Warren Buffett and Couche-Tard Have More in Common Than You Think

Description

Shares of convenience store kingpin **Alimentation Couche-Tard** (TSX:ATD.B) have been under a considerable amount of pressure lately. It's now down just over 18% from its 2020 all-time high. The stock looks like it's being shunned by investors ever since management decided to shock them with its questionable pursuit of French grocery store giant Carrefour — a massive strategic pivot that nobody saw coming.

The only thing investors hate more than surprises is confusing surprises that cause one to re-evaluate their original investment thesis. While the deal doesn't make sense to many, I think investors have to cut the firm's brilliant management team some slack. They've got a proven track record, and I think people are discounting their abilities after this latest communications hiccup.

Couche-Tard and Warren Buffett's **Berkshire Hathaway** have a lot in common.

They're both M&A kingpins with a lengthy track record of driving shareholder value through the roof. People wouldn't doubt any out-of-the-ordinary moves by Buffett (think the short-lived **Barrick Gold** investment last year). Yet many shareholders seem to be doubting Couche, forgetting what the firm is capable of on the M&A front.

Warren Buffett and Couche-Tard have more in common than you think!

You see, Couche-Tard isn't a company that's willing to acquire for the sake of appeasing the analysts on the Street. If integration risks outweigh the potential synergies, no deals will be made. And it doesn't matter how much cash Couche is swimming in.

Like the great Warren Buffett, Couche is all about paying less to get more.

Growth by acquisition can be a double-edged sword of sorts. Sometimes, M&A can hurt shareholder value rather than create it. That's why Couche, like Buffett, is more than willing to sit on its hands (and cash pile) until there's an opportunity to pounce.

After a lengthy track record of creating shareholder value from acquisitions and dispositions, I think you have to give management the benefit of the doubt. The company has been through a rough patch over the last several years, likely because Couche hasn't been nearly as active as it used to be. Its cash and credit pile is swelling, and it now has enough to scoop up an elephant-sized deal or series of deals.

Too many patient investors who've been waiting for the next big deal, news that the c-store giant is trying to get into the business of groceries may be disheartening. Margins in the grocery business as absurdly thin, and there's a risk that Couche's management team may be biting off more than it can chew.

There are risks of jumping head-first into a new industry, and the rewards? They're not great. That's a major reason why Couche stock has yet to recover from its latest plunge.

Why I'm bullish on Couche's grocery pivot

Another way to look at Couche's grocery store push is that it's looking to solidify its position in the c-store market for the future. **Amazon.com** (a stock also owned by Warren Buffett) has been getting into grocery stores and small-scale, c-store-like grocery stores, and it's not a mystery as to why. The future of convenience retail lies within fresh food and other grocery store items that you wouldn't typically find at the local convenience store. Couche knows this, and the addition of a major grocer, I believe, just makes sense.

While Hannasch and company are not grocery store experts, it's also worth noting that their next big grocery acquisition could bring aboard the talent and expertise needed for Couche to take its business to the next level. I think a grocery acquisition will future-proof Couche's business, as convenience stores are likely to change in a big way over the next decade and beyond.

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