	16,397	16,643	16,892
Financial Services	911	956	1,082	1,126	1,097	525	627	1,176	1,197	1,215	1,229	1,242
Elimination	(694)	(718)	(228)	(258)	(242)	(114)	(157)	(277)	(282)	(286)	(289)	(292)
Total	45,601	45,872	46,690	47,967	52,714	24,363	29,604	55,079	56,058	56,934	57,562	58,198

(Source: Loblaw Annual and Quarterly Reports and Analyst's Projections)

4.2 COGS and Gross Profit Prediction

There is an obvious decreasing trend in COGS rate as of sales over the past 10 years. This reduction in cost is driven by the economies of scale as Loblaw expands its market share. The main trend of cost reduction will continue in the following 5 years. However, to decompose the figures into quarters, the cost during COVID peak (2020Q3 and 2020Q4) reverted this trend but quickly returned to normal in the first two quarters of 2021. According to management, this is driven by reopening of the economy that changes the sales mix from food to other retail sectors such as apparels and drugs which have higher gross margin.

But the increase in inflation concern and transportation cost is sure to drive up the COGS again. Therefore, for Q3 and Q4 in 2021, we expect COGS to anchor to the 2020 Q3 and Q4 level. Even though the economy is reopening at a steady pace, we doubt the pace of cost reduction will hold as Loblaw's market share reaches a certain level. The diminishing effect of economies of scale should safely drag down the cost reduction rate for the years of 2022 to 2026. So for the years of 2023-2026, we anchor the rate at half of the CAGR of -2% from 2015-2019, which is now -1%.

	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	E2021Q3	E2021Q4
Sales	10,659.00	11,133.00	14,655.00	11,590.00	11,800.00	11,957.00	15,671.00	13,286.00	11,872.00	12,491.00	16,115.73	13,645.03
COGS	6,926.00	7,218.00	9,586.00	7,535.00	7,684.00	7,826.00	10,342.00	8,786.00	7,681.00	8,033.00	10,635.49	9,023.43
% of Sales	64.98%	64.83%	65.41%	65.01%	65.12%	65.45%	65.99%	66.13%	64.70%	64.31%	65.99%	66.13%
Gross margin	3,733.00	3,915.00	5,069.00	4,055.00	4,116.00	4,131.00	5,329.00	4,500.00	4,191.00	4,458.00	5,480.23	4,621.60
% of Sales	35.02%	35.17%	34.59%	34.99%	34.88%	34.55%	34.01%	33.87%	35.30%	35.69%	34.01%	33.87%

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	E2021	E2022	E2023	E2024	E2025	E2026
Sales	31,250.00	31,604.00	32,371.00	42,611.00	45,394.00	46,385.00	46,587.00	46,693.00	48,037.00	52,714.00	54,123.76	55,079.05	56,057.65	56,933.81	57,562.34	58,198.17
COGS	23,195.00	23,408.00	23,872.00	30,591.00	31,740.00	32,431.00	32,115.00	31,040.00	31,265.00	34,638.00	35,372.92	36,614.78	36,934.44	37,178.65	37,255.33	37,332.41
% of Sales	74.22%	74.07%	73.75%	71.79%	69.92%	69.92%	68.94%	66.48%	65.09%	65.71%	65.36%	66.48%	65.89%	65.30%	64.72%	64.15%
Gross margin	8,055.00	8,196.00	8,499.00	12,020.00	13,654.00	13,954.00	14,472.00	15,653.00	16,772.00	18,076.00	18,750.84	18,464.27	19,123.21	19,755.17	20,307.01	20,865.76
% of Sales	25.78%	25.93%	26.25%	28.21%	30.08%	30.08%	31.06%	33.52%	34.91%	34.29%	34.64%	33.52%	34.11%	34.70%	35.28%	35.85%

4.3 SG&A Prediction

The SG&A before 2018 was generally increasing. According to the management, they have deployed some strategies including investment in e-commerce and infrastructure to increase the efficiency. These measures have just taken effect until recent years and turned the headwind to tailwind. We can capture the cost reduction as of sales in 2019 before COVID. The pandemic added one more item called the COVID cost to SG&A. According to the management, the COVID cost has been stabilized recently. However, what cancels out part of this effect is the SG&A increase due to the sales mix change mentioned above. The SG&A for drugs sales is higher than that of the food retail. We are most likely to see upward trend of

SG&A with the reopening of the economy. Therefore, we assume the SG&A for 2021 Q3 and Q4 to be higher than the first 2 quarters.

On yearly basis, like COGS prediction, we anchor the rate at pre-COVID level to the CAGR of 2.27% from 2015-2019.

	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	E2021Q3	E2021Q4
SG&A	2,823.00	2,864.00	3,764.00	2,967.00	3,102.00	3,248.00	3,974.00	3,291.00	3,083.00	3,141.00	4,033.76	3,493.13
% of Sales	26.48%	25.73%	25.68%	25.60%	26.29%	27.16%	25.36%	24.77%	25.97%	25.15%	25.03%	25.60%

	2016	2017	2018	2019	2020	E2021	E2022	E2023	E2024	E2025	E2026
SG&A	10,921.00	12,060.00	12,199.00	12,418.00	13,615.00	13,750.89	14,561.17	15,156.32	15,742.67	16,277.80	16,831.23
% of Sales	23.54%	25.89%	26.13%	25.85%	25.83%	25.41%	26.44%	27.04%	27.65%	28.28%	28.92%

4.4 Depreciation and Amortization Prediction

The D&A as of sales remained stable before COVID historically. It is primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition. We don't see a sustainable tendency for its high-speed growth. Therefore, we set it at the 2018 figure.

D&A	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	E2021	E2022	E2023	E2024	E2025	E2026
D&A	699.00	777.00	824.00	1,472.00	1,592.00	1,543.00	1,568.00	1,497.00	2,524.00	2,596.00	2,628.00	1,765.86	1,797.24	1,825.33	1,845.48	1,865.86
% of sales	2.24%	2.46%	2.55%	3.45%	3.51%	3.33%	3.37%	3.21%	5.25%	4.92%	4.93%	3.21%	3.21%	3.21%	3.21%	3.21%

4.5 Total Debt Prediction

The debt to revenue ratio remains relatively stable before the COVID. We leave the time of 2 years (2022 and 2023) to cope with the COVID where we anchor the growth rate at the 2019-2021 debt level. After 2023, the debt should growth at the CAGR of 2.95% from 2011-2017.

Total Debt	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	E2021	E2022	E2023	E2024	E2025	E2026
Total Debt	6,723.00	6,802.00	8,509.00	12,454.00	11,704.00	11,650.00	11,927.00	8,997.00	16,952.00	16,608.00	16,204.00	15,533.24	14,670.81	15,338.46	15,964.01	16,615.18
% of Sales	21.51%	21.52%	26.29%	29.23%	25.78%	25.12%	25.60%	19.27%	35.29%	31.51%	30.38%	28.20%	26.17%	26.94%	27.73%	28.55%

4.6 Interest Expense Prediction

The historical rates of interest to the average debt decreased before the COVID. The macroeconomic instability calls for time to recover to the pre-Covid interest environment. Therefore, we assume a steady recovery speed that allow rates of interest to the average debt to recover to the pre-COVID level. The CAGR we use from 2011-2021 is -1.9%.

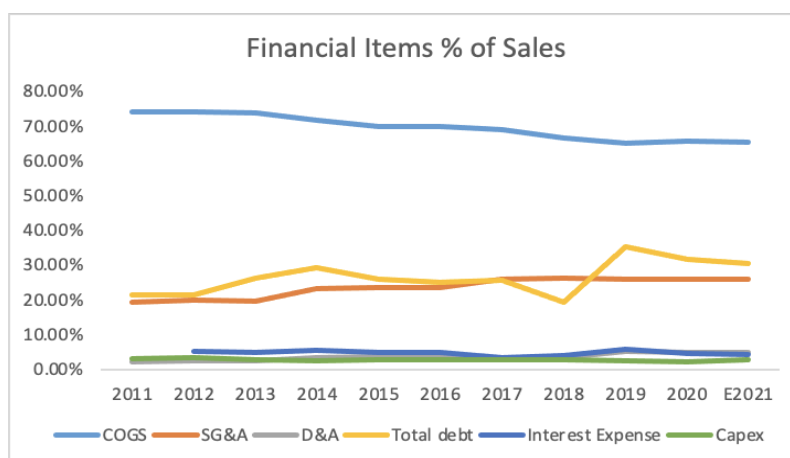
Interest Expense	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	E2021	E2022	E2023	E2024	E2025	E2026
Interest Expense	352.00	350.00	374.00	578.00	580.00	552.00	388.00	400.00	758.00	744.00	714.00	677.44	632.42	616.36	630.66	643.86
% of Average Debt	5.18%	4.89%	5.51%	4.80%	4.73%	3.29%	3.82%	5.84%	4.43%	4.35%	4.27%	4.19%	4.11%	4.03%	3.95%	

4.7 Capex Prediction

The capex as of sales remain relatively stable over the last 10 years. Although the COVID might explain the decrease in 2019-2021, the management is positive to increase additional 1.2 bn capex going forward. However, there's no signs that the management is willing to take high-risk projects as they claimed to give up the PC Chef mean-delivery service. Not being aggressive about their capex, we set the Capex/sales rate at the 2018 level similar to D&A.

Capex	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	E2021	E2022	E2023	E2024	E2025	E2026
Capex	987.00	1,017.00	865.00	856.00	1,008.00	896.00	979.00	1,010.00	817.00	820.00	917.00	876.84	838.53	800.21	760.20	722.18
% of sales	3.16%	3.22%	2.67%	2.01%	2.22%	1.93%	2.10%	2.16%	1.70%	1.56%	1.69%	1.59%	1.50%	1.41%	1.32%	1.24%

Figure 9: Financial Items % Sales

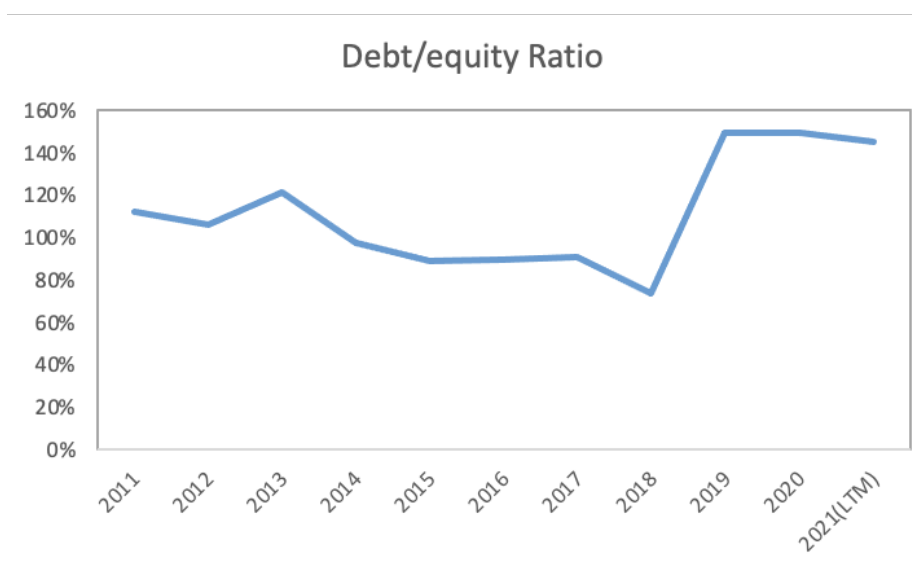


(Source: Loblaw Annual Reports)

V. Valuation

- For the market risk premium, we used Professor Damodaran's latest implied equity risk premium of 4.84%¹.
- For the risk free rate, we used the latest 10 year treasury yield of 1.638%

The debt-to-equity ratio demonstrates a fluctuating pattern. Therefore, it's more appropriate to use APV valuation method in this case.

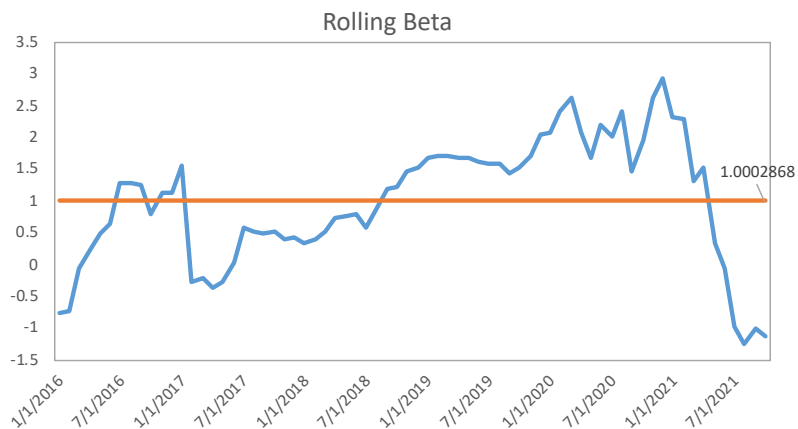


(Source: Loblaw Annual Reports)

¹ https://people.stern.nyu.edu/adamodar/New_Home_Page/Index.html

5.1 Cost of Capital

The debt-to-equity ratio is averaged over the 10 years and arrives at 113.76%. The levered beta is the average of the 5-year rolling beta from 2011-2021. The unlevered beta is, therefore, 0.55 or so. Applying the CAPM formula, the cost of equity is 4.28%. The cost debt is the interest expense divided by the average debt outstanding in 2021, which is 4.35%. Considering that the grocery industry as a consumer staple sector is relatively stable and with limited “growth shocks”, we set the growth rate at the 2020 Canadian inflation rate.



(Source: Analyst’s calculations)

<u>Cost of Equity</u>		
Tax Rate	26.95%	
Average D/E	113.76%	
Levered beta	1.0002868	
Unlevered beta	0.5462896	
Market Premium	4.84%	
Risk-free Rate	1.64%	
Cost of Equity	4.28%	
<u>Cost of Debt</u>	4.35%	(Interest expense of 2021)
<u>Growth Rate</u>	0.72%	2020 Canadian inflation rate

5.2 Cash Flow Prediction

The APV requires separate procedures of valuation of all equity value and debt tax shield. For both parts, we discount the cash flows to October 2021.

**Free Cash Flow
Prediction - All Equity**

	A2021	E2021	E2022	E2023	E2024	E2025	E2026
EBIT		2,018.19	2,137.25	2,169.65	2,187.17	2,183.73	2,168.67
Tax		(551.00)	(393.37)	(414.24)	(423.28)	(418.50)	(410.89)
NOPAT		1,467.19	1,743.88	1,755.42	1,763.88	1,765.22	1,757.78
D&A		2,628.00	1,765.86	1,797.24	1,825.33	1,845.48	1,865.86
Capex		(1,546.29)	(1,573.59)	(1,601.54)	(1,626.58)	(1,644.53)	(1,662.70)
(Inc) dec in NWC		(331.00)	43.44	(73.64)	37.99	27.25	27.57
FCF		2,217.89	1,979.59	1,877.47	2,000.63	1,993.42	1,988.51
TV							56,227.08
Year count		0.19	1.19	2.19	3.19	4.19	5.19
All Equity Discount factor		0.99	0.95	0.91	0.87	0.84	0.80
PV of FCF		2,200.13	1,883.10	1,712.62	1,750.03	1,672.13	1,599.52
Sum of PV of FCFs	10,817.52						
PV of TV	45,227.82						
All Equity Value	56,045.34						

Tax Shield

	A2021	E2021	E2022	E2023	E2024	E2025	E2026
Interest Expense		714.00	677.44	632.42	616.36	630.66	643.86
Tax Rate		26.95%	26.95%	26.95%	26.95%	26.95%	26.95%
Debt Tax Shield		192.40	182.55	170.42	166.09	169.94	173.50
TV							4811.29
Year count		0.19	1.19	2.19	3.19	4.19	5.19

October 22, 2021

Discount factor	0.99	0.95	0.91	0.87	0.84	0.80
PV of DTS	190.83	173.51	155.23	144.97	142.15	139.07
Sum of PV of DTS	945.77					
PV of TV	3856.63					
Net Effect of Debt	4802.40					
Enterprise Value	60,847.74					
Net debt	14,092.00					
Equity Value	46,755.74					

The equity value we estimated compared to the current market cap of CAD 31.784bn implied a 47% underpricing. The figures might vary with subtle changes in assumptions, but we hold positive views about Loblaw's business performance with recovery from the COVID. Not only do they regain revenues from sectors with high margins, but also their strategic input has turned from headwind to tailwind recently. It remains to be seen how the measures could in fact help Loblaw reduce the cost and improve efficiency. What's more, their penetration into discount stores and efforts to minimize price gaps with competitors imply their competitive advantages. In conclusion, we recommend buying Loblaw.

Appendix - Earnings Forecast

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	E2021	E2022	E2023	E2024	E2025	E2026
Income Statement (millions)																
Revenues	31,250.00	31,604.00	32,371.00	42,611.00	45,394.00	46,385.00	46,587.00	46,693.00	48,037.00	52,714.00	54,123.76	55,079.05	56,057.65	56,933.81	57,562.34	58,198.17
COGS	23,195.00	23,408.00	23,872.00	30,591.00	31,740.00	32,431.00	32,115.00	31,040.00	31,265.00	34,638.00	35,372.92	36,614.78	36,934.44	37,178.65	37,255.33	37,332.41
Gross Profit	8,055.00	8,196.00	8,499.00	12,020.00	13,654.00	13,954.00	14,472.00	15,653.00	16,772.00	18,076.00	18,750.84	18,464.27	19,123.21	19,755.17	20,307.01	20,865.76
% sales	25.78%	25.93%	26.25%	28.21%	30.08%	30.08%	31.06%	33.52%	34.91%	34.29%	34.64%	33.52%	34.11%	34.70%	35.28%	35.85%
SG&A	5,982.00	6,252.00	6,341.00	9,838.00	10,727.00	10,921.00	12,060.00	12,199.00	12,418.00	13,615.00	14,104.65	14,561.17	15,156.32	15,742.67	16,277.80	16,831.23
EBITDA	2,067.00	1,938.00	2,148.00	2,725.00	3,238.00	3,572.00	2,937.00	3,323.00	3,631.00	3,715.00	4,646.19	3,903.11	3,966.89	4,012.49	4,029.20	4,034.53
% sales	6.61%	6.13%	6.64%	6.40%	7.13%	7.70%	6.30%	7.12%	7.56%	7.05%	8.58%	7.09%	7.08%	7.05%	7.00%	6.93%
Depreciation/Amort.	699.00	777.00	824.00	1,472.00	1,592.00	1,543.00	1,568.00	1,497.00	2,524.00	2,596.00	2,628.00	1,765.86	1,797.24	1,825.33	1,845.48	1,865.86
EBIT	1,374.00	1,167.00	1,329.00	1,508.00	1,867.00	2,258.00	1,614.00	1,995.00	2,338.00	2,374.00	2,018.19	2,137.25	2,169.65	2,187.17	2,183.73	2,168.67
% sales	4.40%	3.69%	4.11%	3.54%	4.11%	4.87%	3.46%	4.27%	4.87%	4.50%	3.73%	3.88%	3.87%	3.84%	3.79%	3.73%
Interest Expense	352.00	350.00	374.00	578.00	580.00	552.00	388.00	400.00	758.00	744.00	714.00	677.44	632.42	616.36	630.66	643.86
EBT	1,022.00	817.00	955.00	930.00	1,287.00	1,706.00	1,228.00	1,595.00	1,580.00	1,630.00	1,304.19	1,459.80	1,537.23	1,570.81	1,553.07	1,524.81
% sales	3.27%	2.59%	2.95%	2.18%	2.84%	3.68%	2.63%	3.42%	3.29%	3.09%	2.41%	2.65%	2.74%	2.76%	2.70%	2.62%
Tax	288.00	210.00	226.00	25.00	368.00	449.00	365.00	606.00	392.00	431.00	551.00	393.37	414.24	423.28	418.50	410.89
% EBT	28.18%	25.70%	23.66%	2.69%	28.59%	26.32%	29.77%	37.99%	24.81%	26.44%	42.25%	26.95%	26.95%	26.95%	26.95%	26.95%
Net Income	734.00	607.00	629.00	905.00	918.00	1,143.00	863.00	974.00	1,188.00	1,203.00	753.19	1,066.43	1,123.00	1,147.53	1,134.57	1,113.92
% sales	2.46%	2.01%	1.94%	0.12%	1.32%	2.12%	3.26%	1.64%	2.25%	2.10%	2.56%	1.94%	2.00%	2.02%	1.97%	1.91%
Balance Sheet Data																
Cash And Equivalents	966.00	1,079.00	2,260.00	999.00	1,018.00	1,314.00	1,798.00	1,065.00	1,133.00	1,668.00	1,888.00	1,921.32	1,322.17	1,342.84	1,357.66	1,372.66
% sales	3.09%	3.41%	6.98%	2.34%	2.24%	2.83%	3.86%	2.28%	2.36%	3.16%	3.49%	3.49%	2.36%	2.36%	2.36%	2.36%
Total Current Assets	6,462.00	6,667.00	7,861.00	9,405.00	9,855.00	10,204.00	11,327.00	11,637.00	11,310.00	11,551.00	11,382.00	11,582.89	13,198.41	13,404.70	13,552.68	13,702.38
% sales	20.68%	21.10%	24.28%	22.07%	21.71%	22.00%	24.31%	24.92%	23.54%	21.91%	21.03%	21.03%	23.54%	23.54%	23.54%	23.54%
Intangibles	81.00	114.00	111.00	9,675.00	9,164.00	8,745.00	8,251.00	7,798.00	7,322.00	6,870.00	6,654.00	6,203.25	5,783.70	5,381.20	4,984.08	4,616.30
% sales	0.26%	0.36%	0.34%	22.71%	20.19%	18.85%	17.71%	16.70%	15.24%	13.03%	12.29%	11.26%	10.32%	9.45%	8.66%	7.93%
Other Long Term Assets	483.00	482.00	1,949.00	326.00	489.00	586.00	600.00	592.00	555.00	430.00	646.00	657.40	669.08	679.54	687.04	694.63
% sales	1.55%	1.53%	6.02%	0.77%	1.08%	1.26%	1.29%	1.27%	1.16%	0.82%	1.19%	1.19%	1.19%	1.19%	1.19%	1.19%
Total Debt	6,723.00	6,802.00	8,509.00	12,454.00	11,704.00	11,650.00	11,927.00	8,997.00	16,952.00	16,608.00	16,204.00	15,533.24	14,670.81	15,338.46	15,964.01	16,615.18
Total Current Liabilities	4,718.00	5,396.00	5,513.00	6,497.00	7,222.00	6,942.00	8,641.00	8,704.00	9,227.00	8,759.00	8,921.00	9,078.46	10,767.61	10,935.91	11,056.64	11,178.77
% sales	15.10%	17.07%	17.03%	15.25%	15.91%	14.97%	18.55%	18.64%	19.21%	16.62%	16.48%	16.48%	19.21%	19.21%	19.21%	19.21%
Other Long Term Liabilities	254.00	263.00	953.00	1,153.00	1,278.00	1,371.00	1,408.00	542.00	121.00	193.00	168.00	170.97	174.00	176.72	178.67	180.65
% sales	0.81%	0.83%	2.94%	2.71%	2.82%	2.96%	3.02%	1.16%	0.25%	0.37%	0.31%	0.31%	0.31%	0.31%	0.31%	0.31%
Cash Flow Data																
Depr./Amortization	699.00	777.00	824.00	1,472.00	1,592.00	1,543.00	1,568.00	1,497.00	2,524.00	2,596.00	2,628.00	1,765.86	1,797.24	1,825.33	1,845.48	1,865.86
Capital Expenditures	(987.00)	(1,060.00)	(877.00)	(1,086.00)	(1,241.00)	(1,224.00)	(1,259.00)	(1,334.00)	(1,193.00)	(1,158.00)	(1,546.29)	(1,573.59)	(1,601.54)	(1,626.58)	(1,644.53)	(1,662.70)
% sales	3.16%	3.35%	2.71%	2.55%	2.73%	2.64%	2.70%	2.86%	2.48%	2.20%	2.86%	2.86%	2.86%	2.86%	2.86%	2.86%
Incr. (Decr.) in NWC a		(473.00)	1,077.00	560.00	(275.00)	629.00	(576.00)	247.00	(850.00)	709.00	(331.00)	43.44	(73.64)	37.99	27.25	27.57

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