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Response to
Evidence of Dr. Paul Calluzzo and Dr. Sean Cleary
January 28, 2026 Report
on
Return Margins for Alberta Bottle Depots

ScottMadden, Inc.
March 18, 2026

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I. INTRODUCTION AND PURPOSE

ScottMadden, Inc. was retained by the Alberta Bottle Depot Association ("ABDA"), a "Designated Registered Participant" in this proceeding, to evaluate the pre-tax return margin proposed by Dr. Paul Calluzzo and Dr. Sean Cleary ("Drs. Calluzzo and Cleary") on behalf of the Alberta Beverage Container Recycling Corporation ("ABCRC") and the Alberta Beer Container Corporation ("ABCC") to be applied to bottle depots' ("Depot") revenue. Previously, on January 28, 2026, ScottMadden provided a response ("ScottMadden Direct Evidence") to a report prepared by Concentric Energy Advisors' ("Concentric") on behalf of the Data Collection Agent ("DCA").

The remainder of this Evidence will summarize and evaluate Drs. Calluzzo and Cleary's recommended return margin for the Depots in view of the Fair Return Standards previously discussed on pages 1-4 of the ScottMadden Direct Evidence.

II. SUMMARY OF DRS. CALLUZZO AND CLEARY REPORT AND RECOMMENDATIONS

Drs. Calluzzo and Cleary recommend a pre-tax return margin of 5.07%[1] by averaging a modified version of Concentric's return margin analysis with a new analysis based on an alternate database (Compustat). Drs. Calluzzo and Cleary's results are shown in Tables 1, 2, and 3, below.

[1] Return Margin for Alberta Bottle Depots, January 28, 2026, Drs. Calluzzo and Cleary, at 4. ("Drs. Calluzzo and Cleary Report")

Table 1: Summary of Drs. Calluzzo and Cleary Recommended Return Margin U.S. Industry Analysis[2]

U.S. Industry Return Margin Point Estimates	Using Modified Concentric Data		Using Compustat Data	
	Average of Six Industries	Average of All Individual Companies, Regardless of Industry	Average of Retail Trade and Wholesale Trade Broad Industries	All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	31.5		259.5	
Simple Average (Mean)	6.24%	4.45%	4.29%	4.28%
Weighted Average (Assets)	5.92%	4.46%	4.77%	5.13%
Weighted Average (Sales)	5.93%	4.09%	3.76%	4.16%
Weighted Average (Combined)	5.92%	4.28%	4.27%	4.65%
U.S. Average	5.22%		4.37%	

Table 2: Summary of Drs. Calluzzo and Cleary Return Margin Canadian Industry Analysis[3]

CA Industry Return Margin Point Estimates	Using Concentric Data – As-Filed	Using Compustat Data	
		Average of Retail Trade and Wholesale Trade Broad Industries	All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	N/A	40.3	
Simple Average (Mean)	N/A	4.85%	4.93%
Weighted Average (Assets)	N/A	5.45%	5.57%
Weighted Average (Sales)	N/A	4.68%	5.06%
Weighted Average (Combined)	N/A	5.07%	5.31%
CA Average	5.62%	5.04%	

[2] Drs. Calluzzo and Cleary Report, Tables 4 and Table 8, Panel A

[3] Drs. Calluzzo and Cleary Report, Table 8, Panel B

Table 3: Drs. Calluzzo and Cleary Recommended Return Margin[4]

	U.S. Industry	CA Industry
Modified Concentric Database	5.22%	5.62%
Compustat Data	4.37%	5.04%
Average	4.80%	5.33%
Drs. Calluzzo and Cleary Overall Recommendation	5.07%	

A. U.S. Industry Analysis using Concentric data

Drs. Calluzzo and Cleary summarize Concentric's U.S. industry return margin analysis and draw attention to the large number of firms excluded from Concentric's analysis in their Table 1. In particular, Drs. Calluzzo and Cleary determine that out of the 189 firms Concentric starts with, an average of 43.3 firms were removed for having negative return margins, and an average of 148.2 firms were removed for falling outside of Concentric's specified turnover ratio range of 2.0 to 9.0.[5] Drs. Calluzzo and Cleary also note that Concentric's evidence is misleading when Concentric states that they include an average of "All 189 Companies, Regardless of Industry" as the averages provided represent a number of firms dramatically less than 189.[6]

After replicating Concentric's results, Drs. Calluzzo and Cleary calculate a weighted-average result weighted by sales, as well as an average of their sales-weighted average and Concentric's asset-weighted average. As shown in Drs. Calluzzo and Cleary's Table 2, adding these additional weighted averages reduces Concentric's indicated U.S. return margin result from 6.25% to 6.20%.

Drs. Calluzzo and Cleary then critique Concentric's exclusion of negative return margin firms from their analysis. Specifically, they believe that by eliminating firms at the "low extreme"

4 Drs. Calluzzo and Cleary Report, Table 10.
5 Drs. Calluzzo and Cleary Report, at 5-6.
6 Drs. Calluzzo and Cleary Report, at 5.

of return margin estimates while still including firms at the "high extreme" of return margin estimates, Concentric's average return margin is upwardly biased.[7] Drs. Calluzzo and Cleary's Table 3 present the results of including negative return margin estimates in Concentric's U.S. return margin analysis.

Instead of solely eliminating negative outliers, Drs. Calluzzo and Cleary propose the use of the winsorization technique, whereby minimum and maximum bounds are set to minimize the effects of extreme outliers. In this instance, they propose the use of a 0% minimum and 20% maximum bounds of return margin estimates, meaning that any return margin estimate below 0% is assigned a value of 0%, and any return margin estimate above 20% is assigned a value of 20%.[8] When applied in addition to Concentric's 2.0 to 9.0 asset turnover range, the U.S. return margins shown in Table 4, below, result.

Table 4: Drs. Calluzzo and Cleary U.S. Return Margin Result Using Concentric Data, 0% - 20% Winsorization and 2.0 – 9.0 Asset Turnover Screens[9]

U.S. Industry Return Margin Point Estimates	Average of Six Industry Averages	Average of All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	34.8	
Simple Average (Mean)	6.24%	4.45%
Weighted Average (Assets)	5.92%	4.46%
Weighted Average (Sales)	5.93%	4.09%
Weighted Average (Combined)	5.92%	4.28%
U.S. Average	5.22%	

While Drs. Calluzzo and Cleary also consider the impacts of independently adding the restaurant industry or removing the building supply industry, they ultimately consider the 5.22% return margin estimate illustrated in Table 4 as their recommendation for the U.S. return margin.

7 Drs. Calluzzo and Cleary Report, at 7.
8 Drs. Calluzzo and Cleary Report, at 8-9.
9 Drs. Calluzzo and Cleary Report, Table 4.

B. Canadian Industry Analysis using Concentric data

Drs. Calluzzo and Cleary discuss issues with Concentric's CANSIM data, reiterating that 2024 annual data is unavailable and that data is reported only at the total industry level for the Retail and Wholesale industries. They also note certain sub-industries within the dataset that they feel are not suitable comparators for the Depots. Ultimately, due to the constraints of the data described previously, they accept Concentric's indicated return margin of 5.62% without modification.[10]

C. U.S. Industry Analysis using Compustat Data

As discussed previously, Drs. Calluzzo and Cleary conduct an additional return margin analysis using Compustat, an alternative database to Concentric's. Drs. Calluzzo and Cleary obtain pre-tax income, sales, and total asset data annually for companies with North American Industry Classification System ("NAICS") codes for the Retail Trade and Wholesale Trade broad industries, for the years 2022-2024. They also identify the country of domicile for these firms, to separate the total database into U.S. and Canadian geographic samples. Unlike Concentric's screening approach, where all *Value Line* industries are considered, filtered by 2024 asset turnover ratios, and then manually screened based on relevance, Drs. Calluzzo and Cleary do not apply a turnover screen and instead effectively determine that all companies within the Retail Trade and Wholesale Trade classifications are of comparable risk to the Depots.

Similar to their analysis using Concentric data, Drs. Calluzzo and Cleary winsorize U.S. return margin estimates at the 0% minimum and 20% maximum levels. Though they consider the results of also adding 2.0 to 9.0 or 1.50 to 4.0 asset turnover screens, they ultimately reject these results in favor of the results presented in Table 5, below.

[10] Drs. Calluzzo and Cleary Report, at 11-12.

Table 5: Drs. Calluzzo and Cleary U.S. Return Margin Result Using Compustat Data and 0% - 20% Winsorization[11]

U.S. Industry Return Margin Point Estimates	Average of Retail Trade and Wholesale Trade Broad Industry Averages	Average of All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	259.5	
Simple Average (Mean)	4.29%	4.28%
Weighted Average (Assets)	4.77%	5.13%
Weighted Average (Sales)	3.76%	4.16%
Weighted Average (Combined)	4.27%	4.65%
U.S. Average	4.37%	

D. Canadian Industry Analysis using Compustat data

For their alternative Canadian analysis, Drs. Calluzzo and Cleary use the same Compustat database described previously, but only consider companies domiciled in Canada. Similar to their U.S. Compustat analysis, Canadian return estimates are winsorized at the 0% minimum and 20% maximum levels, and no asset turnover filters are applied. Drs. Calluzzo and Cleary arrive at the results presented in Table 6, below.

Table 6: Drs. Calluzzo and Cleary Canadian Return Margin Result Using Compustat Data and 0% - 20% Winsorization [12]

CA Industry Return Margin Point Estimates	Average of Retail Trade and Wholesale Trade Broad Industry Averages	Average of All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	40.3	
Simple Average (Mean)	4.85%	4.93%
Weighted Average (Assets)	5.45%	5.57%
Weighted Average (Sales)	4.68%	5.06%
Weighted Average (Combined)	5.07%	5.31%
CA Average	5.04%	

E. Drs. Calluzzo and Cleary Recommendation

As discussed above, Drs. Calluzzo and Cleary average their results based on Concentric's data with their results based on the alternate Compustat database to arrive at recommended return

[11] Drs. Calluzzo and Cleary Report, Table 8, Panel A.
[12] Drs. Calluzzo and Cleary Report, Table 8, Panel B.

margins of 4.80% and 5.33% for U.S. and Canada, respectively. They average their U.S. and Canadian return margin estimates to determine an overall return margin estimate of 5.07%.[13] Drs. Calluzzo and Cleary also compare their recommended 5.07% return margin to previously approved pre-tax and after-tax return margins, as well as the earned after-tax return margin for Depots. [14]

III. EVALUATION OF DRS. CALLUZZO AND CLEARY RETURN MARGIN ANALYSIS

ScottMadden agrees with Drs. Calluzzo and Cleary's concern regarding the large number of companies excluded from Concentric's analysis due to their restrictive 2.0 to 9.0 asset turnover screen, as discussed on pages 9 through 14 of the ScottMadden Direct Evidence.

ScottMadden has six major concerns with Drs. Calluzzo and Cleary's return margin analysis, all of which serve to lower the indicated return margin for the Depots: (A) their treatment of negative return margin estimates and application of the winsorization technique; (B) their proposed exclusion of specific Canadian sub-industries; (C) their application of a return margin analysis based on Compustat data; (D) the results of their return margin analysis based on Compustat data; (E) their comparison to previously approved Depot return margins; and (F) their failure to reflect the Depots' increased risk as compared to the U.S. and Canadian industry groups based on its smaller relative size.

A. Negative Return Margin Estimates and Application of the Winsorization Technique

ScottMadden does not agree with Drs. Calluzzo and Cleary's retention of companies with negative return margins nor their use and justification of the winsorization technique. ScottMadden supports Concentric's statement that negative return margin estimates should be excluded, as

[13] Drs. Calluzzo and Cleary Report, at 16.
[14] Drs. Calluzzo and Cleary Report, at 17-18.

"[i]nvestors do not expect negative income to continue in perpetuity."[15] It is a violation of basic financial and economic theory to expect a rational investor to invest in a company expected to operate at a loss as a going concern. In other words, negative return margins represent a non-investable outcome and should be removed from any analysis. While negative returns represent a non-investable outcome, positive returns do not. An investor considering an investment in a company with a 30% or 40% return margin would not violate financial or economic theory.

Drs. Calluzzo and Cleary suggest that by eliminating companies with negative returns, Concentric is "throwing out these firms (and the information included in those low RM observations)".[16] ScottMadden does not agree with Drs. Calluzzo and Cleary's claim that the removal of companies with negative return margins is intended to upwardly bias Concentric's result – instead, their elimination is to remove non-investable outcomes, which are not relevant in estimating the Depot's return margin. As Drs. Calluzzo and Cleary apply a 0% return margin as the lower bound of their winsorization technique, they convert these negative return margin estimates into 0% return margin estimates and continue to give them weight in their analysis. Similar to negative returns, no rational investor would invest in a company expecting a 0% return margin, as their principal would erode with inflation.

Drs. Calluzzo and Cleary's omission of an asset turnover criterion compounds this error. Without an asset turnover filter, companies that are not comparable in risk to the Depots remain in Drs. Calluzzo and Cleary's analysis, resulting in margin estimates that reflect these risk differentials (including companies with returns below 0% and above 20%). In their U.S. Compustat return margin analysis, 241 return margin estimates out of 768 return margin estimates,

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15 The Appropriate Return Margin for the Bottle Depots, June 2, 2025, Concentric Energy Advisors, at 5. ("Concentric Report")

16 Drs. Calluzzo and Cleary Report, at 12-13.

or 31.38%, are assigned a 0% return margin value.[17] In other words, over a quarter of all estimates that comprise their final recommendation are nonsensical 0% return margin estimates.

Further, Drs. Calluzzo and Cleary do not present any theoretical or statistical evidence to support their selection of a 0% lower bound or 20% upper bound in their winsorization technique. Simply put, the limits assigned are ad-hoc. Additionally, Drs. Calluzzo and Cleary state that the 0% lower bound represents approximately the 23rd percentile of return margin data, but the 20% upper bound represents the 93rd percentile, suggesting an uneven distribution of return margin estimates.[18] This illustrates the subjectiveness of the winsorization technique – the end result is extremely sensitive to the upper and lower limits selected, and when the limits are not set based on a defined theoretical or statistical reason, the results are of limited use. On the other hand, Concentric's decision to eliminate negative values is grounded in economic theory, and not subjective.

B. Exclusion of Specific Canadian Sub-Industries

While Drs. Calluzzo and Cleary consider removing the "Beer, Wine and Liquor" sub-industry and "Cannabis Merchant Wholesalers" sub-industry from the Concentric's CANSIM data, they ultimately decide not to do so.[19]

Regarding the Beer, Wine and Liquor retailers sub-industry specifically, they meet the primary characteristics of the risk comparable entities specified in Appendix 1 to the Beverage Container Management Board ("BCMB") Return Margin Methodology Policy (i.e, they purchase products in competitive wholesale markets and accept risk by marking-up the price of these products and reselling them to retail consumers). Further, their product is sold in containers that

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17 Similarly, in their Canadian Compustat return margin analysis, 32 out of 120 observations (26.67%) are assigned a 0% return margin estimate.

18 Drs. Calluzzo and Cleary Report, at 8.

19 Drs. Calluzzo and Cleary Report, at 12.

are collected, processed, and deposits reimbursed by the Depots. Finally, the ABCC, a designated registered participant in this proceeding, is the collection system provider for the containers that beer beverages are sold in. As a result, Drs. Calluzzo and Cleary's suggestion that Beer, Wine and Liquor retailers "are not very good comparators to bottle depots"[20] is not a sufficient reason for considering their elimination from the analysis.

The Cannabis Merchant Wholesale sub-industry also meets the primary characteristics of the risk comparable entities specified in the Appendix 1 of the BCMB Return Margin Methodology Policy (i.e, they purchase products in competitive wholesale markets and accept risk by marking-up the price of these products and reselling them to retail consumers). Additionally, the Cannabis Merchant Wholesalers sub-industry comprises only 0.17% and 0.19% of the total 2022 and 2023 operating revenue of the Wholesale Trade industry, respectively, indicating it has an insignificant impact on the overall weighted average return margin estimate.

C. Application of a Return Margin Analysis Based on Compustat Data

ScottMadden does not disagree with the consideration of an alternate database to calculate a return margin for the Depots as presented by Drs. Calluzzo and Cleary. However, ScottMadden disagrees with Drs. Calluzzo and Cleary's decision to select their return margin estimate calculated without an asset turnover screen as their "best estimate" using Compustat data. The use of the asset turnover screen by Concentric and ScottMadden allows for the selection of companies that are risk-comparable to the Depots. Specifically, the asset turnover screen ensures that the companies selected meet the criteria specified in Appendix 1 to the BCMB Return Margin Methodology Policy, in particular, part b: "operate with relatively small invested capital". By exclusively screening potential comparable companies within the Retail and Wholesale industries based on

[20] Drs. Calluzzo and Cleary Report, at 12.

their return margin estimates, as Drs. Calluzzo and Cleary do, they assume that any company within those broad industry classifications that has a return margin estimate between 0% and 20% is a comparable-risk company, which fails to meet the criteria in the Return Margin Methodology Policy. For example, after filtering the Compustat data set to U.S. domiciled companies, it appears that Dr. Calluzzo and Cleary believe that a company with a turnover ratio of 0.014[21] is comparable in risk to the Depots, as well as a company with a turnover ratio of 13.146,[22] both of which are not realistic comparators.

Despite disagreeing with Concentric's turnover ratio threshold of 2.0 and 9.0, ScottMadden believes that Concentric's approach of applying a turnover screen is appropriate and necessary in order to result in a group of companies that are more comparable in risk to the Depot and align with Appendix 1 of the BCMB Return Margin Methodology. Unlike Drs. Calluzzo and Cleary's assumption that every company classified with NAICS codes within the Retail or Wholesale Trade broad industries is comparable in risk to the Depots, Concentric begins by determining the top 10 *Value Line* industries with the highest aggregate turnover ratios.[23] ScottMadden believes this step is crucial in ensuring comparability in business models. Concentric then performs a manual review of the resulting 10 industries to test for material differences in business models.

Whereas Concentric excludes the "Retail Automotive" industry for reasons listed on page 4 of the Concentric Report, ScottMadden's review of Drs. Calluzzo and Cleary's Compustat data revealed companies that would be considered "Retail Automotive"[24] were included in their analysis. ScottMadden continues to believe that these companies should not be included in the

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21 1606 Corp., 2023 estimate.

22 Parts iD Inc., 2022 estimate.

23 Concentric Report, at 2-4.

24 NAICS codes 423110 (Automobile and Other Motor Vehicle Merchant Wholesalers), 423120 (Motor Vehicle Supplies and New Parts Merchant Wholesalers), 423140 (Motor Vehicle Parts (Used) Merchant Wholesalers), 441110 (New Car Dealers), 441120 (Used Car Dealers), 441210 (Recreational Vehicle Dealers), 441222 (Boat Dealers), 441227 (Motorcycle, ATV, and All Other Motor Vehicle Dealers), and 441330 (Automotive Parts and Accessories Retailers).

analysis. Furthermore, companies operating in the Petroleum industry[25] were also included in the dataset, and for reasons discussed on pages 15-16 of the ScottMadden Direct Evidence, these companies should also not be included. Finally, ScottMadden did not identify any companies classified within the Restaurant industry in the Compustat data. As noted in the Concentric Evidence, companies within the Restaurant industry were included due to Concentric's screening approach. Beyond these identified industries, Drs. Calluzzo and Cleary's approach may permit other companies and industries to be included that may not be within the scope of inclusion identified in Appendix 1 to the BCBM Return Margin Methodology Policy.

D. Results of a Return Margin Analysis Based on Compustat Data

While reviewing Drs. Calluzzo and Cleary's workpapers accompanying their evidence, ScottMadden could not replicate the results presented in their Table 8. Though Drs. Calluzzo and Cleary state that their "analysis using the Compustat data is included in the working papers that are appended as Attachment D to [their] evidence, which supports the results reported in Tables 8 and 9 of [their] evidence,"[26] the referenced attachment only contained hardcoded versions of the tables presented in their report. In other words, no underlying supporting data or calculations were included.

ScottMadden requested the underlying data that supports Drs. Calluzzo and Cleary's Tables 8 and 9 in IR ABDA-DRP-1. After reviewing the raw Compustat data, ScottMadden attempted to recreate Drs. Calluzzo and Cleary's evidence by applying the following steps:

- Separating the data set into U.S. and Canadian domiciled companies to form the respective U.S. and Canadian return margin estimates;

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[25] NAICS codes 424710 (Petroleum Bulk Stations and Terminals) and 424720 (Petroleum Products Merchant Wholesalers (except Bulk Stations and Terminals)).

[26] Drs. Calluzzo and Cleary Report, at 13-14.

- Winsorizing the resulting return margin estimates at their 0% lower bound and 20% upper bound; and
- Calculating a simple average, weighted average based on assets, weighted average based on sales, and an average of the weighted averages. All averages were calculated at the industry level, and then averaged to form the "two industry average", as well across all companies to form the "average of all individual companies, regardless of industry" estimates.

ScottMadden understands the steps listed above to equate Drs. Calluzzo and Cleary's methodology discussed on pages 14 of their report. ScottMadden's recreated results are presented alongside Drs. Calluzzo and Cleary's results in Tables 7 and 8, below.

Table 7: Drs. Calluzzo and Cleary U.S. Return Margin Result Using Compustat Data and 0% - 20% Winsorization As Filed Compared to ScottMadden's Recreation

	Drs. Calluzzo and Cleary as-filed[27]		**ScottMadden Recreated**		**Difference in Results (ScottMadden Recreated less as-filed)**	
U.S. Industry Return Margin Point Estimates	**Average of Retail Trade and Wholesale Trade Broad Industry Averages**	**Average of All Individual Companies, Regardless of Industry**	**Average of Retail Trade and Wholesale Trade Broad Industry Averages**	**Average of All Individual Companies, Regardless of Industry**	**Average of Retail Trade and Wholesale Trade Broad Industry Averages**	**Average of All Individual Companies, Regardless of Industry**
Average Number of Firms per Year after Filters	259.5		256		-3.50	
Simple Average (Mean)	4.29%	4.28%	4.31%	4.28%	0.02%	0.00%
Weighted Average (Assets)	4.77%	5.13%	4.81%	5.23%	0.04%	0.10%
Weighted Average (Sales)	3.76%	4.16%	3.77%	4.20%	0.01%	0.04%
Weighted Average (Combined)	4.27%	4.65%	4.29%	4.70%	0.02%	0.06%
U.S. Average	4.37%		4.45%		0.08%	

[27] Drs. Calluzzo and Cleary Report, Table 8, Panel A.

Table 8: Drs. Calluzzo and Cleary Canadian Return Margin Result Using Compustat Data and 0% - 20% Winsorization As Filed Compared to ScottMadden's Recreation

	Drs. Calluzzo and Cleary as-filed[28]		ScottMadden Recreated		Difference in Results (ScottMadden Recreated less as-filed)	
CA Industry Return Margin Point Estimates	**Average of Retail Trade and Wholesale Trade Broad Industry Averages**	**Average of All Individual Companies, Regardless of Industry**	**Average of Retail Trade and Wholesale Trade Broad Industry Averages**	**Average of All Individual Companies, Regardless of Industry**	**Average of Retail Trade and Wholesale Trade Broad Industry Averages**	**Average of All Individual Companies, Regardless of Industry**
Average Number of Firms per Year after Filters	40.3		40.00		-0.30	
Simple Average (Mean)	4.85%	4.93%	4.88%	4.93%	0.03%	0.00%
Weighted Average (Assets)	5.45%	5.57%	5.47%	5.54%	0.02%	-0.03%
Weighted Average (Sales)	4.68%	5.06%	4.70%	5.04%	0.02%	-0.02%
Weighted Average (Combined)	5.07%	5.31%	5.08%	5.29%	0.01%	-0.02%
CA Average	5.04%		5.12%		0.08%	

As shown in Tables 7 and 8, Drs. Calluzzo and Cleary's results appear to be lower than ScottMadden's recreation. ScottMadden also observed that Drs. Calluzzo and Cleary state that the "final RM estimate is the average of the simple and combined weighted averages across the two industry averages and those of all individual companies",[29] which does not appear correct.[30] These disparities call into further question the validity of Drs. Calluzzo and Cleary's analysis and any return margin recommendations inferred from it.

[28] Drs. Calluzzo and Cleary Report, Table 8, Panel B.

[29] Drs. Calluzzo and Cleary Report, at 14.

[30] For their U.S. return margin estimate, [(4.29% + 4.28% + 4.77% + 5.13% + 3.76% + 4.16% + 4.27% + 4.65%) / 8] = 4.41%, 0.04% larger than the overall average value presented in Table 8, panel A. Similarly, for their Canadian return margin estimate, [(4.85% + 4.93% + 5.45% + 5.57% + 4.68% + 5.06% + 5.07% + 5.31%) / 8] = 5.12%, 0.08% larger than the overall average value presented in Table 8, panel B.

ScottMadden used Drs. Calluzzo and Cleary's Compustat database to calculate return margin estimates for the U.S. and Canada in line with ScottMadden's recommended approach. To do so, they applied the following steps to the Compustat data set.

- Separated the data set into U.S. and Canadian domiciled companies to form the respective U.S. and Canadian return margin estimates;
- Removed companies outside a turnover ratio threshold of 0.50 to 3.50;
- Removed companies with a negative return margin estimate;
- Removed companies operating in the Retail Automotive or Petroleum industries; and
- Calculated a simple average, weighted average based on assets, weighted average based on sales, and an average of the weighted averages. All averages were calculated at the industry level, and then averaged to form the "two industry average", as well across all companies to form the "average of all individual companies, regardless of industry" estimates.

ScottMadden's results from this approach to the analysis are presented in Tables 9 and 10, below. ScottMadden believes these results to be the only relevant results stemming from the Compustat dataset, as the usage of the asset turnover filter and exclusion of negative returns best aligns with Appendix 1 of the BCMB Return Margin Methodology Policy

Table 9: ScottMadden U.S. Return Margin Result Using Compustat Data[31]

U.S. Industry Return Margin Point Estimates	Average of Retail Trade and Wholesale Trade Broad Industry Averages	Average of All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	133.3	
Simple Average (Mean)	6.95%	6.98%
Weighted Average (Assets)	6.43%	6.74%
Weighted Average (Sales)	5.58%	5.88%
Weighted Average (Combined)	6.00%	6.31%
U.S. Average	6.36%	

[31] Drs. Calluzzo and Cleary Report, Table 8, Panel A.

Table 10: ScottMadden Canadian Return Margin Result Using Compustat Data [32]

CA Industry Return Margin Point Estimates	Average of Retail Trade and Wholesale Trade Broad Industry Averages	Average of All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	26.67	
Simple Average (Mean)	7.41%	7.52%
Weighted Average (Assets)	7.78%	6.13%
Weighted Average (Sales)	7.20%	5.69%
Weighted Average (Combined)	7.49%	5.91%
CA Average	6.89%	

ScottMadden re-iterates that Tables 9 and 10 represent their best return margin estimate analysis based on the raw data provided by Drs. Calluzzo and Cleary. Without the ability to pull Compustat data directly from WRDS, ScottMadden was unable to expand the scope of data considered and calculate a return margin estimate using Concentric's industry screening criteria. This also means that the return margin estimates in Tables 9 and 10 omit companies in the Restaurant industry. ScottMadden notes that Drs. Calluzzo and Cleary's Tables 4 and 5 illustrate that the exclusion of the restaurant industry lowers their U.S. return margin estimate by 66 basis points based on Concentric's data[33] and excluding the Restaurant industry from their Compustat data may likewise serve to lower the recommended return margin.

Finally, as discussed in further detail below, to correct for Drs. Calluzzo and Cleary's failure to consider the Depots' size in their return margin estimate, they should have selected a return margin estimate at the top of their range of indicated results. As shown in Table 11, below, the applicable range of pre-tax return margins applicable to the Depots based on Compustat data would be 6.63% - 7.38%, which is similar, but slightly lower than, the recommended pre-tax return margin in the ScottMadden Direct Evidence. ScottMadden believes that if Restaurant industry data

[32] Drs. Calluzzo and Cleary Report, Table 8, Panel A.

[33] Calculated as Drs. Calluzzo and Cleary Report's Table 4 overall average of 5.22% less Table 5 overall average of 4.56%.

were added, the result would likely be comparable to the recommended pre-tax return margin estimated in the ScottMadden Direct Evidence.

Table 11: Compustat Recommended Return Margin

	Midpoint	Top of Range	Recommendation*
Compustat Data Pre-Tax Return Margin Estimate	6.63%[34]	7.38%[35]	6.63% - 7.38%

*Prior to including Restaurant Industry

E. Comparison to Past Depot Earned and Authorized Returns

Drs. Calluzzo and Cleary's comparison to previously earned and authorized return margin estimates for support of their recommended return margin is without merit. No section of Part 4 of the BCMB Return Margin Methodology Policy suggests giving consideration to previously approved or earned return margins. Appendix 1 of the Return Margin Methodology Policy explicitly states that "[d]etermination of the Pre-tax Return Margin for the Depot system relies on analysis of the RM of Risk Comparable Entities". In other words, the return margin should be set based on the returns of the group of comparable risk companies. It is also reasonable for returns margins to be expected to move with economic conditions over time, like other market data. Relying on timely return margin data from comparable risk companies ensures that the return margin set in this proceeding reflects recent economic conditions, unlike past earned or authorized Depot returns.

F. Failure to Reflect the Depot's Higher Relative Risk due to their Smaller Size

Drs. Calluzzo and Cleary do not reflect the increased risk of the Depots due to their smaller size, which is discussed at length on pages 16-18 of the ScottMadden Direct Evidence. Like Concentric, Drs. Calluzzo and Cleary could have, but did not, move to the top of the range of return margins produced by their analyses to reflect the Depots' size risk.

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[34] The average of the U.S. average and the Canadian average, or (6.36% + 6.89%) / 2

[35] The average of the highest U.S. estimate and the highest Canadian estimate, or (6.98% + 7.78%) / 2

IV. RECOMMENDATIONS

ScottMadden agrees with Drs. Calluzzo and Cleary's concerns regarding Concentric's 2.0 to 9.0 asset turnover screen and their misleading labeling of an average based on "All 189 Companies, Regardless of Industry". ScottMadden disagrees with Drs. Calluzzo and Cleary's unjustified recommendation to include companies with negative return margin estimates, their use of winsorized results, and their omission of an asset turnover screening criteria, all of which are inconsistent with the BCMB's policy and serve to lower their indicated results. They also neglect to include the Restaurant industry. Further, ScottMadden was unable to replicate Drs. Calluzzo and Cleary's analysis using their raw data, which calls into question the validity of their recommended ranges of return margin and ultimate recommendation. If the BCMB would consider Drs. Calluzzo and Cleary's Compustat data, ScottMadden recommends using the return margin results presented in Table 11 above, but with the addition of the Restaurant industry.