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PRESENTATION

Operator

Good morning. My name is Sylvie, and I will be your conference operator today. (foreign language) I will now introduce Mr. Jean-Philippe Lachance, Vice President, Investor Relations, Treasury and Financial Planning and Analysis at Alimentacion Couche-Tard. (foreign language)

Jean-Philippe D. Lachance - *Alimentation Couche-Tard Inc. - VP of IR & Treasury*

English will follow. (foreign language)

Good morning. I would like to welcome everyone to this web conference, presenting Alimentation Couche-Tard Financial Results for its First Quarter for this Fiscal Year 2023. (Operator Instructions) After the presentation, we will answer questions from analysts asked live during the web conference. We would like to remind everyone that this webcast presentation will be available on our website for a 90-day period.

Also, please remember that some of the issues discussed during this webcast might be forward-looking statements, which are provided by the corporation with its usual caveats. These caveats or risks and uncertainties are outlined in our financial report. Therefore, our financial results could differ from the information discussed today. Our financial results will be presented by Mr. Brian Hannasch, President and Chief Executive Officer; and Mr. Claude Tessier, Chief Financial Officer.

Brian, you may begin your conference.

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Thank you, Jean-Philippe, and good morning, everyone. Thank you for joining us for this presentation of our first quarter 2023 results. In the face of continued inflationary pressures and high fuel prices, we're pleased to report strong results this quarter, especially in convenience where we had healthy same-store sales in our U.S. and Europe markets. We're also continued to generate robust fuel margins across all of our platforms.

In this period of high inflation and fuel prices, we remained focused on delivering a strong and consistent value to our customers, maintaining cost discipline in our operations and making progress on our strategic priorities.

With our Fresh Food, Fast program we are hitting both sales and rollout targets and seeing very strong double-digit growth in our private label brands as consumers look for value at these times. To enhance the customer experience at our locations, we are progressing with the rollout of our innovative ease-to-use Smart checkout technology after announcing plans to deploy 10,000 units in 7,000 stores over the next 3 years. Also, after a year of record organic growth in store builds, we added 30 more new sites this quarter. I'll provide more detail on these initiatives later in the presentation.

Let me turn to our results, beginning with convenience. Compared to the same quarter last year, same-store merchandise revenues increased 3.5% in the U.S., 2.8% in Europe and other regions and decreased 1.3% in Canada. Across the network, our Fresh Food, Fast program continue to grow and drive incremental sales and profit to our stores. Sales of our new chicken items continue to accelerate and we've launched additional new items into our assortment this quarter, which have been very well received by our customers. We're happy that sampling is back, and we've extended it across all regions as a way to introduce our new products to our customers.

We've also activated several promotions to enhance awareness of our program. Our operators continue to work hard to improve store execution and allowing us to make notable progress in our food journey and the long-term development of our food culture.

In dispensed beverage, we've had fun with our proprietary Dew Purple Thunder at our fountains this quarter, which we feel certainly drove consumer engagement. We've already sold over 5 million Polar Pop cups with this exclusive flavor. Our U.S. Sip & Save subscription continue to drive trips, enhanced basket and attract new users as more customers are looking for strong value offer. We've also this quarter improved our online enrollment experience and doubled online subscribers this quarter.

In packaged beverage, we had strong growth across the board with our promotions and differentiated offerings. In particular, carbonated beverages were a standout performer. Here, we continue to focus on supply chain and pricing to ensure we meet our customers' needs.

In the age-restricted category, there's ongoing softness in cigarette sales due to the price pressure on cigarettes, putting pressure on units as well as renewed pressure from the illicit market in Canada. In Europe and in the U.S., other tobacco product continue to perform well. Also across the network, we see beer sales experiencing solid growth as did wine and liquor during the quarter.

In our localized pricing work, we've increased our focus on customer elasticities in this current inflationary environment. With the goal to improve speed of decision-making and execution of changes to enhance our ability to respond to changing conditions.

We've also started the rollout of assortment optimization in North America, taking a category-by-category approach across our U.S. business units. This work will allow us to leverage and learn from our own network to identify top performing items, get them into our stores more quickly, while conversely, spotting trends on lesser performing items and ensuring they're removed from our shelves more quickly than we have in the past.

In promotions, we've begun data driven, analytical work to better align our price points across single and multiple purchase items to optimize both unit and margins.

Moving to our fuel business. Same-store transportation fuel volume decreased 4% in the U.S., 3.7% in Europe and increased 0.4% in Canada. As I mentioned earlier, we'll continue to benefit from robust fuel margins, offsetting the pressures on volume across the network. It’s clear that the high fuel prices in the quarter and overall inflationary pressures are temporarily impacting our consumers' driving and fueling behaviors.

In our Circle K fuel rebranding work, our focus this quarter has been on ongoing promotions and developing campaigns to raise the awareness of the brand as well as on payment programs to increase ease and provide discounts to our loyal customers. You'll see this come to life in the coming quarters. And in fact, you may even see something very special coming from our Circle K fuel brand in the U.S. and parts of Canada for this long Labor Day weekend. We continue to rely on strong sourcing efficiencies and own fleet capabilities to mitigate cost pressures where possible. We're pleased with our Musket partnership and believe there's much more value to be captured as we expect volatility in the energy market to continue in the medium term.

In Europe, the B2B business continued to perform strongly and deliver ahead of plan, both in terms of overall card volume and bulk fuel sales. Overall margin performance also remained robust, both with card and bulk.

Also in Europe, our EV fast-charging network now consists of over 1,180 charging points covering more than 270 stores with a combination of our own Circle K chargers and partner charges, which primarily are from IONITY and Tesla. We continue to expand the charging network in Scandinavia as well as piloting in the Baltics, Poland and Ireland.

This past quarter, we also began our EV journey in North America with our first branded Circle K and Couche-Tard chargers at stores in South Carolina and here in Quebec. This is part of our announced plan to bring 200 EV charging units to our stores across North America over the next 24 months. We're taking a strategic approach here, building a network for the future, by looking at areas with strong EV adoption rates and electric delivery infrastructure.

We also anticipate deploying both our own charging assets to serve the growing EV customer base as we do in Europe, while also partnering with other participants in the emerging e-mobility economy.

After a record year of organic growth in new construction, we continue to expand the network with the building of 30 new sites this quarter. We also have 55 sites currently under construction.

This is all part of our effort to improve our development, design, and entitlement process, which is resulting in a robust pipeline for future store openings. Despite severe supply chain challenges, combined with significant cost increases, our teams have worked very hard to be successful in renovating existing stores and developing new core store prototype, which we value engineered to deliver reduced costs and quicker build times.

We also just announced the closing of the transaction to acquire Wilson's Gas Stop and Go! stores and fuel terminal. We're excited about welcoming these great stores and family members to the Couche-Tard family and expanding our reach in Atlantic Canada.

Now before I turn it over to Claude, I want to go over the clear progress that we're making in overcoming staffing challenges, particularly in North America. This quarter, our higher rates were significantly higher than our termination rates and staffing is returning much closer to normal levels. We've had improved candidate flow, allowing us to fill positions in our stores as we staffed up for the busier summer season. This also results in bringing down overtime costs and retention costs that we had in place in past quarters.

In early June, we launched a campaign to hire 25,000 workers for the summer. I'm happy to say, we received over 160,000 applications. We're making great progress in bringing down time to hire and continue to test solutions for further improvement.

The expansion of our AI Smart checkout technology, which is significantly faster and easier to use, is now in nearly 1,000 locations. It has the goal to provide our guests with a truly differentiated and faster experience, while at the same time reducing the pressures on our teams are feeling in the current labor market.

This innovative technology is a big push and a big initiative on our side as we scale this up to 10,000 units over the coming 3 years.

Now I'll pause there and let Claude take you through more of our first quarter financial results. Claude?

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Thank you, Brian. Ladies and gentlemen, good morning. For the first quarter of fiscal 2023, we're happy to report net earnings of $872.4 million or $0.85 per share on a diluted basis. Excluding certain elements described in more detail in our MD&A. Adjusted net earnings were approximately $875 million or $0.85 per share on a diluted basis for the first quarter of fiscal 2023 compared with $758 million or $0.71 per share on a diluted basis for the first quarter of fiscal 2022, an increase of 15.4% in the adjusted net earnings.

We delivered another impressive quarter, highlighted by increases of 10.6% in adjusted EBITDA and 19.7% in adjusted diluted net earnings per share compared to the first quarter of fiscal 2022, bringing our last fourth quarter adjusted EBITDA to more than $5.4 billion.

Our customary cost discipline, combines with an improving labor market, have allowed us to limit the normalized growth of expense to 5.3% compared to the first quarter of last year, more than 1% below inflation, which was particularly notable once again this quarter.

Our financial position remains strong, highlighted by our leverage ratio of 1.31 times, providing us with opportunities for the future. I'm especially proud of our team's execution this quarter, which resulted in sequential improvement on both of our key return metrics.

I will now go over some key figures for the quarter. For more details, please refer to our MD&A available on our website. During this most recent quarter, excluding the net Impact from foreign currency translation, merchandise and service revenue has increased by approximately $82 million or 2%. This increase is primarily attributable to organic growth and to the contribution from acquisitions, which amounted to approximately $31 million, while being partly offset by the disposal of stores following the strategic review.

Same-store merchandise revenue has increased by 3.5% in the United States, by 2.8% in Europe and other regions and decreased by 1.3% in Canada. Same-store merchandise revenues in Canada were strongly impacted by increased competition in the cigarette category compared with the corresponding quarter of fiscal 2022.

Excluding the net impact from foreign currency translation, merchandise and service gross profit increased by approximately $30 million or 2.1%. This is primarily due to the organic growth as well as to pricing initiatives. Our merchandise and service gross margin decreased by 0.3% in the United States to 33.9%, while it increased by 0.5% in Europe and other regions to 38.9% and by 0.8% in Canada to 33.1%.

Moving on to the fuel side of our business. In the first quarter of fiscal 2023, our road transportation fuel gross margin was $0.49 per gallon in the United States, an increase of $0.1225 per gallon. In Canada, it was CAD 0.1404 per liter, an increase of CAD 0.0312 per liter. In Europe, our road transportation fuel margins was $0.1226 per little, an increase of $0.0194 per liter. Fuel margins remain healthy throughout our network due to favorable market conditions and the continued work on the optimization of our supply chain.

Now looking at SG&A. For the first quarter of fiscal 2023, normalized operating expense increased by 5.3% year-over-year. This is mainly driven by inflationary pressures, most notably on higher occupancy costs, higher costs from rising minimum wage, as well as by incremental investments in our stores to support our strategic initiatives, partly offset by the impact of lower pressure in the employment market.

Despite the challenging market conditions, we have continued to deploy efforts in order to mitigate the impact of higher inflation level and continued pressure on wages, which is demonstrated by our normalized growth of expense below inflation.

Excluding specific items described in more detail in our MD&A, the adjusted EBITDA for the first quarter of fiscal 2023 increased by $144.4 million or 10.6% compared with the corresponding quarter of fiscal 2022, mainly due to the higher road transportation fuel margins across our network and organic growth in our convenience store operations, partly offset by higher operating expenses. The translation of our foreign currency operation into US dollar had a net negative impact of approximately $28 million.

From a tax perspective, the income tax rate for the first quarter of fiscal 2023 was 21.9% compared with 21.3% for the corresponding period for fiscal 2022. The increase is mainly stemming from the impact of different mix in our earnings across the various jurisdictions in which we operate.

As of July 17, 2022, our return on equity remained strong at 20.4%, and our return on capital employed stood at 15.9%. During the quarter, we continued to generate strong free cash flow, and our leverage ratio stood at 1.31 times 8 basis points lower than Q4 despite having repurchased $478 million during the quarter under our NCIB.

We also have strong balance sheet liquidity with $2.2 billion in cash and an additional $2.5 billion available through our revolving credit facility.

Turning to the dividend. The Board of Directors declared yesterday a quarterly dividend of CAD 0.11 per share for the first quarter of fiscal 2023 to shareholders on record at September 8, 2022 and approved its payment effective September 22nd, 2022.

With that, I thank you all for your attention and turn the call back over to Brian.

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Thank you, Claude. No doubt this has once again been a challenging quarter, especially in terms of inflation and high fuel prices and the impact that has on our customers and our team members. I'm proud of how we've operated and held up during this volatile period. We've been able to keep our costs below inflation, deliver value to customers with our localized data driven initiatives and strong performance of our private label products.

While inflationary pressures persists, I'm encouraged by recent economic indicators in several of our key markets. Declining fuel prices and the improved staffing situation are also positive. We will continue to work hard to help our customers lives -- to make our customers' lives a bit easier every day on our journey to become the world's preferred destination for convenience and mobility.

Now with that, we'll take questions from analysts. Operator, over to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question will be from Patricia Baker at Scotiabank.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Brian and Claude, can you talk a little bit about, subsequent to the end of the quarter, what you're seeing with respect to fuel volumes, particularly in the U.S., where in Q1, the volumes were down 4%? And perhaps talk about what you think the outlook will be for the rest of the year on fuel volumes and the consumer behavior specifically?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

I would say, as we went through back half of the quarter and retail prices spiked, that's when we really saw volume erosion. And that's not just the US. That's really globally. As we look through the next quarter, we are cautiously optimistic that retail prices are coming down and we would hope to see volume trends improve.

Just to give a little more color as to what's happening. Our actually traffic to the forecourt is up on average 5% globally, so 5% more trips. But the average fill is down almost 10%. So in the US that would equate to going from 11 gallons to about 8.5 gallons per fill. So that shows us that the consumer is being impacted there. And we have no reason to believe that with declining prices and hopefully some easing of overall inflation that we'll see those trends improve in the coming quarters.

Patricia I heard this might be your last call with us. So thank you for many years of coverage of our company.

Operator

We'll be from Irene Nattel at RBC.

Irene Ora Nattel - *RBC Capital Markets, Research Division - MD of Global Equity Research & Senior Equity Analyst*

Just following up on Patricia's question, but this time, thinking more about inside the store. What are you seeing in terms of consumer behaviors? And then I guess, more holistically, how should we be thinking about that LTM of $ 5.4 billion in EBITDA relative to kind of $5.1 billion target that you guys have been talking to?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

I'll start and then certainly encourage Claude to jump in, particularly on the back half of your question. Inside the box, Irene, it's kind of a tale of brands. So, we've got certain brands, I'll point out like a Monster or a Coke, where there's just strong, strong consumer loyalty. We're really not seeing a lot of trade down.

Other categories, for example, beer, confectionery, salty, we've seen significant growth in our private label products in the center store and in beer. Certainly, we've seen some transition from super premium and premium down to budget. So it really depends on what part of the store we're talking about. But overall, visits are still solid. And I think we've done a reasonable job balancing, capturing increased cost from our suppliers, while also trying to remain a value proposition for our customers.

On the LTM, great LTM, great quarter this quarter. We look at the next quarter, we're 1 month in and the trends generally are continuing. The market continues to be very disciplined, faced with higher costs of running your business. And then, the capabilities we built, particularly around fuel, while not fully realized, I think, uniquely position us and a few other players in the industry to benefit in periods of volatility. So, while we can't -- we're not market setters and we can't necessarily predict the future, I expect volatility in margins. Our goal is to continue to create advantages over the industry, and that's our focus.

Claude, anything else.

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Yes. Well, I think, Irene, also due to what we've discussed in the past, also we're very pleased with the performance of all our organic growth initiatives that we've outlined in our strategy, and they're still going very strong. And we're optimistic about our ability to reach our target there and hopefully, we can be a bit better. So -- but it’s difficult to predict the future.

Operator

The next question will be from Mark Petrie at CIBC.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Brian, you touched on it in your prepared comments, but I'm curious to hear how the sort of super inflationary environment affects your approach to your price and promo work and specifically the localization and sort of optimization initiatives. So, just given shifts in how consumers are shopping, I would be interested to know how you respond to that and if it alters the upside you'd have targeted?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Good question, Mark. I would say that inflation just rose its head very rapidly, as we saw, coming out of COVID, the war in Ukraine, etc. So I would be lying if I didn't say that we did a combination of data-driven price increases, but also which is cost-driven price increases. And then we're quickly trying to monitor what's happening as we put those in. We've ramped up our external surveys of competitors, just to make sure that we're staying in touch not only with competitors in our channel, but across channels as we look at pricing.

So as we've done that, we'll continue to look quickly for our trends on units and pricing. We've also continued to move in parallel on assortments and promotion. We were piloting the assortment in U.S. -- sorry, North America and promotion in Europe and so we continued to work forward with those. We think those 2 levers are quite honestly, as big as pricing for us. So more to come there. But we're in the early stages of rolling that out at scale, both in North America and Europe.

Operator

Next question will be from Peter Sklar at the BMO Capital Markets.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

I'm just wondering if you could comment on your buyback activity. I believe you stopped buying your stock on July 5, well before the blackout. Typically, you buy back stock right into and through the black -- sometimes through the blackout. I'm just wondering, were you ahead of schedule on your buyback or were you building your -- do you felt the need to build your balance sheet? Are you restricted doing corporate activities? Any flavor you could provide on that would be helpful.

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Well, you know what we committed for in terms of our buybacks this year, so we're still in that strategy. We have the objective to bring our leverage ratio to 2.25 times. And, frankly, we repurchased during the quarter 11 million shares for $178 million. So our views on our buyback is to still to use it opportunistically, and we're going to take the decisions to use them when we feel that it's the right time for the organization.

Operator

Next question will be from Vishal Shreedhar at National Bank.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

To the Wilson acquisition, it closed a little bit later than I would have anticipated. And divestitures -- were the store divestitures in line with your expectations?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Yes, they were, Vishal. We knew early on kind of what our exposure was. So we're very pleased with the acquisition. It brings 79 strong COCO stores and 147 dealers to the market and the family, and really strengthens our position in Atlantic Canada. So over the coming months, we'll be working on the divestment of -- I think it's approximately 47 locations with various buyers. So, we feel great about it. It's a strong network, a good history, a lot of great people, and it'd be a great addition to the family.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Just changing topics here on the Musket partnership, I was wondering if you could frame specifically how that partnership drives the value for Couche-Tard, how much of the benefit has been captured and if there's any view on materiality of the remaining portion of that partnership?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Yes, high level, because there are a lot of moving parts. So Musket who largest -- second largest, I think, diesel retailer in the U.S., we're the second largest, I think, gasoline retailer. So bringing the scale of those 2 commodities, I think we're able to provide a very unique solution set to our refining partners as we procure fuel.

I think we bring benefit to them and they can bring benefit to us by being able to provide both sides. So, procurement is one piece. Ethanol, which a lot of people don't talk about renewables, but ethanol in the U.S. and certainly biofuels in other parts of the world continue to grow in importance. And I think being able to trade around those products and strategically source those is also a benefit that we see and are in the process of ramping up to capture. Logistics, very important piece of this. As we transition from primarily a major branded retailer in the United States to primarily a Circle K branded retailer, the optionality we have on fuel increases dramatically. And so, the ability to systematically, site by site, day by day understand the optimal place to procure fuel from is important and has significant upside to us. That does require us to have more control over our supply chain.

So during COVID, while we're certainly not perfect, we added 1,000 drivers to our fleet of fuel hauling inside of Circle K. And that starts to build the foundation, Vishal, for us to be able to be much more opportunistic, both on location and timing arbitrages that we see exist, and we think are likely to persist at a very high level, given the disruption in global fuel supply with the Ukraine-Russia situation.

So those are the 2 big ones and then I'd say the third is around trading. We've actively engaged and set up an office in conjunction with Musket and Houston and are setting up an office in Switzerland to focus on our European business where we think we have unique opportunities to trade around some of our shorts and the assets that we own in terms of terminal infrastructure. So those are the three big pieces. I'd say we've captured significant upside to date, but I'd say we're not halfway there yet. We think there's material upside to be had yet.

Operator

Next question will be from Bonnie Herzog at Goldman Sachs.

Bonnie Lee Herzog - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I had a question on fuel margins. They've been incredibly robust as you and other retailers with scale really are benefiting from declining fuel prices or costs and you also from your Circle K rebranding and your optimization initiatives. So wondering if you could help quantify the benefit you're getting from these initiatives, just possibly in terms of cents per gallon, and really trying to understand how much more runway is left with these initiatives? And then curious, I might have missed this, but how have your fuel margins been trending in August versus July?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

You're asking the crystal ball question, Bonnie. I would say, as we look at August, we've seen very similar trends to what we saw in the prior quarter in terms of margins. And we're pleased in the quarter if you think about crude really rapidly ramping up and now easing back. We saw margins really hold fairly steady through the quarter. So, again, the market remains disciplined. We're a unique industry. Every site has the price up on the street, but the reality is we're all feeling inflation. We've all got higher credit card fees. And for those retailers that don't have a strong backcourt consumer offer or the ability to procure fuel, I think they need that margin. So, the incremental margin required by the industry, I think, is very different than it was three years ago.

In terms of breaking it down into CPG, Bonnie, that's really hard. It depends on where we're at in the world, what part of the country we're at in the US or Canada? Because our capabilities to be advantaged on supply do vary. So, again, we're focused on not necessarily the absolute margin we have, but just expanding that advantage we have versus the market. We feel good about the opportunities to do that.

Bonnie Lee Herzog - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

That's fair. But could you maybe help us understand where you're at with that initiative? Are you half way through...

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

(technical difficulty) that journey with more to do. Some of that requiring some investment in people, some of that requiring some investment in steel and trucks. On the consumer side is where I think we've got runway. We are now have 3,500 approximately Circle K sites. In some of these rebrands, we've walked away from very strong loyalty programs. When you think about, for example, Shell with their Kroger and FRN, we do not have a great loyalty program in place for fuel. We have designed one. We are piloting it in 2 markets in Denmark and in Goldsboro, South Carolina. We feel great about the results both in terms of consumer engagement.

We've got a very strong feedback from customers in terms of just liking the program and the app. So we've been delighted, quite honestly, working with our POS provider to get the code rights and maybe roll this out. So we anticipate end of year calendar to be able expand that. And we think that will be a strong tool for us to be able to communicate and reward those loyal customers, both on the fuel and the merch side.

So when I think about upside, I think the Circle K brand is our big upside. We've rapidly rebranded. Now, it's time to invest in that brand in a smart fashion, drive consumer awareness, drive consumer loyalty. And as I hinted in my comments, you'll see one of the largest fuel sales in the US maybe ever starting tomorrow or announced tomorrow.

So, in the meantime, while we're preparing to get that loyalty program out, we're going to do some more tactical guerrilla type things to make sure that the awareness of the Circle K brand continues to grow.

Operator

Next question will be from Michael Van Aelst at TD Securities.

Michael Van Aelst - *TD Securities Equity Research - Research Analyst*

You touched on Wilson, you've you had to sell or you will have to sell, I think, about 43% of the company-owned sites. I'm wondering if that level surprised you. And where do you still see more the most whitespace to make acquisitions without significant divestitures in Canada? And what are your priorities globally right now? And what are you seeing in that M&A market? Is the high interest rates - it seems to be stalling some of the larger deals because some auctions are limiting the amount of bidders by the sounds of it?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Yes. So Michael, with Wilson, in particular, I think we had a very good understanding of what we were bidding on. I think the assets we're keeping, in particular, the COCO assets is really where we have the value. A big chunk of the divestments are DODO so that's a dealer owning his own site, and it's purely a fuel supply relationship. So net-net, we feel good about the price at which we acquired the network and the asset quality we have.

In terms of M&A environment overall, I would say we're seeing good deal flow. I think last quarter, we said it was more in Europe. I'd say we've seen more deal flow activity had activity in the U.S. in the last few weeks. So -- and while we are uncertain as to where valuations are today just because it's been a bit quiet, I think with the higher interest rates and certainly some uncertainty around EBITDA and go-forward trends and all those things, recession and all that, I'm hoping the uncertainty that's out there today does create an environment where we can be acquisitive.

As Claude mentioned, the balance sheet is in good shape, it's ready. We've got the appetite and the capabilities. So we'll keep our fingers crossed we get something done. But we -- there’s activity out there.

Michael Van Aelst - *TD Securities Equity Research - Research Analyst*

But are the current debt markets, I know you guys have access to capital, but a lot of others don't have the same level of access to capital. So I'm wondering if those -- if the more challenging debt markets right now are delaying or postponing some of the larger transactions that might be able to happen over the next little while?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

I am not sure whether it delays people coming to market or not. I think certainly when you look at who's been competing with us over the last four or five years, it's been people that are using the high yield markets and private equity partnerships, and those are largely sidelined today. So, we feel good about that. So we're well prepared for that. But I can't comment on whether people are just pausing their activity and coming to market because, again, as I mentioned earlier, we're seeing activity out there.

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

And Michael, you certainly know also about the IPO market, which is often a strategic and alternative for people. So I think that market is a bit difficult right now also. So that has an impact on strategy, either on sellers or the buyers.

Operator

Next question will be from Martin Landry at Stifel GMP.

Martin Landry - *Stifel Nicolaus Canada Inc., Research Division - MD of Equity Research*

With gasoline prices being in the highest they've been in a long while in the U.S., I was wondering if this has impacted your conversion rates of your customers into the store. And to that effect, I was wondering where does your conversion rate stands currently versus historical levels?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Martin, I think I said earlier, we've actually seen increased forecourt traffic, up about 5%. The conversion, I don't have that in front of me, but I don't sense that there's been a fall off. When we look at the traffic inside the stores, the trends have been fairly stable there. So I feel pretty good that the conversion is there. I think the big changes in consumer behavior we've talked about, smaller fills per visit, for sure. Premium sales have been under pressure.

So premium fuel has declined which is typical when we see price spikes, and that tends to come back as retail prices come back down. And then inside the box, a 21% increase in the quarter on private label. So, clearly, some consumers out there looking for value, and we're pleased to be able to provide that and some trade down, but also some strength in some key brands. So, we don't notice anything materially different with fuel affecting the box today.

Martin Landry - *Stifel Nicolaus Canada Inc., Research Division - MD of Equity Research*

And does your conversion rate is different than what you've seen historically?

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

No, we don't see any difference in the conversion rate right now, Martin.

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Especially, the one soft area just, Martin, has been tobacco and that's traditional cigarettes. We continue to see alternative cigarettes be strong. But I think the behaviors as people are giving out their houses and being out in society a bit, there's probably a bit less smoking going on. And when you look at the industry trends or look at Altria or rental results, you'll see that there as well. But other than that, I think consumer behavior has been pretty consistent for us.

Operator

Next question will be from Chris Li at Desjardins.

Christopher Li - *Desjardins Securities Inc., Research Division - Research Analyst*

I know it's maybe be a little bit early, but just wondering, in stores where the smart checkout has been implemented, are you starting to see any new labor mitigation benefits yet? And if you would take a longer term view, how big is that opportunity once the checkout is sort of implemented across most of your stores?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Yes, Chris, we're excited about it. It's one of our big bets for the year. We've been happy to innovate with this company. And the consumer response and net promoter scores have been really solid. While some sites have been in for three to six months and some sites have been in for weeks, I think we're averaging around a 35%, 38% conversion rate. So customer using the smart checkout versus going to the cashier. We still have a very difficult labor market.

So, we're not looking as hard today at optimizing staffing. We're focused on really, let's have a differentiated consumer experience, let's help our customers understand what this is. Longer term, I do think this reduces our exposure to the labor market significantly, or at least allows us to redeploy labor to do other things in our sites. And so, that's one key initiative.

And the other one I've talked about in the past, we were on a witch hunt, for getting administrative and non-value added processes and activities out of our sites. And so, as we look at our biggest investment being labor, this smart checkout and then Claude's initiatives around optimizing administrative activity, we think, are two big upsides in the medium term.

Operator

Next question will be from Bobby Griffin at Raymond James.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Director*

Brian or Claude, clearly, today's environment in the US is a lot more challenging than maybe the April or January end quarter. So when you look at the inside the store business in today's inflationary environment, do you still see opportunities for the merchandise gross margin to expand? Or would something need to change more favorably in the environment for that business to see some margin expansion?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Bobby, thanks for the question. I'd say there's a couple of things. One, we're being very cautious today. There's a segment of our of our customers that are distressed a bit with high fuel prices and inflation. So, longer term - not even longer term, I'd say food, as it continues to grow, is upside in margin. And we get better at that and reduce the spoilage on the sales we're making. I think there'll be material upside there.

And I mentioned earlier in the question, we've got a three pronged approach around data. So one is pricing which you asked about. The other two are assortment and promotions. I think the upside we have in promotions to really understand what drives consumer behavior versus what's just a sign in the store giving away price or margin is a big one for us. And I think we have a lot to learn there. So, I think, just off top my head, I'd say that food, penetration growing and more intelligent use of promotional activity makes sure we're either clearly delivering value to the customer and optimizing that price unit trade-offs are the two big upsides I've seen in margin.

Claude, anything to add.

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

I'm good.

Operator

Next question will be from John Royall at JPMorgan.

John Macalister Royall - *JPMorgan Chase & Co, Research Division - Analyst*

On OpEx and SG&A, given 1Q was the toughest comparison just looking at last year's progression, is it fair to expect the 7.3% to actually be the peak growth rate for the year? And then, just also looking at the reported figure rather than the normalized, you had 3.7% coming from credit card fees? I think last quarter was 3.1%. With prices coming in, would you expect that growth rate to temper a bit going forward?

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Yes, for sure. We feel that the credit card -- with the price of fuel coming down, that's going to have a direct impact on a credit card fees. So as you know, they're closely linked, that's a percentage of our selling pricing. So that's what we're expecting.

On a normalized basis, the 7.3% that we had this quarter was good compared to what we had previously last quarter. So last quarter was 9.1%. And as we're going towards the back end of the year, we're going towards easier comparison. But at the same time, we see a lot of pressure. So to call a number for the year, it's difficult for us because of the inflationary pressure that we have everywhere in our market. And we're putting all the initiatives together to make sure that we're controlling them.

So if you want to move back to the 7% or to understand how it's built, and I think I've done that exercise previous -- at the previous quarter to give a flavor of what's in there. So the 7.3% is mostly if you're looking at it from 3 buckets, there's 3% of it that's coming from wage increase. So still a bit of pressure on the wage side. But it's reducing with our ability to take away the retention programs as the labor shortage is easing. And as we're getting better response in terms of hiring people, we had a really successful summer on that.

There's another 2% that is really related to inflation. Inflation is impacting our businesses in Europe, like maintenance, energy prices are impacted, mostly in Europe, but also we see that impact also in North America as inflation also is in North America.

Finally, there's a 2% of that. That's our initiatives. We're talking about the Fresh Food, Fast. We're talking about our fuel rebranding marketing and also our marketing efforts. So, that's all things that are impacting us on the cost side.

So, we see easing in the quarter. It's more to comparison. Inflation is difficult to call that it's going to ease in the future quarters. So, yeah, I think we can expect that the next quarter is going to be still a heavy quarter in terms of expense. And then we're going to see the back end of the year.

Operator

Next question will be from Irene Nattel at RBC.

Irene Ora Nattel - *RBC Capital Markets, Research Division - MD of Global Equity Research & Senior Equity Analyst*

Brian, in your comments, you mentioned sort of the M&A in the US has picked up a little bit. Could you give us an idea of kind of like magnitude or size of the transactions? And then, I guess related question is, and this goes back to another comment that was made, as you think about sort of, let's call it, the LTM run rate on EBITDA, whatever you're looking at to acquire, how do you think about that in relation to a normalized EBITDA number on which you might be willing to pay a multiple or anything you can give us around that, please?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Yes, Irene. I think in terms of what we're seeing out there, it's a combination of medium and large opportunities. I guess large is a relative term, but you can look at the list of top 200 chains and kind of figure out what large feels like.

In terms of how we look at it, it's just what we do. It's tearing apart everything being very hands on and digging, making sure that for the risk we're taking, whether that be around fuel margin brand conversions, whatever, that we're able to get comfortable with the synergies we project are there. So no magic formula. It's a kind of a line-by-line effort.

I think the big question you're alluding to is, hey, do you assume fuel margins in perpetuity, and that's something that, I think, for us very location specific, depending on our capabilities, our brand strength and things like that. So, no magic formula there. But that certainly is a question as we look at any M&A going forward.

Irene Ora Nattel - *RBC Capital Markets, Research Division - MD of Global Equity Research & Senior Equity Analyst*

That's really helpful. And then large are we talking like really large or just larger?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Irene, come on.

Operator

Next question will be from Michael Van Aelst at TD Securities.

Michael Van Aelst - *TD Securities Equity Research - Research Analyst*

I wanted to follow up on the European fuel margins, they were -- they bounced back very strongly this quarter after the last quarter where you had some supply chain disruptions. It seemed like when we spoke last quarter that it might take a little while to fully reposition your supply and get margins back to normal, but obviously, that wasn't the case. So was there anything in the quarter that was kind of a windfall profit that might not recur? And what did you do to recover -- to stabilize this so quickly?

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

I'd say what's unique about our Europe market, Michael, is the fact we hold inventory. We have a proprietary network of terminals. And as we saw the Ukraine situation coming and we felt the Ukraine situation happen, we actively built inventories to ensure supply reliability and we're very large in almost all of our European countries. So as we've seen commodity prices fluctuate, our inventory gets revalued. And that can have significant impacts on our margin picture in Europe.

So when I look at kind of underlying street margins, if you would, as it was in the US, it's actually been fairly stable. So I would attribute the vast majority of the volatility you've seen to inventory revaluations. I'll contrast that with the US where we're holding closer to three days of inventory largely just at site. It just really doesn't show up on our P&L the same way as European fluctuation does, with much greater off-site inventories being held.

Michael Van Aelst - *TD Securities Equity Research - Research Analyst*

And how many days inventory are you carrying in Europe then?

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

We could get back to you on that, Michael, to give you an exact figure, but it's more than the U.S.. We have a significant position in terms of terminals in Europe.

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

It'd be more than 2 weeks.

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Yeah, of course. For sure.

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

So we can give you a specific number yes.

Operator

And at this time, we have no further questions. Please proceed with closing remarks.

Jean-Philippe D. Lachance - *Alimentation Couche-Tard Inc. - VP of IR & Treasury*

Thank you. Thank you, Brian. Thank you, Claude. That covers all the questions for today's call. Thank you all for joining us. We wish you a great day and look forward to discussing our second quarter 2023 results in November. (foreign language)

Brian P. Hannasch - *Alimentation Couche-Tard Inc. - President, CEO & Director*

Thanks, everyone. Have a good day.

Claude Tessier - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Have a good day.

Operator

(foreign language) Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we ask that you please disconnect your lines.
