2025-2026

Appropriate Return Margin for the Bottle Depots
(the "Return Margin Report")
Information Requests to:
Concentric Energy Advisors

Reference: (p. 2) Section 2: Approach to Calculating Return Margins

Return Margin Methodology Policy

- Section 4.2.1
- Appendix A

Issue/Sub-Issue: Identifying and selecting Risk Comparable Entities

Requests:

1. Please set out in detail the analysis Concentric performed in accordance with s. 4.2.1 of the Return Margin Methodology Policy to identify and select Risk Comparable Entities with reference to the risks of Alberta Depots as set out in Appendix A of the Return Margin Methodology Policy.

2. Other than using aggregate turnover ratios, what additional criteria did Concentric apply to determine if constituent companies were materially different from the bottling depot business model in Alberta?

3. Please outline in detail how Concentric incorporated the risk mitigation factors set out in Appendix A of the Return Margin Methodology Policy as they relate to risks faced by Alberta Depots as whole businesses into its identification and selection of Risk Comparable Entities.

Response:

1. As discussed on pages 1 and 2 of Concentric's report, the BCMB has previously determined that traditional rate of return regulation was not the best method for setting an authorized return for the Depots in Alberta because the Depots have significant working capital requirements and do not make significant capital investments in order to provide bottle recycling services. The BCMB, therefore, implemented a return margin methodology based on the average return margin for retail and wholesale companies with high turnover ratios.

   In order to develop a peer group of companies with similar risk characteristics as the Depots, as explained in Section 3 of

Concentric's report, we started by identifying companies that operate in industries with the highest turnover ratios. Concentric then calculated the turnover ratio for individual companies within those industry groups and selected companies with a turnover ratio greater than 2.0 and less than 9.0. This is consistent with the approach utilized in previous reports. We then calculated the pre-tax return margins for each of those companies over the last three years (i.e., 2022-2024), excluding those with negative return margins from the averages.

2. The specific business and operating risks that Concentric considered are discussed in Section 4 of our report on pages 10-14.

3. The industry groups and specific companies used in the "top down" approach were selected on the basis of specific screening criteria. In particular, to be included in the return margin calculation, the companies must have turnover ratios greater than 2.0 or less than 9.0 and have positive net income for the year. Concentric did not compare the business risks of the bottle depot business to those of the retail and wholesale companies used in the "top down" analysis other than as discussed in Section 4 of our report on business and operating risks. Please see pages 10-14 of the report for that discussion.

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Reference: Section 4: Rationale for Recommendation

(p. 9) "We have continued to consider three years of financial data in our "top down" approach because we believe it is important to smooth out any short-term anomalies that may occur in a given year and to identify industry trends that might suggest either a higher or lower return margin"

"We also continue to believe it is reasonable to exclude unprofitable companies from the return margin analysis."

"This approach is consistent with the methodology employed by Concentric and PEG in previous reports"

(p. 10) "As in our 2016 and 2019 reports, Concentric continues to believe that it is appropriate to use retail and wholesale industries to estimate the return margin for the Depots."

(p. 14) "Concentric did not attempt to quantify the impact of any of these specific risk factors."

"Rather, we believe it is appropriate to develop a range of operating margins for the Depots and then select a reasonable return margin based on an assessment of the relative risk of the Depots to the Canadian and U.S. industry groups that were identified as having similar operational and financial risk as the Depots"

Issue/Sub-Issue: Formula for identifying recommended pre-tax operating margin of 5.90% for the Depots

Requests:

1. Please confirm that the recommended pre-tax operating margin of 5.90% is simply the mathematical result of averaging the Canadian and US Pre-Tax Return Margin Point Estimates which, themselves, are mathematical outcomes from averaging return margins from US industry groups and individual companies and Canadian industry groups and companies as outlined on p. 7 of the June 2, 2025 report.
2. Please confirm these equations are the same equations used to produce previous recommendations of return margins in 2016 and 2019.

3. Please provide details respecting changes Concentric made to its process, analysis and formulas resulting from or in response to the

changes to the Return Margin Methodology Policy between the preparation of the 2019 Return Margin recommendation and the preparation of the 2025 Return Margin recommendation.

Response:

1. Confirmed. We clarify that our Canadian analysis did not include specific Canadian companies, but rather industry groups as reported by Statistics Canada.
2. The averaging methodology used in the 2019 and 2025 Return Margin reports are structurally the same, with one incremental change, which was the addition of two "Average of All 189 Companies, Regardless of Industry" return margin estimates into the 2025 analysis. (Note that after applying the turnover ratio screening thresholds discussed on page 5 of our report, there were between 33 and 37 companies included in this "All Companies" average; see the "Counts by Industry by Year" table provided in our response to ABCRC/ABCC-2a for more details). Concentric believes that these estimates represent reasonable alternative views of the industry groups' return margins, as they consider the number of companies that comprise each industry, rather than simply averaging each industry group down into one value. Including these two estimates in the averaging methodology had the effect of lowering the final recommendation. The remainder of the averaging methodology remained the same.
3. There were four changes made to Concentric's process, analyses, and formulas between the 2019 and 2025 reports:
    a. The removal of the bottoms-up method seen in the 2019 report. This was a BCMB-mandated change.
    b. The change to using pre-tax return margins instead of post-tax return margins. This was a BCMB-mandated change.
    c. The change to using S&P Capital IQ Pro data rather than Value Line data. This was necessitated by Value Line not providing the data required to calculate pre-tax return margins. Concentric included this alternative data source (in addition to Yahoo! Finance) to maintain data robustness.
    d. The incremental averaging methodology change noted in part 2 above.

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Information Requests to:
Concentric Energy Advisors

Reference: **2025.06.02.Attachment 1_U.S.Industry.Return.Margin.Analysis.Concentric spreadsheet**

Issue/Sub-Issue: **US Companies Included & Methodology**

Requests:

a. Please provide the number of companies that were used to derive the proposed US Industry Return Margin Estimate, for each of the industry categories - Retail Hardlines, Retail Softlines, Retail Store, Retail Building Supply, Retail Wholesale Food and Restaurants (i.e. number of companies used after excluding those with a Turnover Ratio Outliner and those with incomplete data), for each year (2022, 2023 and 2024).

b. Given that above 45% of the companies used in the analysis are from the Retail Wholesale Food Industry, please explain why the Industry Return Margins presented on Tab Summary by Industry are not weighted by the number of companies used in the analysis in each industry (i.e. rather than taking a simple average of the Pretax Return Margins across the six Industry categories)?

c. Please provide a revised analysis and Final Return Margin Recommendation with the Summary by Industry Pretax margins weighted by the number of companies used in the analysis in each industry.

Response:

a) These requested counts are as follows:

Counts by Industry by Year*	2024	2023	2022
Retail Hardlines	5	7	8
Retail Softlines	2	3	2
Retail Store	5	6	7
Retail Building Supply	1	2	3
Retail Wholesale Food	17	16	15
Restaurants	3	3	2
Total	**33****	**37**	**37**

*Represents the number of non-outlier companies with available data by industry by year
**Includes ODP Corp. and Lowe's Companies added back in, as described on page 5 of the Concentric report

b) Concentric agrees that it is reasonable to conduct an alternative analysis that weights each industry by the number of constituent companies. This is to ensure that any one industry is not given disproportionate weight if, for example, it only has one non-outlier company with available data. We addressed this in our original report by adding an analysis averaging all 189 companies without regard for industry, an incremental methodology change outlined in our response to ABCRC/ABCC-1.1. This analysis implicitly "weights" each industry by number of companies, as it no longer averages each industry down into one value with a weight of 1/6.

In general, Concentric believes that there is no singular "correct" way of averaging, weighting, or otherwise aggregating data for industry groups, and for that reason, we believe that developing several point estimates that utilize various averaging conventions and taking the midpoint of the resulting range is a reasonable approach.

c) Please see the requested analysis in ABCRC/ABCC 2c, Attachment 1. We replaced the "Average of All 189 Companies, Regardless of Industry" analysis results with the new estimates, since they are similar in substance, as explained in our response to part b. Doing so results in a U.S. estimate of 6.07%. Averaged with the Canadian estimate of 5.62%, this results in a final return margin recommendation of 5.84%. We do not find such a change to be necessary, but note that this alternative recommendation is within ten basis points of our original recommendation.

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2025June19-004

2025-2026

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Information Requests to:
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Reference: **2025.06.02.Attachment 1_U.S.Industry.Return.Margin.Analysis.Concentric spreadsheet**

Issue/Sub-Issue: **US Companies Included**

Requests:

a. Please explain why Winmark Corp, a franchise seller, was included the analysis, given that it is not a retail company.
b. Please explain why Concentric Energy Advisors believes Winmark Corp, with Pretax Return margins greater than 60%, is a Risk Comparable Entity to Alberta Bottle Depots.
c. Would Concentric Energy Advisors agree that Winmark Corp is a data outlier and should be excluded from the analysis? If not, please explain fully.
d. Please provide a revised analysis and Final Return Margin Recommendation excluding Winmark Corp from the analysis.

Response:

a. Winmark Corp. was included in the return margin analysis because it is classified by Value Line in the Retail Hardlines industry group and it passed the turnover ratio screen, with a T/O ratio of approximately 3.0. Concentric did not evaluate the specific business model of each individual company within an industry group. Rather, we relied on how Value Line classifies a company. Concentric also notes that Winmark Corp. was included in our 2019 return margin analysis for the Alberta Depots when the company had a much higher than average after-tax return margin, and its inclusion was not questioned by any of the interested parties at that time.

The following description from Yahoo! Finance indicates that Winmark Corp. operates in the retail industry as well as franchising:

"Winmark Corporation, a resale company, operates as a franchisor for small business in the United States and Canada. It franchises retail stores concepts that buys, sells, and trades in merchandise. The company also operates middle-market equipment leasing business under the Winmark Capital name. In addition, it buys and sells used

clothing and accessories geared toward the teenage and young adult market under Plato's Closet brand; and operates stores that buys and sells used and new children's clothing, toys, furniture, equipment, and accessories primarily to parents of children ages infant to 12 years under the Once Upon A Child brand. Further, the company buys, sells, and trades in used and new sporting goods, equipment, and accessories for various athletic activities that include team sports, such as baseball/softball, hockey, football, lacrosse, and soccer, as well as fitness, ski/snowboard, golf, and others under the Play It Again Sports brand; and buys and sells used women's apparel, shoes, and accessories under the Style Encore brand. Additionally, it buys, sells, trades in, and used and new musical instruments, speakers, amplifiers, music-related electronics, and related accessories under the Music Go Round brand; and operates an e-commerce platform that allows franchisees of Music Go Round, Play It Again Sports, and Style Encore brands to market and sell in-store product inventory online."

b. Concentric only excluded companies that had a negative return margin; we did not exclude companies on the basis of having a high or low return margin. While Winmark Corp.'s return is at the high end of the range, Concentric also included several companies with return margins of less than 2.0%, which is well below our recommendation for the Alberta Depots. In addition, we applied a weighted average return margin analysis based on asset size, which serves to mitigate the effect of Winmark Corp.'s high return margin since it is a smaller company in terms of total assets.
c. No, Concentric does not agree that Winmark Corp. should be excluded from the return margin analysis for the Alberta Depots for the reasons stated above, and consistent with our approach in the 2019 return margin report and analysis for the BCMB.
d. See ABCRC/ABCC - 4d, Attachment 1 for the requested analysis. If Winmark Corp. were excluded from the analysis, which we do not recommend, the pre-tax return margin for the Alberta Depots would be 5.49%. Note that this includes the effects of adding ODP Corp. and Lowes Companies back into the 2024 analysis, as outlined in our response to ABDA-RM-4.

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2025June19-005

2025-2026

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Reference: **<u>2025.06.02.Attachment 1_U.S.Industry.Return.Margin.Analysis.Concentric</u> spreadsheet**

Issue/Sub-Issue: **US Companies Included**

Requests:

a. Please explain why Restaurants were included the analysis, given that they are not retail companies and have a materially different risk and revenue profile from Alberta Bottle Depots.
b. Would Concentric Energy Advisors agree that Restaurants are not sufficiently like Alberta Bottle Depots and should be excluded from the analysis? If not, please explain fully.
c. Please provide a revised analysis and Final Return Margin Recommendation excluding Restaurants from the analysis.

Response:

a. It is a matter of debate whether Restaurants are considered a Retail Industry. The National Retail Federation in the U.S. excludes automobile sales, gasoline stations and restaurants when reporting national retail sales. However, other industry analysts include restaurants in the retail category, which is defined as "a seller of goods or commodities in small quantities to consumers." The NAICS code for restaurants is 72251. Concentric includes the Restaurant Industry in our analysis because several firms have turnover ratios greater than 2.0, and the firms have other similar risk characteristics to the Depots including direct contact with customers, high employee turnover, a frequent need for hiring and training, and shrinkage.
b. No, Concentric does not agree that Restaurants should be excluded from the return margin analysis for the Alberta Depots. As stated in the response to subpart (a), Restaurants have several of the same business and operating risk characteristics as the Alberta Depots, and therefore are an appropriate comparator for purposes of our analysis.
c. See ABCRC/ABCC - 5c, Attachment 1 for the requested analysis. If the companies in the Restaurant industry were excluded from the analysis, which we do not recommend, the pre-tax return margin for the Alberta Depots would be 5.66%. Note that this includes the effects

of adding ODP Corp. and Lowes Companies back into the 2024 analysis, as outlined in our response to information request ABDA-RM-4.

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2025June19-006

2025-2026

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Reference: **2025.06.02.Attachment.2 Canadian.Industry.Return.Margin.Analysis .Concentric spreadsheet**

Issue/Sub-Issue: **Canadian Companies Included**

Requests:

a. Please provide the number of companies in the Retail Trade industry category.
b. Please provide the number of companies in the Wholesale Trade industry category.
c. Comparing the number of Canadian and US companies used in the analysis, please explain why Concentric Energy Advisors believes a simple average of the derived Canadian and US Return Margin estimates is appropriate.

Response:

a. Statistics Canada does not provide the number of companies in its Annual Retail Trade Survey. A review of available details online shows that Statistics Canada states that "the total sample size for this survey is approximately 6,000 enterprises" and "the weighted collection response rate is 86.62%". See: https://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=2447#a3
b. See the response to part a.
c. Concentric does not believe there is a persuasive analytical reason to deviate from a 50-50 weighting of the U.S. and Canadian industry results. We did not find there to be sufficient analytical support for using an alternative weighting; e.g., 60-40. In addition, we employed the same 50-50 methodology in our 2019 report.

   In general, Concentric believes it is misguided to use the number of companies in each industry group as the sole basis for weighting the results. Rather, each analysis provides an estimated return margin that should be considered in the developing the range of reasonable estimates. For example, just because there are 6,000 respondents to the Canadian industry survey and only 33 companies passing Concentric's U.S. industry screens in 2024, does not mean the Canadian results should be weighted 6,000-to-33. It is only a reflection of the number of survey respondents on one hand and the number of companies covered by Value Line on the other, which is a meaningless comparison. As such, in developing our original report, we gave consideration to several different averaging conventions to develop a reasonable range, from which we chose the midpoint as our final return margin recommendation for the Alberta Depots.