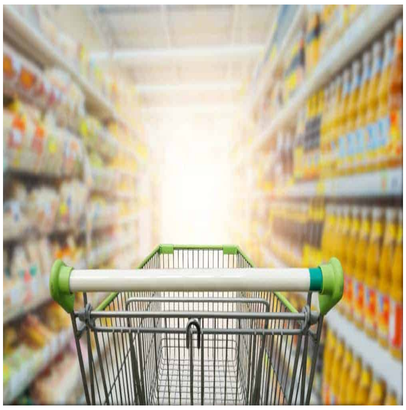

The Amazon of Grocery? This Canadian Company Is the Future of Retail

Description

The initial reaction to **Alimentation Couche-Tard's** (TSX:ATD.B) pursuit of French grocer Carrefour was not good, to say the least. Today, Couche-Tard stock is now down around 15% on the Couche-Carrefour news, as people seem unwilling to give management the benefit of the doubt, despite their incredible track record of creating ample long-term value via past M&A moves.

Many analysts and investors don't see too many synergies from a Couche-Carrefour tie-up, with some noting that the grocery business and the convenience store scene are very different. Right now, investors have big questions, but they seem more willing to sell rather than seek answers to such questions ahead of what could be the biggest acquisition in Couche's history.

Some such questions include: Why would a higher-margin c-store player want to get into a grocery business that sees razor-thin margins? Why is Couche-Tard paying a lofty premium for a struggling French retailer that's holding a considerable amount of baggage? Is Couche-Tard desperate to put its cash and credit to work?

The shocking and surprising nature of the deal has many rushing for the hills. And I think contrarians who give Couche's management the benefit of the doubt will be the ones that could rise out of this latest sell-off with a potential long-term multi-bagger in hand.

Why getting into the grocery business makes sense for a convenience retailer

Everybody is treating Couche-Tard stock as though they believe the Carrefour deal will be a massive failure. While the massive tie-up brings forth a considerable amount of risk for Couche, I think the potential rewards also have the potential to be profound if things go right.

You see, the managers at Couche are thinking long term. Couche may be wandering outside its circle of competence slightly. Still, with the grocery expertise from the managers at Carrefour, I think Couche can expand upon its circle of competence to capitalize on a longer-term opportunity that many of today's Couche-Tard investors and analysts aren't even thinking about right now.

Don't believe me? Just look to Amazon.com and Whole Foods

In my opinion, a Couche-Carrefour tie-up makes a heck of a lot more sense than **Amazon.com**, a tech company, acquiring Whole Foods, or **Loblaw**, a huge grocer, acquiring a small-scale drug store chain Shopper's Drug Mart. Looking back, it's clear why Amazon and Loblaw made the acquisitions they did and how they fit into the bigger picture.

Fresh food offerings (not fuel sales), I believe, will play a massive part in the future of convenience retail, an area that Couche-Tard (and Amazon) look to be doubling down on. Carrefour will provide Couche-Tard's European c-store locations with a fresh food supply-chain edge, helping c-stores achieve greater store replenishment while minimizing potential waste write-downs.

Yes, grocery stores sport lower margins, but with the right mix of convenience and grocery expertise, I view tremendous long-term synergies for Couche-Tard, which, first and foremost, will always be in the business of convenience or selling time to people.

The same fresh food sold at a Carrefour hypermarket could go for far more at a convenience store, as consumers become willing to pay more for the time they'll save not having to go to the local supermarket. For those doubting the potential of a Couche-Carrefour deal, I'd point investors to the Amazon-Whole-Foods deal and the "Amazon Go Grocery" grocery-convenience-store hybrid concept.

Couche investors and some analysts don't understand the full long-term implications of a Couche-Carrefour deal right now. And that's created an opportunity for contrarians. I'll be adding to my stake in Couche-Tard stock on this dip, which I view as a gift courtesy of Mr. Market.

Stay Foolish, my friends.

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