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ATD.TO - Q2 2023 Alimentation Couche-Tard Inc Earnings Call

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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, Financial Planning and Analysis, Investor Relations and Treasury of Alimentation 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's financial results for the second quarter of fiscal year 2023. All lines will be kept on mute to prevent any background noise. 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 reporting. Therefore, our future 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 second quarter 2023 results. We're pleased to report strong results this quarter, especially in the face of the continued challenges of inflation, energy and fuel prices around the globe.

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We had strong performance and convenience with solid same-store sales, particularly in the U.S. market, which had very strong growth in food and solid growth in all of our categories with the exception of traditional combustible nicotine.

We also continue to generate robust fuel margins across all of our platforms. With the pressure on our consumers, we remain committed to delivering consistent value both inside our stores and on our core courts to help make our customers' lives a little bit easier.

Before I return to the results. During this quarter, several of our U.S. business units experienced superior of Hurricane Ian. It was a massive category 4 storm and one of the largest hurricanes ever to hit the U.S. It slammed into our Southwest Florida market and moved up to the state and impacting our business across Florida, the Atlantic States and the Carolinas. Thankfully, no team members were injured.

However, at the peak of the hurricane we had over 500 stores closed due to power outages, wind damage or flooding. Once again, in the worst of times, our team members pulled together and did a great job giving the majority of our stores reopened to service our customers and our communities in their time of need. For customers, we initiated Red Cross round of store campaign and as well as a company-wide fund to help our team members that have been impacted by Hurricane Ian. Now turning to our results, beginning with convenience.

Compared to the same quarter last year. Same-store merchandise revenues increased 5.6% in the U.S., 2.9% in Europe and decreased 1.5% in Canada. However, I would note that Canada is up strong single digits when you exclude tobacco, which continues to be pressured by the illicit trade throughout the country. No doubt the consumer continues to be pressured from rising prices, and we're focused on balancing providing good value to them while recovering the inflationary impacts on our business. Across the network, our Fresh Food Fast program was up over 20% same-store sales and continues to grow across the 4,200 stores globally.

This quarter, we launched 5 Pizza Fridays across many of our markets, where consumers can purchase both Hot-to-go or take-and-bake pizzas for only $5 on Fridays. This as well as our focus on the sale of fresh baked cookies are becoming popular items to our customers seeking value, bringing new and returning customers to our stores more frequently and driving overall growth. For dispensed beverage, we continue to see good growth in cold and frozen as well as continued success with our proprietary Dew Purple Thunder with over 8 million cups sold by the end of the quarter.

Our Sip and Save and beverage subscription program continues to drive trips, enhanced basket and attract new users while providing great value. With the ongoing inflationary pressures, more than 420,000 subscribers are seeking deals and see the good value offer in Sip and Save. We've also continued to work to improve the online enrollment experience, and we're seeing a larger percentage of our customers automatically renewing and signing up online. Packaged beverage growth was driven by strong dollar and unit growth across immediate consumption, carbonated soft drinks and energy drinks.

Private brand, including private brand beverages, also continues to see strong growth as consumers are looking for value, and we meet that need with high-quality products at a lower price point than some of the main brands. In age restricted beverages, beer sales continue to lead the category in the U.S. and in Europe. Alcohol also performed particularly well with wine leading the way. Across the network, supply chain issues are improving compared to previous quarters.

In North America and Europe, we're seeing in-stock positions approaching back towards 95%, so more normal, although we certainly have pockets where it continues to be difficult. A significant challenge to our European operations has been rising energy costs, which are clearly impacting customers, team members and businesses. We're executing many energy-saving initiatives across all of our European business units, including energy consumption and lighting, readjusting temperatures, unplugging unneeded equipment. And these best practices are being shared across all of our countries and work will continue to further accelerate this in the months ahead.

While we see energy situation and associated costs as transitory, just having returned from our -- visiting our European stores for 2 weeks, I can tell you that noticeably changing behavior across these societies. In our operations, we have reduced demand between 10% and 20% in each of our European countries. This quarter, we expanded our data-driven assortment optimization work throughout the rollout to all categories in North America.

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The current focus is on expanding the distribution of products that are high performing within the business unit and across other markets. Additionally, we're leveraging external data to pick up on trends that are not currently visible within our network. With the variability of our European network, we're in the planning phases of assortment work with a plan to have tests in our markets over the coming weeks. And on the pricing front, we continue to tailor our approach given the fluid inflationary dynamics in most of our markets. Moving to the fuel business. Same-store road transportation fuel volume decreased 1.9% in the U.S., 6.3% in Europe and 6.5% in Canada. Higher prices and challenging market conditions continue to impact our volumes.

To alleviate some of the pressure at the pump, we're working actively to help our customers find value in different ways as we did with our very successful Circle K fuel Day promotion in the U.S. this quarter, and we have significant capital activities planned for the rest of the fiscal year throughout our markets. As I mentioned earlier, we continue to benefit from robust fuel margins offsetting the pressures on volume across the network. In our Circle K fuel rebrand work, we completed more rebrands during the quarter and are now at over 3,500 Circle K fuel branded sites in the U.S. with many business units where the fuel rebranding work has now been completed.

We do expect an acceleration during the second half of the fiscal 2023, named to be close to 4,000 sites by the end of the fiscal year. In the U.S., we broadened our relationship with our field trading partner, Musket, in order to enhance our competitive positioning investments in the areas where we have significant volumes and customer base. A recent example, we took ownership of 4 U.S. terminals in combination in a 50-50 joint venture with Musket with Jacksonville Florida to be an example of a market where we both had very, very strong demand and can optimize that asset to our advantage.

This quarter, we've also established a supply and trading operation in Geneva, Switzerland, one of Europe's largest commodity hubs. -- through a more active market participation, the expectation is to bring incremental value to the European organization as well as diversify our sources of supply. Also in Europe, our EV fast charging network had a significant milestone with the opening in Sweden of our first speed chargers for heavy trucks. Circle K became the first company in the Nordic countries to open publicly available speed charging for the brand-new electrical heavy truck segment.

We kicked it off with 6, 360 kilowatt chargers, with plans to expand this to 22 sites and 90 truck chargers in Sweden in the coming year. Charging capacity will soon increase to 1,000 kilowatt at the high-end chargers. We are making incremental progress in recently launched EV charging network in North America as part of our announced plans to bring 200 EV charging units to our stores across North America over the next 2 years. So far, it's been a positive customer reaction to our integrated offer and the amenities provided by our in-store offerings.

While we're starting from a low level, we're glad to see customer acceptance and expect that continue -- to continue as density increases in new and existing markets. We're also proud of our recent innovation milestones. We now have over 1,000 units deployed in the rollout of our easy to use smart checkout technology. I was out in the stores this week and the acceptance has been great. We're seeing penetration of eligible transactions exceeding 50% in many of our stores.

So we're looking to scale to 10,000 units across the network over the next 3 years. And we also, on the fuel side, have passed 1 million pay-by-plate fuel transactions on Circle K 4 courts in Europe. This pioneering license plate recognition system available in Sweden, Norway, Denmark and now Estonia, will continue to expand in the coming months across the Baltics and Poland. Finally, we've also piloted our new loyalty program in the U.S. and tiered concept in Europe. We continue to remain very pleased with the results in these pilots, and we're preparing for expansion in the coming quarters in both Europe and in North America.

We continue to expand the network with the opening of 23 new to industry sites this quarter and 53 year-to-date across the network, in addition to having 73 sites under construction. While new store performance is exceeding expectations in both merchandise sales and fuel volumes and remain a core part of our strategy, a combination of rising costs and supply chain constraints that we've experienced will likely continue to slow our near-term ambitions. But we expect these issues to mitigate in the coming quarters. Now before I turn it over to Claude, I wanted to cover our ongoing progress in staffing.

It's been an unprecedented challenge to the prior really 12 to 18 months, particularly in North America. We're seeing candidate flow improve through the quarter. We focus on new technologies to make the interview process easier and bring our time to hire down from days to hours.

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We've also become more active on social media campaigns -- platforms, excuse me, driving more candidate star sites and attracting more early career talent. So again, while not out of the woods, our staffing levels have improved significantly and are very, very close to normal levels.

I'm going to pause there and let Claude take you through more of the second quarter financial results. Claude?

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

Thank you, Brian. Ladies and gentlemen, good morning. For the second quarter of fiscal 2021, we are happy to report net earnings of $810.4 million or $0.79 per share on a diluted basis. Excluding certain items described in more detail in our MD&A, adjusted net earnings were approximately $838 million or $0.82 per share on a diluted basis for the second quarter of fiscal 2023 compared with $693 million or $0.65 per share on a diluted basis for the second quarter of fiscal 2022, an increase of approximately 20.9% in the adjusted net earnings.

We delivered once again a solid quarter with impressive bottom line growth, notwithstanding the challenging inflationary environment. Adjusted diluted net earnings per share increased by 26.2% compared to the second quarter of fiscal 2022, driven by the strong gross profit growth as well as by our cost optimization initiative, which have helped mitigate the impact from higher inflation.

These strong results have contributed to noticeable increases in our key return metrics as return on equity and return on capital employed reached 22.7% and 16.4%, respectively, up 30 basis points and 50 basis points compared to the first quarter of fiscal 2023. Even with the -- with another active quarter in share repurchases, our financial position remains very strong, highlighted by our leverage ratio of 1.2x, providing us the opportunity for future and resulting in the announcements made today of a dividend increase of 27.3% to CAD 0.14 per share.

I will now go over some key figures for the quarter. For more details, refer to our MD&A available on our website. During the second quarter, excluding the net impact from foreign currency translation, merchandise and service revenues increased by approximately $188 million or 4.7%. This increase is primarily attributable to organic growth and to the contribution from acquisitions, which amounted to approximately $40 million, while being partly offset by the disposal of stores following the strategic review of our network. Same-store merchandise revenues increased by 5.6% in the United States by 2.9% in Europe and other regions and decreased by 1.5% in Canada.

Same-store merchandise revenues in Canada were strongly impacted by increased competition of illicit market in the cigarettes 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 $78 million or 5.7%. This is primarily due to organic growth. Our gross margin increased by 0.2% in United States to 34%, while it decreased by 0.1% in Europe and other regions to 38.2% and by 0.9% in Canada to 33.2%. Moving on to the fuel side of our business.

In the second quarter of fiscal 2023, our road transportation fuel gross margin was $0.4916 per gallon in the United States, an increase of $0.127 per gallon. In Canada, it was CAD 0.1255 per liter, an increase of CAD 0.0152 per liter. In Europe and other regions, our road transportation fuel margin was EUR 0.0973 per liter, a decrease of USD 0.81 per liter, driven by the impact of the translation of our foreign currency operation into U.S. dollars.

Fuel margins remain healthy throughout our network due to the favorable market conditions and our continued efforts to optimize our supply chain. Now looking at the SG&A. For the second quarter of fiscal 2020, normalized operating expenses increased by 8.1% year-over-year. This is mainly driven by the inflationary pressures, most notably higher energy costs in our European operations, higher costs from rising minimum wages as well as the incremental investment in our stores to support our strategic initiatives, partly offset by a easing labor market. Despite the challenging market conditions, we have continued to deploy strategic efforts in order to mitigate the impact of a higher inflation level and continued pressure on wages, which is demonstrated by our normalized growth of expenses that was slightly below inflation.

Excluding significant impact -- item, sorry, described in more details on MD&A, the adjusted EBITDA for the second quarter of fiscal 2023 increased by $177.9 million or 13.9% compared with the corresponding quarter of fiscal 2022, mainly due to higher road transportation fuel gross profit throughout our network and organic growth in our convenience store operations, partly offset by higher operating expense.

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The translation of our foreign currency operation into U.S. dollars had a net negative impact of approximately $47 million this quarter. And this negative impact translates into a negative impact of close to $0.03 on our EPS. From a tax perspective, the income tax rate for the second quarter of fiscal 2023 was 21.9% compared with 21.3% for the corresponding quarter of fiscal 2022. The increase mainly stems from the impact of different mix in our earnings across the various jurisdictions in which we operate.

As of October 9, 2022, our return on equity remained strong at 27.7%, and our return on capital employed stood at 16.4%. Both figures are higher sequentially compared to the first quarter. During the quarter, we continued to generate strong free cash flows and our leverage ratio stood at 1.2x, 11 basis points lower than Q1 despite having repurchased $205 million during the quarter under our NCIB. Subsequent to the end of the quarter, shares were repurchased for an amount of $396.2 million.

We also had strong balance sheet liquidity with $2.5 million in cash and an additional $2.5 billion available to our main revolving credit facility. Turning to the dividend. The Board of Directors declared yesterday a quarterly dividend of CAD 0.14 per share, up 27.3% for the second quarter of 2023 to shareholders on record as at December 1, 2022, and approved its payment effective December 15, 2020.

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*

All right. Thank you, Claude. As we reach the middle of our fiscal year, it's worth noting that we're well on track to meet and surpass the organic objective of our 5-year double game strategy. Given our strong last full quarter EBITDA performance at almost $5.6 billion. I want to thank all of our team members across the network for remaining committed to the strategy and leading the business forward even in the face of monumental challenges, including the pandemic wars, hurricanes and tough global economic conditions. As we continue to be laser focused on our strategy, we have more tools to engage our customers than we've ever had before, and we're focusing on both existing initiatives and launching new opportunities to drive our organic growth. Now with that, we'll take questions from analysts. Operator, over to you.

QUESTIONS AND ANSWERS

Operator

[Operator Instruction] Your first question will be from Michael Van Aelst at TD Securities.

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

I wanted to talk about the volumes actually. And the -- Considering the fuel prices fell dramatically over the start to finish in the quarter, can you give us some idea as to how the demand changed as the quarter progressed? Did you get meaningfully better heading into Q3? And then how much of that same-store volume decline you think is attributable to the rebranding activities? And how long does it take for the stores to recover to normal volumes or prior volumes once they've been rebranded if ever?

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

Yes, Michael, I'll take that. So I'll break it down to pieces. So for Europe, there's no doubt the extreme pressures that we're seeing from energy prices has changed consumer behavior. We see it both in kilometers driven, but also the speed. We looked at a phone study from Denmark and people have actually increased their average speed on the roads by over 5 kilometers an hour.

So we think we're winning share in Europe, both on B2B and B2C, but we've got a transitory negative impact on demand, just with the impact of the war and the energy prices. If you look at the U.S., our largest markets, a couple of dynamics. I think we did see both an improvement through

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the quarter as prices came down a bit. And we also saw a reversal of erosion in premium penetration, which typically is impacted negatively by the higher prices.

So as prices came down, we saw premium penetration go up, which is very good for us. It's a very profitable SKU for us. Overall demand, I would say we're continuing to focus on providing good value, consistent value. The industry remains very disciplined. There's no doubt that as prices are higher, there's a certain segment of the consumer base out there that's looking for the cheapest price on the street.

But if you think about who those players are, they can only tell so much and they're only in so many locations. And again, we think that's transitory. So as we think about fuel prices coming down, we think we're getting our fair share of the volume and our focus is on just being consistent as the market continues. On the rebrand, Michael, it really depends on the brand we're switching from.

Where we have supplier brands where they've had very strong loyalty programs, we have seen some volume erosion with the rebrand. That's also in the context of just a really strong economic equation. Our ability to source fuel today, we think, is best-in-class. And so the payoff, despite some volume erosion is really a no-brainer. It's been very, very good for us. And we don't see the same erosion inside the store.

I think the bridge to that is getting our loyalty program that we successfully piloted both in the U.S. and in Europe, ramped up the scale. And we're certainly hoping we can get that out to the market toward the end of the fiscal year. But the other brands that maybe didn't have a strong loyalty, we're not seeing that same impact. And actually, we have some rebrands where we just got positive results from switching from a partner brand of Circle K. So a little bit of a mixed story depending on where you're at.

Operator

Next question will be from Chris Li at Desjardins.

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

Claude, I was wondering if you can maybe similar to the previous quarters. Can you maybe break down for us sort of the major drivers or buckets of the year-over-year increase in SG&A expenses? And then secondly, do you expect a more meaningful step down in normalized growth in the second half of the year as you start to maybe lap against higher comparison?

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

Yes. Thank you, Chris. So yes, the -- so to come back to what drove our 8.1% increase in normalized operating expenses, we see the same 3 buckets that we talked about in the last quarter. So the first one, it's wages. So -- and I would say that wages, the impact of wages is a bit lighter this quarter because the retention measures are moving.

And so what we see in terms of our labor and how we structure our wages is instead of retention programs that we have last year, now we are more back to normalized hours, so a lot of regular time hours, more regular time hours. We always -- we have the salaries increase also been and still over time in our stores. But overall, we're covering all ours, and we're good with that bucket. I think we're seeing improving performance on this 1/3 of the equation. Where the second 1/3 is inflation.

So again, this time, it's the electricity in Europe that is really strong in terms of increase. You've seen the inflation figures in Europe and they are mostly driven by energy prices. So there's a lot of impact in our equation from the electricity and energy prices in Europe.

And finally, the third bucket is all our strategic initiatives that we've put in place -- so we see an impact probably of probably -- so the buckets are probably a bit more like 37% and 25%, so the wages have been a bit less of an impact in this quarter. As far as -- and we're putting all the initiatives in place also to mitigate those costs. There's a lot of activities that we're putting together, and we have the cost initiatives.

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And we have a couple of examples on that or that we're taking out the store manager offices in a lot of our stores to help reduce the administrative work. We are also doing a lot of the initiatives on labor scheduling. And you can imagine also that a big focus in Europe and in the rest of the network. -- just to look at all the energy savings initiative that we could put in place to make sure that we're reducing that expense as much as possible in our stores in Europe.

So finally, our vision for the second half, as we said before that we have easier comps that are coming our way so that we're going to start to meet those easier comps in the next 2 quarters. And with the effect of our initiatives that we put in place, opening we're going to be able to put some better numbers. But it's early for us, and we're going to be prudent before calling a number with the inflation, but it is happening in Europe.

Operator

Next question will be from Vishal Shreedhar at National Bank Financial.

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

Just to circle back on Europe. I was hoping you could elaborate on the results there. So if we look at Europe, is it fair to say that in local currency, the fuel margins were flattish. And how should I interpret the comment that you made about 10% to 20% lower demand? Is that -- did you say that this quarter? Or is that something that we should see in the future? And just on the back of that, how should we think Europe enfolds in general?

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

Vishal, on margin, it's a good observation. Actually, our CPO in Europe would have been $0.115 in the quarter ex currency, so actually up $0.01 a liter. So again, very strong performance, very pleased with that. On demand, it was really around electricity, I think that we were referring to. We've got markets where electricity costs are up 500%, 600%. I spent 2 weeks there during the quarter and just the efforts that we're making, the society is making at mitigating the impact of the rising costs and kind of doing their part for Ukrainian wars astounding. I literally got up one morning to go to the gym and had to use the flashlight to go through the hotel lobby on my phone.

So we've got markets where we've reduced our demand between 10% and 21%, and that's just doing a lot of little things at our sites. It's lowering the heat. It's unplugging coolers that we don't think are key. It's raising the temperature of our walk-in coolers. And so again, will that mitigate everything. I think it depends how the winter plays out there.

And again, we view that as very transitory. It's going to be temporary, but it's having a material impact, both on our European P&L, but also just on our team members there. So more to do there and again, sharing that globally. We're not seeing the same pressures or feeling the same pressures in North America, but certainly very real in our European markets.

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

Okay, thank you. Just on U.S. fuel margins, the delta versus OPIS seems to be a bit lower than we've seen over the last few years. I know OPIS isn't necessarily the benchmark that you use, but I also know that you have many initiatives in place to kind of expand your fuel margin advantage versus the industry. So I was wondering if there's anything noteworthy that you'd like to point out on the fuel margin this quarter, which may have caused that lower deviation?

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

Yes, not really. Again, that does cycle and it's so geographically specific. When I look at our Western markets, I think we had a really strong quarter vis-a-vis the market -- it just depends on how liquid are the racks versus the spot market. And again, that picture just varies dramatically geographically. So we just remain focused on continuing to develop capabilities to now allow us to widen that gap.

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We've stood up over 1,000 trucks during COVID, which allows us to capture geographic and time arbitrage as an example, our trading group, both in Houston and now setting up in Geneva. So we just remain focused on doing the things that we can control, and I don't think there's anything particular in the quarter we saw that would indicate any erosion on that advantage that we're establishing versus the market.

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, just following up on the last commentary around the trading groups. Can you walk us through how having that training expertise enhances your ability to deliver on the fuel margins? And how it differs from, let's say, the way you used to do things and the way others do things because I think that's something that we all really need to understand.

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

Yes, it's a longer conversation than I can probably do justice to on the call. But high level, our focus on the U.S. We would typically have bought either from the rack, so prices established by refiners locally or on a term basis and turned up 100% of our demand. With the large shorts that we have, we've got consistent rateable demand, the cherry concentrated in some markets we're able to act more opportunistically at times.

And that may be when one spot market is significantly advantaged versus another, being able to deploy trucks sometimes hundreds of miles to take advantage of very different cost arbitrages, not being turned up on all of our volume and being opportunistic where we think the markets will be long and there will be people that are incentivized to cut prices to place barrels in a refinery system as an example.

In Europe, it's very much for outer borne markets. We have all import terminals. And so the ability to take advantage of cargoes that may not have a home as an example, I read and can be significantly cost advantaged vis-a-vis just a term relationship with the local refiner. So again, a very long conversation. We've got an Investor Day. I think we're trying to schedule for the fall, and I think that would be a great time to go a little deeper there if we get the opportunity.

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

That's great. And just a question that we haven't really dived into yet, which is the inside store demand in the U.S. and what you're seeing and particularly what you're seeing around adoption of the food and halo impact in other categories.

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

I think we've been pleased with the consumer, both in Canada and the U.S. Again, if you take Canada, if you take out tobacco, it's been very strong. So despite the inflationary pressures, I think we've been fortunate that unemployment rates remain at historical low and consumers, while certainly feeling pressure between the economic stimulus during COVID and the high employment rates remain relatively in decent shape. So as we look to last quarter and what we're seeing in this quarter, we continue to see very, very solid demand inside the store.

With regard to -- what was your second question? I mean it was the food. Again, I'd say we're in the very early innings of that game. Very pleased with the platform we've deployed. I think we're pleased with the decision to continue the rollout during COVID. We've now got 4,200 stores deployed. And I think we said in the commentary that same-store sales are up well into the 20-plus percent range. And again, that was even better than last quarter. So I think we've got a good formula to work on have we got it completely figured out in terms of the food culture, managing the spoilage, making food at the right time, all those things that aren't so important in food, I'd say that's a journey that will continue.

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But again, very pleased we're ahead of our projections, ahead of our plan for the year, and we are seeing benefit across the store. It's one of those things that if we get right, and we have some other people in the industry that have shown us, if you get it right, you can influence current consumer to turn left instead of right. And that's the journey we're on. And again, I'm sitting here today, very pleased with where we're at.

Operator

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*

You called out promotional activity as a tailwind for your business. And I know that's been an ongoing journey for you, but was there something new that you're doing? Or is it more of a continuation? And obviously, it's not a project with a specific end date, but how far along are you in those efforts, maybe perhaps relative to the targets that you shared at your Investor Day last year?

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

Yes, Mark, on promotional activity, I would say, is the journey we've been on to let data drive our decisions continues. And I would say generally on track with where we communicated from the Investor Day. I'd say the one maybe headwind we've had is just retaining data scientists. It's been a hot commodity, hot field. And so the turnover we've experienced in that group, particularly domestically, it's been a little bit more difficult. We've set up an office in India, and we've been very pleased with the talent we've been able to source there. And so we think that will in the coming quarters, stabilize that team and continue to allow us down that journey. And really, that's just -- it's really using data to drive our discipline to what promotions really make a difference in which ones are noise.

And so you're seeing and should see fewer promotions, but more effective promotions, which should result in both higher sales and higher margin over time. I'd say the other piece that's happening is just with the inflation, and we know the consumers sensitivity to price has been heightened. And so we're doing, I think, a few things out there that hopefully convey strong value, whether that's take home soda packages, some of the things we've done around fuel that wouldn't have been our norm. So fewer bigger to create that value perception, not just perception, but deliver value back to our loyal customers.

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

Maybe on the second part of your question, we put a range out for you at $150 million and $210 million of achievement on that initiative, and we're really -- we're well into the range and close to the high point of that target in terms of benefits from that program.

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

Okay. Perfect. Switching gears, I wanted to ask about the M&A landscape. You've spoken about more deal flow and multiples being sort of closer to your target range. Any update on that? And I know you said that you see the energy challenges in Europe as transitory, but does that affect your thinking at all?

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

So on the Europe piece, no. Again, I view that as transitory. And quite honestly, it probably applies some pressure to some businesses, and that's been historically good for us. The balance sheet, as Claude said, is very strong. The appetite is there. And I guess I'd just reiterate the comments I've had from prior quarters. Until there's a deal, there's not a deal, but we continue to be pleased with the deal flow we're seeing. And I think it's a

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question of timing, but I'm cautiously optimistic that this environment with tighter credit, a little higher interest rates will be better for Couche-Tard than it has been in the last 3 or 4 years where there's been a lot more competition.

Operator

(Operator Instructions) Next question will be from George Doumet at Scotiabank.

George Doumet - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Just a follow-up on the store. Can you maybe give us a sense of how U.S. same-store sales performed through the quarter? And can you also give us a little bit of sense in terms of basket versus traffic? And within the basket, how much price did we take in the quarter?

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

Yes, I'd say the results were pretty consistent in the quarter. The exception being Florida. Florida is a large market for us, 800 stores. It was clicking along at a nice mid-single digit and end of the quarter really at 0, and that's purely the effect of 2 hurricanes during the quarter. But I'd say pretty consistent. Traffic relatively flat, maybe just down just a bit. So basket being very strong.

And that's just our continued push to make sure that we're pushing price appropriately and recovering the inflationary pressures that we see, whether that be on wages or energy or the 3 buckets that Claude went through. So again, trying to be surgical there, not drive the customer away communicate value where appropriate, but also recover costs. And yes, as of right now, I feel we're doing a good job with that. We're seeing, again, strong demand to continue into the next quarter so far.

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

Yes. And George, maybe just to add also the success of our Fresh Food Fast program also is starting to show up in our same-store sales. That's what's driving also the basket. So we're very pleased with the results we've seen in fresh food.

Operator

Next question will be from Martin Landry at Stifel.

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

I just want to touch on your volumes, your fuel volumes in Canada. It looks like they worsened versus Q1 despite gasoline prices declining. And if we look at the U.S., you had a bigger decline in Q1 and a smaller decline in Q2. So I'm just trying to understand what's happened in Canada. Is there something specific that you can point to to explain the larger decline in the lack of correlation with the U.S.?

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

Yes, we were minus 6.5% in the quarter. So that is soft. So we're taking some efforts like we have in the U.S. to, I think, be a little more tactical, a little more guerrilla warfare in delivering value to the customer without changing the price in the MID and risky depressing the market. So you'll see more activity in the coming quarters in Canada. If you look at our weakness, it's really concentrated in the East. So I'd say Quebec and the Maritimes. We've got some work to do on harmonizing our brand position there.

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That's a little bit of a longer-term opportunity for us, but that's where we're going to focus our efforts. When I look at Ontario and West, I think we performed very well when you look at Parkland or other public comparators. And so it is fairly isolated to a small part of the country. And again, on our mind that Canada is 12%, 13% of our total global volumes, relatively small. But that aside, we're focusing more on that customer and that value proposition in the eastern part of the country in the coming quarters.

Operator

Next question will be from Peter Sklar at BMO.

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

Brian, can you elaborate on the new loyalty program you're piloting in the U.S.? Just talk a little bit about it and explain the new tiered concept that you're experimenting with as well.

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

Yes. So we've had loyalty products across the network of varying degrees. And we've had one in Europe has had very deep penetration. But quite honestly, we've challenged ourselves to say, "Hey, can we go beyond just having another key fob in your pocket or another number, another buying club". And so done a lot of research with partners and selected Brierley as our partner developed the current program and really focusing on the fact that our industry is so much driven by the heavy users.

There's different segments, different names for these customers. But we've got a very, very strong group of consumers in our industry that just drive a tremendous percentage of the volume. And so without getting into the details of how -- I think the why is we're going to make sure that the customers that can deliver the most value to us, get the most value from us. And where we've launched that and piloted that now in 3 countries in Europe and the small market in the Carolinas, we've seen very strong Net Promoter stores scores and very strong penetration of enrollment, both on fuel and merchandise. I think my frustration is that we wish we had it deployed more broadly.

And that's really just been a technical issue getting the engine to work with our various POS platforms that we've got, particularly in the United States. So we're excited. I think the benefit of being delayed a bit is, I think we've really optimized at store level, what the consumer messaging is, how do we get people to sign up, how to motivate our staff to drive enrollment. So we're ready. And again, cautiously optimistic that we've got something that will differentiate in the future.

Operator

Next question will be from Bonnie Herzog at Goldman Sachs.

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

All right. I actually wanted to circle back to Europe real quick. As I guess I was hoping for maybe a little more color on the consumer behavior and really some of the initiatives you've implemented in light of this. For instance, are you seeing more down trading and a pullback on spending? If so, are you increasing your promotional spend to help mitigate that? And then also curious to hear the behavior at the pump are consumers possibly not filling up, but possibly coming more frequently? And then finally, what are you seeing in terms of shift in channels within Europe? Are other channels possibly benefiting from some of these consumer pressures?

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

Yes. Thanks, Bonnie. I'll start with the fuel side. So there has been a marked change in behavior. And again, I want to repeat, repeat, repeat. We view this as transitory temporary. We're seeing both lower penetration of premium sales and lower liters per fill, about 15% lower. But we're seeing more visits. So net-net, volume down mid-single digit, visits up 2%, 3%, but the average fill down 15% or so. And that's pretty consistent across the countries. Those visits have actually translated into the store holding up pretty well.

You see us, I think we were plus 2.9% or something close to that for the quarter. And that's with pretty solid traffic underlying that. So when I look at inside the box, the behavior hasn't been as noticeable in terms of trade downs you asked. Our food continues to perform very well. Beverages continued to perform very well. And we don't have the same just because of lack of scale in some of these smaller countries. We don't have the same penetration of private label. So we've seen the brands continue to hold very well.

Then when I've asked the question, how are we doing vis-a-vis other channels? And when I look at the 3 big kind of countries where I get the best data, I'd actually say the channels fared very well vis-a-vis grocery, which is our main competitor in those countries. And so yes, I'm pleased with our results, all the data I see says we're taking share, but there's no doubt. And again, it was on a recent visit, it's pretty stark difference from what we're experiencing here in North America. I mean Societies really buckled down to get through the winter and everybody is doing their part to just minimize their energy demand, and that includes driving.

Operator

Next question will be from Anthony Bonadio at Wells Fargo.

Anthony Bonadio - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

I just wanted to ask about the new-to-industry stores. I know you mentioned rising costs, supply chain constraints sort of slowing your ambitions there. So can you just talk a little bit about what growth might look like given a more favorable environment? And then you also mentioned strong merge sales and volumes in those new stores. Can you just talk about what you might be doing in those newer units that's driving the outperformance there?

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

Anthony, I'll take the last part first. We've got a store model that we've deployed really the last year that is a big part of what we learned in holiday that really slows the customers through our store. You enter you're in the food area. So the coffee dispensed beverage bakery into the sandwiches you rotate through a U that takes you into the cold vault both Beer and other, and then you end up in the impulse section as you approach the checkout. We had extraordinary good luck with these.

We've retrofitted a few stores just to see the impact of that as we played with design, and it just drives really, really strong basket improvement. So that's the model we've been deploying. -- been very pleased, as I said in the commentary, with both our results in volume and inside the box. You look at the mix, food just does better. And we've got significantly more cold doors than we would have had in our traditional build. And we just think that's an industry differentiator that we can continue to provide and really excel at meeting that thirst occasion vis-a-vis other industries. So pleased with that, a little bit frustrated just in getting them out. I'd love to build 200 a year.

We're not going to build 200 this year. And just a big part of it has just been supply chain and rising costs. It's been hard to find electricians, plumbers, for those of you that try to do work in your house. But that will end. I mean that's going to be transitory as well. And our ambition is to continue to ramp up the growth of our NTIs. We think it's great consumer response, great ROI for us and our ambition is to do more. But coming through the current environment, it's just been difficult to ramp up the trades, get the permitting and all the things necessary to hit the numbers we want. So continued focus there. And again, the ambition is there to do more.

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Operator

Next question will be from Derek Dley at Canaccord.

Pulkit Sabharwal - *Canaccord Genuity Corp., Research Division - Associate*

This is Pulkit on behalf of Derek. Just a quick question from my side. Just on the fuel volume side or come back to that, what drove the softness there? Was it more of a function of the higher fuel prices? Or is it still due to remote working conditions and general less movement to and from work?

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

Is your question U.S.-specific or Europe?

Pulkit Sabharwal - *Canaccord Genuity Corp., Research Division - Associate*

Across the territories yes.

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

I think it covered Europe pretty well. I mean, it's high energy prices, again, transitory, and I think covered Canada fairly well. That's an Eastern Canada phenomenon. I'd say in the U.S., I feel good about our performance. There's a couple of value players that I think are getting a disproportionate share on a temporary basis. But when I look at our results versus what we see out of OPIS out of EIA, out of the phone company data on movement, I think we're performing well. I think demand is still think demand is still not where it was pre-COVID. We still got a certain segment of society that's not gone back to the office 5 days a week. But that just continues to slowly recover. And I think as we continue to work on building the Circle K brand and making that more value to our customers and innovating with pay by plate and our loyalty platform. Our goal is to slowly take share in the fuel space, and we feel good about the journey we're going to do that.

Operator

Thank you. This concludes the Q&A portion of the conference. Mr. Lachance, back over to you.

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

Thank you, operator. Thank you, Brian. Thank you, Claude. Thank you all for joining us. We wish you a great day and look forward to discussing our third quarter 2023 results in March (foreign language).

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