RETURN MARGINS FOR ALBERTA BOTTLE DEPOTS

Evidence

of

Dr. Paul Calluzzo

Associate Professor, Toller Family Fellow of Finance

And

Dr. Sean Cleary, CFA

Professor of Finance

January 28, 2026

TABLE OF CONTENTS

1 INTRODUCTION

1.1 Qualifications

This evidence is prepared by Dr. Paul Calluzzo and Dr. Sean Cleary, CFA of Queen's University.

Dr. Calluzzo is an Associate Professor & Toller Family Fellow of Finance at the Smith School of Business at Queen's University. He earned his Ph.D. in Finance at Rutgers University in 2014 and holds a B.A. in Economics from Williams College. Dr. Calluzzo was recently retained as an expert by counsel in Nurse et al. v. Holden et al. His research and teaching have focused on topics in corporate finance, including how markets price and reward risk, and how firms react to these market conditions. His research has received extensive distinctions, including the Hillsdale Investment Management / CFA Society Toronto Research Award, the Smith School of business New Researcher Achievement Award, multiple best-paper awards from leading finance journals and conferences, several hundred thousand dollars in external research grants, extensive media coverage (e.g. Bloomberg, The Globe and Mail, Toronto Star), and fifteen publications in leading peer-review academic journals. In addition, he previously worked as a business consultant for IBM consulting.

Dr. Cleary has recently served as a consultant and expert witness for Board Counsel to the Nova Scotia Energy and Regulatory Boards Tribunal (NSERBT) in relation to the 2025 NS-NB Reliability Intertie Project (M12217), in the Nova Scotia Power (NSP) Maritime Link Incorporated 2025 application, and in the 2025-2026 General Rate proceedings for Nova Scotia Power Inc. (M12394). He has previously served as an expert witness on behalf of Ontario's Industrial Gas Users Association (IGUA) and the Association of Major Power Consumers in Ontario (AMPC) during the 2024 Ontario Energy Board (OEB) cost of capital proceedings, and previously for IGUA in the 2023 Enbridge Gas Inc. rebasing proceedings (EB-2022-0200). He has appeared as an expert witness for the Office of the Utilities Consumer Advocate of Alberta on several occasions including generic cost of capital proceedings in 2013-2014 (Proceeding ID 2191), 2015-2016 (Proceeding ID 20622), 2018 (Proceeding ID 22570), 2019-20 (Proceeding ID 24110), 2022-23 (Proceeding ID 27084), as well as the generic regulated rate option proceeding (Proceeding ID 2941) in 2014 and the EPCOR Energy Alberta 2018-2021 Energy Price Setting Plan proceeding (Proceeding ID 22357) in 2017. He also prepared

expert evidence on behalf of the Newfoundland Consumer Advocate in cost of capital hearings in 2015-2016, and in 2018.

In addition to this consulting work, Dr. Cleary's research has extensively involved examining corporate finance and cost of capital matters, consisting of over 35 publications. His work has been cited more than 6,300 times. Most of this work has dealt directly or indirectly with capital markets, capital structure, and cost of capital issues. He has authored or co-authored 14 finance textbooks, all of which deal with capital markets, capital structure, cost of equity, and cost of capital analysis. He also examines capital market conditions and estimates the cost of capital for actual companies on a regular basis, which he uses for teaching purposes. In addition, he previously worked as a commercial lender.

Our resumes are attached as Attachment A (Dr. Calluzzo) and Attachment B (Dr. Cleary) of our evidence.

1.2 Purpose of Evidence

This evidence is prepared in our role as consultants and expert witnesses on behalf of the Alberta Beverage Container Recycling Corporation ("ABCRC") and the Alberta Beer Container Corporation ("ABCC") in relation to the setting of 2025/2026 handling commissions and related policy issues.

We acknowledge that we have a duty to provide opinion evidence that is fair, objective and non-partisan.

2 EXECUTIVE SUMMARY

Concentric recommends a **5.93%** pre-tax margin, which is the average of its 6.25% estimate for the U.S. sample, and 5.62% for its Canadian sample. Our analysis suggests that 5.93% is **too high** for several reasons discussed in our evidence.

Concentric's 6.25% pre-tax margin estimate for their U.S. sample is **upwardly biased** due to its decision to delete companies with negative pre-tax margins. We adjust for this by including additional available observations in determining the final U.S. sample estimate (using the Concentric U.S. sample) and reducing the upward bias associated with their decision to completely eliminate negative return margin observations by employing a commonly employed econometric approach of winsorizing return margins (at 0% and 20%) to arrive at a more appropriate U.S. estimate of **5.22%** using this sample.

Concentric's Canadian sample does not include company-level data, but rather relies on industry-level data. Concentric notes this issue on page 6 of its revised Return Margin Report that "One limitation of the CANSIM source is that the data are reported in aggregate by industry category and not at the firm/company level." We further note that Concentric's Canadian sample does not include more recent 2024 data, unlike its U.S. sample. However, given the limited options available in using this sample, we also use Concentric's **5.62%** estimate as our best estimate for this Canadian sample. Taking the average of these two estimates, we obtain an overall average of **5.42%** using only Concentric's original samples.

Given the sample issues noted above, we extend our analysis to use alternative data from a widely used database (Compustat). This provides additional informative evidence. Specifically, we construct an alternative U.S. sample over the same time period, and a Canadian sample that includes company-level (and not just industry-level) data, and which also includes data for 2024 (and not just for 2022 and 2023).

Our analysis of these two new samples results in best estimates of 4.37% for U.S. companies and 5.04% for Canadian companies, with an overall average of **4.71%**. Combining these best estimates with those using the original Concentric sample best estimates, results in our overall best estimates of 4.80% for U.S. companies and 5.33% for Canadian companies, and an overall pre-tax margin recommendation of **5.07%.**

Our pre-tax margin recommendation of 5.07% translates into corresponding after-tax margins of 3.70% at a 27% tax rate, and 3.55% at a tax rate of 30%. These after-tax margins are more **consistent with previous approved after-tax margins** that have averaged 3.72% since 2013-2014; albeit slightly below the 2019-2020 approved margin of 3.85%. Our recommended pre-tax margin also translates into after-tax margins that are **above** the average earned after-tax return margin for Alberta depots over the 2018-2024 period of 3.33% (median 2.87%).

In contrast, Concentric's pre-tax margin recommendation of 5.93% translates into an after-tax margin of 4.33% at a 27% tax rate and 4.15% at a 30% tax rate, both of which are **well above** previous approved margins, and are around **1% higher** than average (median) earned after-tax margins over the 2018-24 period.

Our approach is consistent with the "Return Margin Methodology Policy" approved by the Beverage Container Management Board on April 23, 2023. Specifically, we: (1) use samples of retail & wholesale comparable companies using recent multi-year data (2022–2024); (2) report both simple and economically weighted averages (based on sales and assets); and, (3)

apply a transparent and commonly used outlier treatment (winsorization) rather than excluding negative outcomes. This produces a robust estimate that aligns with the Policy's methodology. Concentric's approach is directionally aligned with the Policy in its use of retail & wholesale comparable companies and its use of recent data. However, they impose some discretionary decisions (notably by deleting all negative return margins, by applying asset turnover screens that significantly reduce the number of observations, and by including certain industries). These decisions materially reduce the representativeness of their estimates and biases its resulting RM recommendation upwards.

3 A REVIEW OF CONCENTRIC'S ESTIMATES

Concentric recommends a 5.93% pre-tax margin, which is the average of its 6.25% estimate for the U.S. sample, and 5.62% for its Canadian sample. We review and discuss Concentric's analysis in the sub-sections below.

3.1 U.S. Estimates

Concentric provides the following summary of its estimates for its U.S. sample in Figure 3 (page 7) of its evidence:

Figure 3: U.S. Industry Analysis: Pre-Tax Return Margin Point Estimates

U.S. Industry Return Margin Point Estimates[4]	Average of Six Industry Group Averages	Average of All 189 Companies, Regardless of Industry
Simple Average	7.97%	6.31%
Weighted Average, weighted by assets	6.16%	4.54%
Average	6.25%	

We examine these results in greater detail, with the analysis being included in the working papers that are appended as Attachment C to our evidence.[1]

We begin by noting that the third column in Figure 3 of Concentric's evidence is misleading, because the averages provided in this column are not for 189 firms, because after applying their filters they are left with 37 firms in 2022 and 2023, and 33 firms in 2024.[2]

[1] Appendix C includes the analysis supporting Tables 1-6 of our evidence.

[2] The results that Concentric presents are the average across two distinct samples of data provided by Yahoo and S&P. For each individual dataset the number of firms in the analysis is even less than the combined figure cited above. After the filters,

In Attachment C, we begin our analysis by examining the impact of Concentric's two major screens which cause them to entirely eliminate firms from their sample with: (1) negative pre-tax return margins (RM); and/or (2) asset turnover (AT) ratios below 2 or above 9. Table 1 shows the number of firms removed from the sample by the two filters each year across the Yahoo and S&P data. On average 43.3 firms have RMs less than 0 and are removed, and 148.2 firms have a turnover ratio less than 2 or greater than 9 and are removed.[3] The number of deletions is sizable given the sample begins with 189 firms before filters, but due to missing data in some firm-years, the original number of firms only averages 182.3 firms to begin each year.

TABLE 1

Number of Firms Removed from Sample Due to Concentric's Screens

	Return Margin Filter		Turnover Filter		Firms with Missing Data	
	Yahoo	S&P	Yahoo	S&P	Yahoo	S&P
2022	47	38	152	151	0	3
2023	46	41	151	151	2	3
2024	39	49	132	152	28	4
Average	**43.3**		**148.2**		**6.7**	

We next use Concentric's data to replicate their results, which we present in Table 2. We supplement their analysis by also computing the weighted average based on sales, in addition to their weighted average based on assets.[4] The average weighted average by sales is 6.17%, which is very similar to the 6.16% weighted average by assets. The weighted average by sales across all individual companies, regardless of industry is 4.18%, which is less than the 4.54% weighted average by assets. Weighting by sales and assets are both economically justifiable and intuitive, so we include both measures in the final return margin weight by taking an average across each measure, termed the "weighted average, combined" in Table 2. As a final

the Yahoo data is left with 34 firms in 2022, 32 firms in 2023, and 26 firms in 2024. The S&P data is left with 34 firms in 2022, 33 firms in 2022 and 30 firms in 2024.

[3] We further note that the Concentric sample also includes two firm-year exceptions to the turnover filter. These two observations fall just below the 2.00 turnover cutoff but were added back into the sample.

[4] The Concentric report also relies on weightings by sales in their analysis of Canadian firms, which uses income and revenue data at the aggregate industry level. Aggerating to the industry level gives greater weight to the larger values of each variable.

step we take the average of the combined weighted averages and the simple averages, which shows that the overall average RM changes very little – declining from 6.25% to 6.20%.

TABLE 2

Return Margin Estimates with Concentric Data Filters

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	31.5	
Simple Average (Mean)	7.97%	6.31%
Weighted Average, weighted by assets	6.16%	4.54%
Weighted Average, weighted by sales	6.17%	4.18%
Weighted Average, combined	6.16%	4.36%
Average	**6.20%**	

Concentric eliminates all values with RMs below 0%. However, by both excluding firms at the low extremes of RM and including firms at the high extremes of RM, the estimate of the average return margin becomes "upwardly biased." For example, Winmark Corp., which survives the turnover filter and so is included in the final RM calculation, has a RM over 60% in both the Yahoo and S&P data in all three years. This figure is approximately three times higher than the next highest RM in the sample - Nathans Famous Inc., which in 2022 has a 19.8% RM in the Yahoo data and a 20.5% RM in the S&P Data.

We examine the impact of Concentric's decision to eliminate negative RM firms from the sample by replicating Concentric's results, but allowing for the inclusion of firms with negative RMs. Table 3 shows that the final RM figure drops substantially after including negative RM firms: from 6.20% to 3.85%. The impact of the inclusion of these firms is uneven across the different averages that make up the final estimate. Specifically, the two simple average measures drop substantially (from 7.97% to 2.85% across industries, and from 6.31% to 3.91% across all companies), which is expected as we are now including observations that are lower than any of those included in the original sample. The weighted average across industries also drops considerably (for weighted average, combined from 6.16% to 4.37%), but the weighted average across all companies, which implicitly minimizes outliers by giving greater weight to the most economically relevant companies, only drops minimally (for weighted average,

combined from 4.37% to 4.27%). Notably the weighted averages across industries and across individual companies become very close (4.37% and 4.27%). The overall average RM declines from 6.20% to 3.85%.

TABLE 3

Return Margin Estimate that Includes Firms with Negative Return Margins

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)	2.85%	3.91%
Weighted Average, weighted by assets	4.37%	4.45%
Weighted Average, weighted by sales	4.37%	4.08%
Weighted Average, combined	4.37%	4.27%
Average	**3.85%**	

It is important to control for the effects of outliers that can have a disproportional impact on sample averages. Academic empirical finance research literature commonly addresses this issue by "winsorizing" data,[5] which caps and replaces extreme values at certain minimum and maximum values (e.g., winsorizing at the 5%/95% level would mean setting all values above the 95th percentile to the 95th percentile value, and all values below the 5th percentile to the 5th percentile value).

We minimize the impact of outliers (while maintaining the AT screen) without throwing out relevant observations by winsorizing the return margins at both negative and positive extremes. Specifically, we set a minimal margin value of zero (the 24th percentile in Yahoo data and the 22nd percentile in the S&P data), and a maximum value of 20% (the 93rd percentile in both the Yahoo and S&P data). We use zero as the floor to minimize the significant upward impact on the overall average that arises from completely ignoring negative RM observations, and we use 20% as the upper limit to reduce the influence of abnormally high RMs on overall averages.

[5] Winsorizing data is a widely used standard practice in empirical finance research as a method of recognizing the existence of a number of extreme high and low observations (rather than simply discarding them), while at the same time minimizing the effects of extreme observations. See for example Kothari, Sagar P., Jowell S. Sabino, and Tzachi Zach, "Implications of survival and data trimming for tests of market efficiency," *Journal of Accounting and Economics*, 39.1 (2005): 129-161.

These results are presented in Table 4, with **5.22% representing our best estimate** of the pre-tax RM based on Concentric's U.S. sample.[6]

TABLE 4

Return Margin Estimates after Applying a 0% and 20% Return Margin Winsorization

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, weighted by assets	5.92%	4.46%
Weighted Average, weighted by sales	5.93%	4.09%
Weighted Average, combined	5.92%	4.28%
Average	**5.22%**	

We next examine the robustness of our RM estimates and those of Concentric's due to the industry composition of the sample. Concentric chooses its six industries using a three-step process: (1) filtering for ten industries with the highest aggregate turnover in 2024; (2) manually screening these industries to determine if they were materially different from the bottling depot business model; and, (3) manually adding the restaurant industry to the sample. Concentric does not provide data for the five high-turnover industries (electronics, retail automotive, medical services, engineering and construction, and publishing) that they exclude, so we are unable to document the impact that this step has on their RM estimate.

We examine the impact of Concentric's discretionary decision to include the restaurant industry, by recomputing the RM estimate without including this industry in the sample. We apply the 0%/20% RM winsorization of the data, so that the estimate is comparable to our previous best estimate. Table 5 presents these results which show that the inclusion of the

[6] In unreported results, we also recomputed the averages by applying winsorization at the following minimum/maximum percentiles, achieving the following results: (1) 5%/95% - RM estimate = 3.92%; (2) 10%/90% - RM estimate = 4.59%; and, (3) 20%/80% - RM estimate = 4.58%.

restaurant industry inflates the RM estimate - specifically the RM estimate of 5.22% (as reported in Table 4) decreases to 4.56% after excluding restaurants.[7]

TABLE 5

Return Margin Estimates using the 0%/20% Return Margin Winsorization Approach and After Excluding the Restaurant Industry

U.S. Industry Return Margin Point Estimates	Average of Five Industry Averages (after excluding Restaurants)	Average of All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	32.3	
Simple Average (Mean)	5.25%	3.89%
Weighted Average, weighted by assets	4.89%	4.43%
Weighted Average, weighted by sales	4.83%	4.06%
Weighted Average, combined	4.86%	4.25%
Average	**4.56%**	

We also consider the robustness of the results to the inclusion of the building supply industry, which consists of only Lowes Companies Inc. in 2024, Lowes and Home Depot Inc. in 2023, and Lowes, Home Depot and Watsco Inc (which is only 3% of the within industry weighted average) in 2022. These companies, which hold machinery and costly building supplies, are much more inventory intensive than recycling Depots, and are thus not great comparables to the Depots. Table 6 shows that when we remove the building supply industry from the sample and winsorize the return margin at 0%/20%, the average RM estimate drops from 5.22% (as reported in Table 4) to 4.22%.[8]

TABLE 6

Return Margin Estimates using the 0%/20% Return Margin Winsorization Approach and after Excluding the Building Supplies Industry

[7] In unreported results we also compute the RM estimate without the restaurant industry and with the negative RM exclusion used in the original Concentric report. We similarly find that the RM estimate is lower when we exclude the restaurant industry, which declines from 6.20% (as reported in Table 2 of its evidence) to 5.64%.

[8] In unreported results, we also compute the RM estimate without the building industry and with the negative RM exclusion used in the original Concentric report. We similarly find that the RM estimate is lower when we exclude the building industry, which declines from 6.20% (as reported in Table 2 of its evidence) to 5.30%.

U.S. Industry Return Margin Point Estimates	Average of Five Industry Averages (after excluding Building Supply)	Average of All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	32.8	
Simple Average (Mean)	5.10%	4.01%
Weighted Average, weighted by assets	4.64%	3.17%
Weighted Average, weighted by sales	4.66%	3.08%
Weighted Average, combined	4.65%	3.12%
Average	**4.22%**	

Finally, in unreported results, we estimate the average RM after excluding both the restaurant and building supply industry. When we use the 0%/20% RM winsorization approach, we find an average RM of 3.26% (vs. 5.22% as reported in Table 4), and when we use the negative RM filter as in the original Concentric report we find an average RM of 4.47% (versus Concentirc's estimate of 6.20% as reported in Table 2).

3.2 Canadian Estimates

Concentric uses data from the CANSIM database to estimate average pre-tax margins for the Canadian Retail (Total) and Wholesale (Total) industries for 2022 and 2023, and then takes the average of these four averages to arrive at its overall Canadian sample pre-tax margin estimate of 5.62%. Concentric notes on page 6 of its revised Return Margin Report that "One limitation of the CANSIM source is that the data are reported in aggregate by industry category and not at the firm/company level."

The four averages for the Total Retail and Total Wholesale industries used by Concentric seem reasonable. It is noteworthy that the Retail and Wholesale "Total" averages do NOT equal the simple average of sub-industry averages, which are much higher, as can be seen in Table 7 below.

TABLE 7

Canadian Retail and Wholesale "Total" Return Margins vs. Simple Averages of Sub-Industry Averages

Industry Return Margins (%)	2022	2023

Retail (Total)	**6.42**	**5.97**
Retail (Average of Sub- Industry Averages from Figure 9)	7.32	6.84
Retail (Average of Sub- Industry Averages from Figure 9, excluding "Beer, wine and liquor retailers)	6.63	6.15
Wholesale (Total)	**5.48**	**4.60**
Wholesale (Average of Sub-Industry Averages from Figure 10)	7.60	6.81
Wholesale (Average of Sub-Industry Averages, excluding "Cannabis merchant wholesalers)	7.36	6.53

Figure 9 of Concentric's report shows that the 2022 and 2023 averages of 26.74% and 26.01% for the "Beer, wine and liquor retailers" sub-industry Retail category are much higher than for the other sub-industries, and ideally they should be deleted, as they are not very good comparators to bottle depots. This is also true for the "Cannabis merchant wholesalers" sub-industry Wholesale category, which Figure 10 reports 2022 and 2023 return margin averages of 16.25% and 16.71% respectively. However, Table 7 shows that even when these two sub-industries are deleted, the averages across the sub-industry categories is still well above the Retail (Total) and Wholesale (Total) averages, and seem too high intuitively. This is likely due to the fact that the Retail (Total) and Wholesale (Total) averages are computed from aggregate sales data, which is equivalent to weighting by sales, and points to the limitation of having only industry level data and not company level data.

While it would be preferable to have firm level data rather than industry level data, such data is not available in the CANSIM sample provided by Concentric, so this is not an option to explore further using this sample data. We also note that the Canadian sample does not include more recent 2024 data as does its U.S. sample, which includes individual firms over the 2022-2024 period. Given these constraints, our best estimate based *solely* on using Concentric's Canadian sample data is the same as the **5.62%** estimate provided by Concentric.

3.3 Our Overall Estimates Based Solely on Concentric's Samples

As discussed in Section 3.1, we adjust for the **upward bias** in Concentric's pre-tax margin estimate of 6.25% that is caused by their decision to eliminate an average of 43 firms per year that have a negative return margin, which completely eliminates all very low margin firms from their original sample of 189. Rather than throwing out these firms (and the information

included in those low RM observations), we employ a commonly used econometric technique by winsorizing the return margins at a minimum value of zero and at a maximum value of 20%. This results in an overall average pre-tax margin estimate of **5.22%**, which represents our best estimate of the pre-tax RM based on Concentric's U.S. sample.

As discussed in Section 3.2, we use the **5.62%** pre-tax margin estimate for the Canadian sample. Taking the average of these two estimates, we obtain an overall pre-tax margin estimate of **5.42%**, based solely on the Concentric U.S. and Canadian samples.

4 ESTIMATES DERIVED USING COMPUSTAT DATA

4.1 Sample Differences

In this section we replicate Concentric's RM analysis using data from an alternate database, Compustat. This analysis provides additional informative evidence. Compustat is a standardized database of public-company fundamentals (income statement, balance sheet, cash flow, financial ratios) and related market data. It includes U.S. and Canadian publicly held firms with annual accounting data and is the standard dataset used for this information in the academic literature. There are several advantages to using this data. For Concentric's U.S. analysis, it provides an alternative sample. For Concentrics's Canadian analysis, it allows us to examine Canadian data at the firm (rather than industry) level. This more granular level of data allows us to implement the 0%/20% RM winsorization technique to mitigate the impact of outliers that may not be representative of the sample. An additional advantage of Canadian Compustat data is that it spans 2022-2024, in contrast the 2022-2023 industry-level CANSIM data that Concentric uses. This allows us to compute RMs over the full 2022-2024 period, consistent with the U.S. analysis.

We conduct our analysis by downloading the complete Compustat U.S. and Canadian company data from the Wharton Research Data Services (WRDS) online repository for the years 2022-2024. We then apply two filters on this data. First, we use the North American Industry Classification Code (NAICS) variable contained in the Compustat dataset to identify firms classified as operating in the Retail Trade and Wholesale Trade industries, which is consistent with Concentric's Canadian sample it employs. Second, we identify Canadian and U.S. firms using their location of incorporation, and if that variable is missing, the location of their headquarters. Our analysis using the Compustat data is included in the working papers that are

appended as Attachment D to our evidence, which support the results reported in Tables 8 and 9 of our evidence.

4.2 Compustat Sample Estimates

To compute the pre-tax return margins for these firms, we use Compustat variables that measure each firms' pre-tax income, sales, and total assets so that we can also weight the RM's by assets. Consistent with our previous U.S. Concentric sample analyses, we winsorize RM data at 0%/20% to mitigate the impact of outliers. We again compute both a simple average, and estimate weighted average RMs by both asset and sales, and take an average of these estimates. We also compute results using both the average of the two industry averages, and the average of all companies regardless of industries. 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. Table 8 presents the results of this analysis. The U.S. sample uses data from 259.5 firms on average per year and reports an average RM estimate of 4.37%, which is 0.85% below our 5.22% estimate that was determined using Concentric's U.S. sample. The Canadian sample uses data from 40.3 firms on average per year and reports an average RM estimate of 5.04%, which is 0.58% lower than the average RM reported by Concentric for Canadian industry averages for 2022 and 2023 using CANSIM data.[9]

TABLE 8

Compustat Sample Pre-Tax Return Margin Estimates

PANEL A

U.S. Industry Return Margin Point Estimates	**Average of Two 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, weighted by assets	4.77%	5.13%
Weighted Average, weighted by sales	3.76%	4.16%
Weighted Average, combined	4.27%	4.65%
Average	**4.37%**	

[9] In unreported analyses, we also compute RM averages without applying our 0%/20% RM winsorization. This results in lower average RM estimates of 3.83% for U.S. firms and -7.12% for Canadian firms, which are driven by extreme lower values reducing the simple average estimate.

PANEL B

Canadian Industry Return Margin Point Estimates	Average of Two 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, weighted by assets	5.45%	5.57%
Weighted Average, weighted by sales	4.68%	5.06%
Weighted Average, combined	5.07%	5.31%
Average	**5.04%**	

We next examine the impact of the turnover screen applied by Concentric using Compustat data. As highlighted in Table 1, implementing a 2 to 9 turnover filter dramatically decreases the number of firms in the analysis as it did in the original Compustat U.S. sample, which resulted in eliminating an average of 148 out of 189 firms each year. This screen similarly eliminates a large number of firms in our Compustat sample, leaving the Canadian sample with an average of only 9.7 firms in each year (versus 40.3 without the turnover filter). Given this issue, we also examined the impact of implementing a turnover filter at the 1.50 to 4.00 level (as used by Concentric in the Appendix of its report), which leaves 49.7% of the original Canadian sample (i.e., on average 20.0 firms each year versus 40.3 in the full sample), and 41.2% (i.e., 106.8 firms on average) of the U.S. sample being retained.

Table 9 presents the RM estimates when we filter firms based on an AT ratio between 1.50 and 4.00, and winsorize RMs at the 0%/20% level. This analysis produces an average RM estimate of 4.22% for U.S. firms and 3.38% for Canadian firms, both of which are lower than the estimates without the turnover filter. As shown in Concentric's Appendix and in prior literature,[10] low AT firms tend to have higher RMs than high AT firms, so a filter that disproportionally excludes high AT firms, and includes low AT firms results in higher RM estimates. In unreported results, we also compute RM estimates using the 2.00 and 9.00 AT thresholds and the 0%/20% winsorization, which produces an average RM of 2.61% for U.S. firms and 3.38% for Canadian Firms.

TABLE 9

[10] Academic literature shows a negative relation between firm asset turnover and return margin. For example, refer to Nissim, Doron, and Stephen H. Penman, "Ratio analysis and equity valuation: From research to practice," *Review of Accounting Studies* 6.1 (2001): 109-154; and, Selling, Thomas I., and Clyde P. Stickney, "The effects of business environment and strategy on a firm's rate of return on assets," *Financial Analysts Journal* 45.1 (1989): 43-52.

Compustat Return Margin Estimates with Turnover Filter at 1.50 to 4.00

PANEL A

U.S. Industry Return Margin Point Estimates	Average of Two Industry Averages	Average of All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	106.8	
Simple Average (Mean)	3.96%	3.92%
Weighted Average, weighted by assets	4.51%	4.83%
Weighted Average, weighted by sales	4.20%	4.50%
Weighted Average, combined	4.36%	4.67%
Average	**4.22%**	

PANEL B

Canadian Industry Return Margin Point Estimates	Average of Two Industry Averages	Average of All Individual Companies, Regardless of Industry
Average Number of Firms per Year after Filters	20.0	
Simple Average (Mean)	3.21%	3.19%
Weighted Average, weighted by assets	3.29%	3.92%
Weighted Average, weighted by sales	3.23%	3.83%
Weighted Average, combined	3.26%	3.87%
Average	**3.38%**	

In conclusion, our best estimates based on the Compustat samples are those found in Table 8, which represent the U.S. and Canadian Compustat sample estimates after winsorizing the data using the 0%/20% RM levels, and without applying an AT screen. This leaves us with a **5.04%** best estimate for Canada, a **4.37%** for the U.S., and an overall best estimate of **4.71%**

5 OVERALL RECOMMENDATIONS

5.1 Recommended Pre-Tax Return Margins

Table 10 summarizes our analyses in the previous two sections, using Concentric's sample (Section 3), and using Compustat company level data (Section 4). Table 10 shows that the average of the two Canadian pre-tax margin estimates is 5.33% and the average of the two U.S. estimates is 4.80%. Taking the average of these two estimates, we arrive at our best estimate of the appropriate pre-tax margin that should be approved for Alberta depots of **5.07%**. We

discuss the relationship between this recommendation and previous approved "after-tax" return margins in Section 5.2.

TABLE 10

BEST ESTIMATES

Sample	Canada	U.S.
Concentric Samples	5.62%	5.22%
Compustat	5.04%	4.37%
Average	5.33%	4.80%
BEST OVERALL ESTIMATE	**5.07%**	

5.2 Comparison to Previous Approved Return Margins

This section provides insights as to how the Calluzzo & Cleary, and the Concentric recommended pre-tax margin returns compare to previous approved "after-tax" margins. Specifically, the 2019-2020 approved after-tax margin was 3.85%, the 2017 approved after-tax margin was 3.32%, and the 2013-2014 approved after-tax margin was 3.98%, with a simple average of these margins being 3.72%. It is also informative to note that the average "earned" after-tax return margin for Alberta Depots over the 2018-2024 period was well below the average approved margins, sitting at 3.33% (median 2.87%) according to data provided by Concentric.

Table 11 estimates the corresponding after-tax margins[11] based on the two recommended pre-tax margins using: (1) the 27% tax rate used by Concentric in its 2019 evidence (footnote 5, page 12); and, (2) the 30% tax rate referenced by Concentric in its revised 2025 evidence (page 15), which also equals the 2025-2026 statutory rate for small Alberta Canadian Controlled Private Corporations.[12]

TABLE 11

AFTER-TAX MARGIN APPROXIMATIONS

Sample	Concentric	Calluzzo & Cleary
Pre-Tax Margin Estimate	5.93%	5.07%
After-Tax (using 27% tax rate)	4.33%	3.70%

[11] Calculated as: After-tax margin = Pre-tax margin × (1 -Tax Rate).
[12] Source: Attachment E, "Corporate Tax Rates," KPMG, December 31, 2025.

After-Tax (using 30% tax rate)	4.15%	3.55%

Table 11 shows that our pre-tax margin recommendation of 5.07% translates into an after-tax margin of 3.70% at a 27% tax rate, which **approximately equals** the 3.72% average approved margin since 2013-2014, while being slightly below the 2019-2020 approved margin of 3.85%. The corresponding margin of 3.55% at a tax rate of 30% is further below both the approved average since 2013-2014 and the 2019-2020 approved margins, but still **relatively close** to both figures.

In contrast, Concentric's pre-tax margin recommendation of 5.93% translates into an after-tax margin of 4.33% at a 27% tax rate and 4.15% at a 30% tax rate, both of which are **well above** both the 3.72% average approved margin since 2013-2014, and the 2019-2020 approved margin of 3.85%. Hence, Concentric's recommendation suggests a **significant increase in approved return margins**, while ours implies a similar or slightly lower approved margin.

It is also informative to note that our recommended pre-tax margins translate into after-tax margins that are **above** the average earned after-tax return margin for Alberta depots over the 2018-2024 period of 3.33% (median 2.87%), while Concentric's recommended pre-tax margin is approximately **1% higher** on an after-tax basis.

6. CONCLUSIONS

Our evidence addresses some of the limitations in Concentric's analysis and makes the following improvements and enhancements to their recommendation:

1. We improve upon Concentric's 6.25% pre-tax margin estimate using their U.S. sample by including additional available observations in determining the final estimate and reducing the upward bias associated with their decision to completely eliminate negative return margin observations, while simultaneously including abnormally high return margins. We do so by using a commonly employed econometric approach of winsorizing the return margin data at 0% and 20% to arrive at a more appropriate U.S. estimate of 5.22% using Concentric's U.S. sample. This leads us to an overall estimate using only Concentric's samples of **5.42%**.

2. We construct new U.S. and Canadian samples using a widely used database (Compustat), which provides additional informative evidence. Specifically, we provide an alternative U.S. sample using a widely used database that also provides us with a

Canadian sample that includes company-level data (and not just industry-level data), and which also includes data for 2024 (and not just for 2022 and 2023). Our analysis of this sample results in a 4.37% U.S. sample estimate, a 5.04% Canadian sample estimate, and an overall estimate of **4.71%**.

3. Taking an average of our overall estimates using two different samples as noted in (1) and (2) above results in our resulting pre-tax margin recommendation of **5.07%.** This recommendation translates into after-tax margins of 3.70% at a 27% tax rate, and 3.55% at a tax rate of 30%. These after-tax margins are more **consistent with previous approved after-tax margins** that have averaged 3.72% since 2013-2014; albeit slightly below the 2019-2020 approved margin of 3.85%. In contrast, Concentric's pre-tax margin recommendation of **5.93%** translates into an after-tax margin of 4.33% at a 27% tax rate and 4.15% at a 30% tax rate, both of which are **well above** previous approved margins. Our recommended pre-tax margins translate into after-tax margins that are **above** the average earned after-tax return margin for Alberta depots over the 2018-2024 period of 3.33% (median 2.87%), while Concentric's recommended pre-tax margin is approximately **1% higher** on an after-tax basis.

This concludes our evidence.