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PRESENTATION

Operator

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

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

(foreign language) Good morning. I would like to welcome everyone to this web conference presenting Alimentation Couche-Tard's financial results for the third quarter of 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 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 third quarter 2023 results. We're pleased to report solid results this quarter and I want to begin by sincerely thanking our great team members around the world for their hard work and focus on our customers.

As our global markets face persistently high inflationary conditions, particularly in Europe, where end prices had spiked materially in the quarter, we've remained focused and committed to delivering a strong and consistent value to our customers and maintain cost discipline inside of our operations. In convenience across the network, we had strong double-digit growth in our food program as well as in our private label items, both offering a high quality at a great value.

Throughout the quarter, we continue to be pleased with the resilience of our customers. And through our localized pricing efforts and ongoing fuel promotions, we're providing them with further benefits. Our mobility results are still impacted by stay-at-home work and higher prices, we continue to generate very healthy fuel margins offsetting the softness in volumes.

Before I turn to the results, I wanted to go over the announcement from earlier this morning of our proposed acquisition of certain European assets from TotalEnergies. We submitted a firm and irrevocable offer and entered into exclusive negotiations to acquire 100% of TotalEnergies' retail assets in Germany and the Netherlands as well as a 60% controlling interest in the Belgium and Luxembourg companies.

The proposed acquisition would include 2,193 sites with 1,195 of those being located in Germany, 566 in Belgium, 387 in Netherlands and 45 in Luxembourg. These are high-quality locations with very strong market positions in each country and in close proximity to our current footprint in Europe.

Following my presentation, Claude will cover in more detail the financing for this proposed offer, which is also detailed in the presentation on this proposed acquisition available on our website. Our next step is to enter into a consultation process involving employee representative bodies in the 4 countries outlined as well as the approval of the relevant competition authorities. We're beginning these meetings in the upcoming days and it's expected that the proposed transaction will be completed before the end of the calendar year 2023.

For some time, we've been seeking a sizable acquisition and this one will grow our European network by close to 80%, bringing value to our shareholders and being a strong geographic and strategic fit. We're truly excited to bring these assets from TotalEnergies into the Couche-Tard family, having a deep respect for the operations, management and employees in the 4 countries involved as well as a great confidence of the benefit of having them join forces with our leading global retail operations.

By growing into Europe's largest market, Germany and other European markets near our successful Scandinavian, Irish, Polish and Baltic networks, we believe we can generate material synergies and create additional growth opportunities in some of Europe's strongest economies. While adding TotalEnergies' assets will be game-changing growth for our network, I also want to highlight other exciting recent announcements.

First, we closed the acquisition of True Blue Car Wash, which currently has 65 car wash locations either located in our core markets in high traffic areas in Arizona, Texas, Illinois and Indiana and with a strong pipeline of future new industry sites plans under development.

We see this acquisition as a natural extension of our current car wash business of more than 2,500 locations and a part of our commitment to lead and innovate in a fast-growing segment that meets our customers' mobility needs. Adding True Blue's high-quality car wash sites has already presented compelling opportunities for cross-promotion and loyalty building, which began immediately under close and 32 days after close, we're very pleased with the early results.

We've also entered into a binding agreement for the acquisition of the fuel and convenience retail sites from Big Red stores. These are modern, high-quality, well-located sites across the state of Arkansas aligning with our growth ambitions in that area. As they are predominantly large format sites, we will have ample space to enhance our Fresh Food programs and product assortment and services in these sites.

Finally, following the fulfillment of our obligations with the Competition Bureau in Canada, we're now able to bring the benefits of the Wilsons acquisition to our Canadian market.

Now let me turn to our results for the quarter, beginning in convenience. Compared to the same quarter last year, same-store merchandise revenues increased 4.8% in the United States, 3.5% in Europe and 2.3% in Canada, driven by strong results in our food programs as well as by our diversified offering of beverage categories and partly offset by continued softness in cigarette revenues from both illicit competition in Canada and just overall softness in the category across the industry.

Across the network, our Fresh Food Fast program continues to grow with over 4,500 locations opened globally. Sales were up 23% on a same-store basis and profits are accelerating with the customers and our store team members strongly engaging on our products.

Our $5 pizza and fresh baked cookie programs are in high demand. And as we introduce new items such as our (inaudible) cake sandwiches, we're getting very positive feedback from our customers and we're seeing it in the sales.

For dispensed beverage, we've made improvements that will enhance our customer experience and drive sales. In the U.S., we launched a National Coffee rebrand initiative to better communicate the quality of our coffee and bring coffee house field to our stores. We've also launched a free coffee day in the U.S. with over 450,000 cups of coffee given away that day.

Mountain Dew Purple Thunder sales continue to drive growth in our (inaudible) pop and now exceed 11 million cups year-to-date. In packaged beverage, our private brand drinks continue to provide accretive double-digit growth in our highly competitive products at great values to our consumers.

Age restricted global alcohol sales had a strong performance with European sales leading the way, up strong single digits. Our upgraded wine wall displays are exceeding expectations, resulting in increased unit movement as well as the launch of our new private label brand wine, which is now selling in 2,400 locations in the United States.

Lotteries also performed well during the quarter, driven by large U.S. jackpots as well as a well-executed holiday selling season. Across the network, we continue to see inflationary pressure on our packaged goods and supply costs and we've been working in collaboration with our vendors on cost and investments to help deliver value back to our customers. In our global merchandise supply chain, we still have had some isolated challenges, but overall, our in-stock and on-time delivery rates are materially improved from previous quarters.

Turning to our data-driven work. In pricing, we now have that running in all BUs in Europe and North America and we're evolving our tools to be more responsive to the inflationary market conditions we've seen over the past quarters.

In promotions were in the final preparatory stage of piloting our approach to integrate price and promotion analytics together, which will allow us to simultaneously optimize both regular and promotional items that are frequently bought in multiples by our customers. And in the assortment side, we are now live across all of our major categories in North America with a focus on identifying strong performing products, giving themselves on to our shelves quickly while eliminating those slow-moving items.

Moving to our fuel business. Same-store road transportation volumes decreased 2.3% in the U.S., by 1.2% in Europe and other regions and increased by 0.5% in Canada. Overall demand remained unfavorable, impacted by high prices driven by the higher crude prices compared with corresponding quarter in 2022 as well as heavy rebrand activity on our part in the quarter. As I mentioned earlier, we continue to generate very healthy fuel margins offsetting the decline in these volumes.

In our Circle K fuel rebrand work, we completed over 300 locations during the quarter and now have over 3,800 Circle K fuel branded sites in the U.S. While this is disruptive in the short term, it's absolutely a positive for both our consumers and our profitability over the long term.

We continued this quarter with local fuel promotion days in the U.S. to help alleviate some of the cost pressures at the pump, including over 70 events with a range of $0.25 to $0.40 per gallon price drops during the prime driving hours. Here, we're seeing significant lift in volume as well in valuable engagement and brand building in our store offerings and in the forecourt.

Our EV fast-charging network now consists of 1,380 charge installs, covering more than 300 locations. Following the opening of the biggest truck charging site in the Nordics this October, we've opened 4 more truck charging sites in Sweden and 15 more will open in the coming year.

To-date, this fiscal year, we've had over 1 million charging transactions on Circle K charges in Europe, which is double the amount from the same time last year. This increase is driven both by network expansion and continued growth of utilization in our chargers.

In our innovation work, we made great progress in Smart Checkout, which is aimed for providing our customers with the quickest and easiest checkout experience. We hit a major deployment milestone recently with over 2,000 Smart Checkouts now live in the U.S. and we have approximately 120 Smart Checkouts up live in Europe.

We believe this is a materially faster and easier transaction than traditional self-checkouts and will lead to higher customer satisfaction over time. And the Net Promoter Score certainly support that so far into this journey. In our proprietary Pay by Plate program in Europe, we passed 1.5 million transactions where we offer the service.

And now before I turn it over to Claude, I want to note a significant recognition for our sustainability work over the quarter, included being recognized as a 2023 top-rated ESG performer by Sustainalytics as well as MSCI ESG. In addition, we're awarded the Bronze Ecovadis medal for our sustainability efforts in Europe. And in Canada, Women in Governance honored us with the bronze of a parity certification for our progress towards gender parity in our workplace.

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

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

Thank you, Brian. Ladies and gentlemen, good morning. Before we turn to our third quarter results, I would like to offer more details on the proposed transaction of certain European assets from TotalEnergies.

The purchase price of EUR 3.1 billion to be paid in cash and on a debt-free, cash-free basis will be financed using available cash, existing credit facilities, our U.S. commercial paper program and the new term loan. This purchase price corresponds to an EBIT to EBITDA multiple of approximately 8x, including leases, which amount to $515 million, which is an attractive and accretive multiple for our shareholders.

For calendar 2022, EBITDA for these entities to be carved out from Total was approximately EUR 500 million or approximately EUR 455 million, excluding the noncontrolling interest. This proposed transaction will have a modest impact on our pro forma leverage ratio as we estimate that our main leverage ratio on a pro forma basis would reach approximately 2.1x as opposed to approximately 1.5x at the end of the third quarter of fiscal 2023, still below our comfort zone of 2.25x. Synergies to be realized over a 3-year period are estimated at EUR 120 million, mainly coming from our top line growth and merchandise uplift.

Back to our quarterly results. For the third quarter of fiscal 2023, we are happy to report net earnings of $737.4 million or $0.73 per share on a diluted basis. Excluding certain items described in more detail in our MD&A, adjusted net earnings were approximately $741 million or $0.74 per share on a diluted basis for the third quarter of fiscal 2023 compared with $746 million or $0.70 per share on a diluted basis for the third quarter of fiscal 2022, an increase of approximately 5.7% in the adjusted diluted earnings per share.

Our results for the third quarter of fiscal 2023 reflect the effective execution of our cost optimization initiatives as well as our disciplined approach to deploy capital. On the cost side, our efforts have helped to mitigate the impacts from higher inflation across our network and we were pleased with the improvement we observed as the quarter progressed.

On capital allocation, we have repurchased almost 27 million shares during the third quarter and almost 62 million shares over the past 4 quarters.

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 the third quarter, excluding the net impact from currency translation, merchandise and service revenues increased by approximately $279 million or 5.8%. This increase is primarily attributable to organic growth and to the contribution from acquisitions, which amounted to approximately $41 million.

Excluding the net impact from foreign currency translation, merchandise and service gross profit increased by approximately $86 million or 5.3%. This is primarily due to organic growth.

Our gross margins decreased by 0.4% in the U.S. to 33.2%, impacted by the promotional efforts to support our Fresh Food Fast program. In Europe and other regions, our gross margins decreased by 0.5% to 37.3% and in Canada, it increased by 0.7% to 32.3%, both impacted by a change in product mix.

Moving on to the fuel side of our business. In the third quarter of fiscal 2023, our road transportation fuel gross margin was $0.4685 per gallon in the United States, an increase of $0.0722 per gallon. In Canada, it was CAD 0.1252 per liter, an increase of CAD 0.74 per liter.

In Europe and other regions, our road transportation fuel volume was EUR 0.8001 per liter, a decrease of EUR 0.0282 per liter, driven by the impact of the translation of our foreign currency operations into U.S. dollars as well as by the volatility of the European fuel markets. Fuel margins remain healthy throughout our network due to the favorable market conditions and our continuous efforts to optimize our supply chain.

Now looking at SG&A. For the third quarter of fiscal 2023, normalized operating expenses increased by 7.8% year-over-year. This is mainly driven by inflationary pressures, notably on energy costs in our European operations, costs from rising minimum wages and increased usage of Software as a Service solution, combined with the impact of change in accounting policy as well as by incremental investments in our stores to support our strategic initiatives while being partly offset by the impact of lower pressure in the employment market.

Despite the challenging market conditions, we have continued to deploy strategic efforts in order to mitigate the impact of higher inflation level and continued pressure wages -- on wages, which is demonstrated by our normalized growth of expense that was in line with the average inflation observed throughout our network.

Excluding specific items described in more details in our MD&A, the adjusted EBITDA of nearly $1.5 billion for the third quarter of fiscal 2023 decreased by $2.6 million or 0.2% compared with the corresponding quarter of fiscal 2022, mainly due to the translation of our foreign currency operations into U.S. dollars, which had a net negative impact of approximately $43 million as well as higher operation expenses, partly offset by higher road transportation fuel gross profit and organic growth in our convenience store operation. To be noted, the translation of our foreign currency operations in U.S. dollars had a negative impact of $0.03 on the earnings per share for this quarter.

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

As of January 29, 2023, our return on equity remained strong at 23.3% and our return on capital employed stood at 16.6%, both figures higher sequentially compared to the second quarter. During the quarter, we continued to generate strong free cash flows and our leverage ratio stood at 1.46 despite having repurchased $1.2 billion during the quarter under our NCIB.

Subsequent to the end of the quarter, shares were repurchased to the automatic securities purchase plan for an amount of $373 million. We also had a strong balance sheet liquidity with $1.1 billion in cash and an additional $2.5 billion available through our main credit facilities.

Turning to the dividend. The Board of Directors declared yesterday a dividend of CAD 0.14 per share for the third quarter of fiscal 2023 to shareholders on record as at March 23, 2023, and approved its payment effective April 6, 2023.

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. I want to finish my remarks where I began by thanking our customers and shareholders for their continued support of the business, especially our team members for their hard work and focus on our customers. As we all know, the past 3 years has not been easy ones from a global pandemic to labor shortages to historic inflationary conditions. Our team members remain highly engaged with a one team spirit and we continue to play to win in our industry.

In closing, we feel good about our core business and the trends we're seeing both in the store and at the forecourt, both during the quarter and in recent weeks. And our teams are excited about the value creation opportunities we have in front of us with the integration of our recently announced transactions.

Finally, our teams are very excited to welcome TotalEnergies into the Couche-Tard family. I believe we're one of the best retailers in Europe and I'm confident that combining our companies in Europe will create great value for our customers and for our shareholders.

With that, I'll turn it over to the operator to answer analyst questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will be from Irene Nattel at RBC Capital Markets.

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

Congratulations on the transaction. Can you walk us through, please, what it is, in particular, about the Total network that you are acquiring that was compelling to you, how you came about to the valuation that you paid and how we should think about the evolution of the assets and the areas -- the key areas in which you see upside from the transaction?

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

Hard questions in there, Irene. Thanks for the congratulations by the way. We've been working on this for approaching 2 years. As we've said in our strategy, we've been -- we intend to be opportunistic in Europe and be very selective. This is a network that has really strong positions in each of the 4 countries that we're entering and also leaves room for growth in all 4 countries and particularly Germany, by far the largest economy in Europe. So excited about those opportunities. And we just feel, again, these are winning assets. They're doing a lot of things right.

There's 1,000 car washes in the network. And I look at our offer that we have in Europe, I think it's one of the best in the industry and combining those 2 brands and concepts, we think we can have a winning formula in these 4 countries. So excited about that piece of it. In terms of valuation, I'll let Claude comment on kind of how we thought about that.

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

Well, in terms of valuation, you know that we're going to pay 8x multiple on that. So the valuation is very attractive to us. And yes, I think it after synergies, it brings the valuation to the level that we like in terms of transaction.

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

Could you talk about where you see, in particular, the areas of potential synergies and notably in light of the fuel supply agreement with Total?

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

Yes. I mean the fuel agreement has a lot of commercial flexibility in it. But Total is also very well-positioned to be a very competitive supplier for this geography. So we think it's a natural fit and a very strong brand. In terms of synergies, as we talked about top line, we think is very material. We think they're doing a lot right on the fuel side. We think there's more to do on the EV side. We think there's certainly more to do inside the store. And then there's more to come on the other areas.

We'd like to believe that the scale we now have in Europe will yield significant procurement synergies. But again, some of those just really haven't been quantified yet. And obviously, we're in the middle of a process with the work councils. We've been pleased over the years that we've grown our employment in Europe as we've grown, but we'll continue to look to optimize the business and -- but -- and look forward to the next step is really engaging with the team members and welcoming them into the family.

Operator

Next question will be from Mark Petrie at CIBC World Markets.

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

Operator, can we go to the next?

Operator

We will go to Vishal Shreedhar at National Bank.

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

I think you may have already suggested this, but if we look at the actual synergy number as a percentage of EBITDA, it looks lower than your prior deals of this size. And I know you're still going through the details, but is that because you haven't really reflected in your synergies, the fuel procurement opportunity, which is typically a quick win for you guys? And if so how should we think about the fuel procurement opportunity?

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

I think fuel procurement, I don't think initially will be as big as what we would have in some other files given that we've got a strong commitment to a very strong brand and strong partner. And I'll emphasize that we're a partner here with Total. They're maintaining some ownership in both Belgium and Luxembourg and that's a signal that -- we hope it's a very early part of our partnership and we continue to grow and do other things together.

In terms of synergies overall, again, we're starting by communicating that top line opportunities and I believe procurement opportunities are material as we get into costs, how we operate the sites, things like that. We'll continue to peel back the layers over the coming months as we work to get regulatory approval and work with the work councils on the approval of the project and we'll continue to refine that estimate.

Operator

Next question will be from George Doumet at Scotiabank.

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

Congratulations on the acquisition. I want to talk a little bit about the merchandise part piece of TotalEnergies. Can you talk a little bit about how that's performing versus kind of our operations in Europe? And maybe talk about the opportunities to potentially improve that maybe some more detail? I think you mentioned (inaudible), but some more detail on how we can improve that on a go-forward basis?

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

Great question. I'll go back to 10 years ago with Statoil. The devil is in the details, all the way from how do we procure our category management processes, assortments, emphasis on certain categories versus others, promotional intensity. This is all we do. TotalEnergies is obviously an integrated oil company and they do a lot of things and they do a lot of things very well. But we believe the focus that we have, we believe our European model that we have, both on the food and merchandise side that we've evolved over the last decade will resonate in these markets. They're adjacent when you think about where we're at, we're in Denmark, which is right next to Germany. So culturally, we think we've got a decent understanding of what's working. We spend a lot of time on the competition and understand where they're winning and where they're not.

And so it's going to be really a comprehensive overview and overhaul of the stores, George, and we've got some time and I think the flexibility to pilot some things with TotalEnergies before the closing. So we're optimistic we can hit the ground running.

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*

I wanted to actually ask about the U.S. merchandise business and specifically on the margin side. Obviously, there's a lot of different moving parts here with regards to sales mix and price and promo effectiveness, trade down and Fresh Food. But I'm hoping you could help us sort of understand the impact of those different moving parts and how to think about the gross margin performance for the quarter and then your outlook for the next few quarters?

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

All right. Thanks, Mark. I'll take a shot at that. Actually pleased with merchandise margin percentage in general. Obviously, some heavy inflationary pressure during the quarter when we look category by category. We think we're very effective at keeping up and exceeding the cost increases. So when you just back away and strip out food, food and beverage, coffee specifically, our margins are actually sequentially up a bit versus prior quarter. Pretty significant impact from the food category. And that's really 2 things. One is, as I talked about in my remarks, pretty heavy promotional activity around coffee. That combined with our Sip & Save subscription has grown, it's depressed the percent margin.

The bigger impact is on our Fresh Food Fast program. We introduced another 350 sites in the quarter and have grown very rapidly in the middle of COVID. So we're kind of building a plane while we're flying it. And we -- as COVID has kind of opened up now, we've really shifted to pretty heavy promotional activities, sampling promotions and I mentioned opening new outlets. And so you put all that together and well, margins are -- while our sales are actually exceeding plan and as I said, up 23% for the quarter, year-over-year our margins are short of where we -- our plans are and certainly short of where our pro forma is.

But I have a lot of confidence. Our northern tier business has been in relatively the same program for a decade and we very much can see the profitability we get out of that piece of the business and out of the top performing sites. So our focus right now continues to be on growing sales while continuing to put the right tools and disciplines in place to control shrink and other things over time. So again, not where we want to be on a pro forma basis, but very pleased with the top line and confident the bottom line will follow.

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

And on the trade down, Mark, if I may add, we've continued to see a good performance from our private label program. So private label program is up over 25%. So all our SKUs are performing very well in our stores. So that is bringing good sales in our stores.

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. I guess, I was hoping you could help us understand the cadence of your fuel margins throughout the quarter, possibly on a month-by-month basis. And then along those lines, how have things trended so far this quarter? In general, any color you can provide on your outlook for fuel margins and whether you guys think they are starting to normalize would be helpful?

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

Sure, Bonnie. For the quarter, I think the U.S. and Canada continued to perform very well in terms of fuel margins. We had weakness in Europe for the quarter, driven by really 2 things. We had about $0.03 a liter impact just on currency. And as Claude mentioned, up and down the P&L, that just had a material impact on the quarter. But again, that's transitory. The other was a sharp decline in crude during the quarter. Crude went from $92.60 to $79.70. We have a longer supply chain in Europe. We have terminal operations, we have compulsory stock inventories. So the impact of devaluation or reduced value of those inventories is more material in Europe and shows up.

But if you look at on our comp basis, margins continue to be strong in Europe. And we continue to see that post the quarter. The market remains very disciplined. So no, I couldn't be more pleased with the trends we're seeing really.

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

And maybe to follow up on your question in the U.S., the trends in the U.S. have been -- during the quarter have been similar to previous quarters, but we've seen during the quarter, a period of 6 weeks and I think everyone noticed that the OPIS was a bit down during a certain period of time, we noticed that also in our results. But in terms of -- and margins have come back to the previous levels after that short period.

And we know and we continue to think and to share that we feel that U.S. margins are -- level are influenced by the SG&A and the cost pressures that the channel is experiencing everywhere. So we're still on that notion for the U.S. margins in the future.

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

And then just to clarify because that was helpful. You think going forward, as there continues to be pressure on gallons, you feel confident that the margin will be more than enough to offset that on an ongoing or forward basis?

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

I think, Bonnie, on any short-term basis, margins can be volatile, have been forever, but if you charted the last decade, you'd see a persistent increase in unit margins. And I think that pressure has accelerated. When you look at the -- you take next out and look at the bottom quartile of the industry in terms of smaller same-store smaller box sales, lower volume, they've had the same inflationary pressures around credit card fees, energy and labor that the industry has. Their cost, their breakeven needs have gone up materially. And so our goal is to continue to widen our gap versus the industry. That's our focus. And we believe that, I can't say that this margin lasts forever, but it's not going back to where it was, not for any long period of time.

Operator

Next question will be from Chris Li at Desjardins.

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

Congrats also on the deal. Brian, I think you already touched on this already, but I was hoping if you can maybe elaborate more on what makes these countries attractive? And I think it may be helpful, you begin at maybe answer along the lines of Total's competitive positioning, energy transition within the countries and also the regulatory environment?

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

Yes. So just in terms of regulatory, we're not in these markets. So from a Competition Bureau standpoint, we think it's not an issue. Each country is scale. It's hard to do that across a couple of countries. You can go in with 100, 200 sites, but we're having -- we're #1, #2 in a couple of the markets, #4 in Germany behind 2 really solid competitors.

Good transparent markets with governments that aren't picking winners and losers. Culturally, we don't think it's a big stretch from the other markets that we deal in, in Europe. So we think we can understand the customers. We've spent a lot of time in the markets, a lot of time with the competition, a lot of time with our CPG partners, understanding their business in the countries.

And it just feels a good fit, geographically, a good fit in terms of just people using our sites and a network that is well-positioned to compete and to win in many ways, especially when you combine the expertise we have at running the sites with some of the things that Total does very, very well. So we feel really good about the opportunity.

Operator

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

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

Still on Total. Brian, Claude, can you benchmark what a typical Total corporate site, how it would benchmark against, say, a typical corporate site you would have in U.S. or Canada in terms of square footage, fuel volumes, sales in the box, merchandise mix, et cetera?

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

I'll do it at high level. We need to understand that these are not our assets today, so we'll be a little careful. But high level, they would average higher fuel volumes than our European business. They would have a deeper car wash penetration. We're pushing almost 1,000 car washes in this network, which all cars get dirty. They're on the same journey we are in terms of installing EV for mobility, both in liquid and on EV.

The boxes probably tend to be a little more variable. We've got some big motorway sites with QSRs, et cetera. And then there are some smaller ones. But on average, I guess they're a bit smaller, but sales inside the box materially lower, probably with the exception of Luxembourg. I would say they're 30%, 40% lower across the board than what we've experienced. And inside of that is significantly lower food penetration. Food is -- we've grown that to almost 25% of the business revenue-wise in our European business and to be significantly lower here. So across all categories, we see opportunities to combine what we do well with what they do well and create synergies for the customer.

Operator

Next question will be from Karen Short at Credit Suisse.

Karen Fiona Short - *Crédit Suisse AG, Research Division - Research Analyst*

I wanted to just ask a final one on Total. Will you be planning on rebranding to the Circle K banner? And then I did want to just ask on the relationship between sales and EBITDA. You mentioned promotions obviously as an impact to, well, EBIT margins or EBIT growth, I guess, overall, but that relationship definitely dipped in terms of total sales growth versus EBIT growth. So is that just a function of the higher [co-margin] sampling this quarter? Is that something that we may expect in the coming quarters as more of a like flattish EBIT with top line being around 8-ish percent was what you had this quarter?

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

Karen, is your question on total revenue or inside the store when you talk about EBIT ratio, just to be clear for answering your question?

Karen Fiona Short - *Crédit Suisse AG, Research Division - Research Analyst*

No. I was just talking about total sales versus total EBIT growth.

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

Yes. I mean total EBIT growth was, again, as Claude said, heavily impacted by currency this year or this quarter. But when you look at our merchandise gross profit, it grew by 5.3% ex-FX, if that's a word. And then same on fuel. Fuel grew on a post-FX basis -- a pre-FX basis almost 10%. So we feel good about the gross profit growth.

I'm cautious when you look at EBIT as a percent of revenue, just given the volatility of fuel prices. That can really skew the ratio. So we feel good even despite the inflationary pressures that our top line gross profit continues to go at a healthy level.

Karen Fiona Short - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And the rebranding?

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

Rebranding, to be determined. We have a lot of respect for all the brands we buy. We've been very clear Circle K is our global brand. So we'll make the right decision at the right time. If we did anything, I think it would more likely show up on the store as opposed to the forecourt in the near term. But again, over the coming months, we'll firm up those plans.

Operator

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

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

Can I just start with a quick clarification on the synergy number? Did you say that the merchandise procurement synergies are not part of that synergy number you gave us so far?

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

They're part of it, Michael.

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

I'd clarify, I think we -- the $120 million really focuses on top line growth. I think there's more work to do, Michael, on operating expenses and on procurement opportunities. So more to come there and as I said earlier in the remarks, we'll refine those. But I don't think we have any significant quantum of procurement opportunities in that number yet.

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

Okay. And then, so your operating expense was up close to 8%, which in the quarter on a normalized basis, similar to what it was in the first half of the year. Earlier in the year, you guys have been talking about it trending lower, like slow -- the growth slowing as we got into the back half of the year. So I'm curious where the pressures increase to and cause it to continue to rise? And if you could explain that Software as a Service accounting change and how much of that impacted?

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

So Michael, in terms of how operating expenses change during the quarter, I think we still feel the inflationary pressure. But we feel also -- if you remember, I was talking about 3 buckets previously in the other calls. And on the first bucket, which was wage increase, we're starting to see a bit of easing on that side. So the market conditions are better and the stores are feeling better about the ability to fulfill the shifts and they see a bit less pressure on the employment side. So that is easing in our mind.

But what has been holding is inflation. So we've -- during the quarter, we've had significant inflation in Europe and also in the U.S. And that's our expenses. And electricity is still a big factor -- was a big factor in the beginning of the quarter. But what we're seeing at the end of the quarter, we're seeing an easing on utility and electricity prices in Europe, which is relieving a bit the pressure. The beginning of the quarter was a bit difficult on that side. Finally, so that bucket is taking a bit more importance in our 7.8% increase.

In terms of the rest, so the 25% that's left from the wage and the inflation, that's -- essentially, you mentioned SaaS, that's part of that increase. It's probably 1/3 of that bucket that's coming from SaaS solution that we're putting in our stores or SaaS accounting change that are getting into the equation. So this is how it's break down. So I would say 25% of the increase is coming from wages instead of 33% previously. Inflation is probably 50% of the increase and the rest, 25% of the increase, so that is strategic and also the SaaS cost into our equation.

But we continue to put a significant program in place to mitigate that. I think we -- and we're expanding on our initiatives of cost saving in our stores and also in our functional groups and head over cost.

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

I'd add one thing that also I think was fairly material in the quarter. We have a very disciplined approach to how we allocate labor to our sites. This quarter, we had nice traffic trends, but our hour usage actually outstripped what we would normally expect. And that's just a reality of a year ago, we couldn't find people. We were short-staffed a year ago. Today, we're back at normal staffing levels. And I think that's the right thing from a customer service standpoint and to support long-term sales growth. But that certainly had an impact versus prior year when we were probably short 6, 7 hours a store versus what we wanted to model just because we couldn't find people. So that's transitory. That will be a kind of a onetime event, we'll cycle that. But we're in a much better place, but it does show up in the labor side.

Operator

Next question will be from Martin Landry at Stifel.

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

Congrats on your acquisition. I was wondering if you can talk a little bit about the historical growth profile of the network you're acquiring in terms of revenues and profitability over the last 10 years. And just Claude, maybe what do you expect in terms of EPS accretion for the transaction?

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

I'll take the first piece. We didn't get 10 years of history, but I can at least reference the last 3 or 4. It's been pretty -- very consistent, really. When I look at how that business is compared to our business over that period, I think fuel performance has been relatively similar to our experience. But we've grown -- ACT has grown inside merch sales probably a 200 point basis faster clip over that period of time. But it's a very stable network. These are obviously mature markets. So yes, we feel good about the stability and we feel good that we understand what we're getting into.

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

And Martin, I think in terms of the EPS accretion, I think we could think about mid-single digit for the acquisition, just looking at the share EBITDA number, it gives you a bit of a perspective there.

Operator

Next question will be from John Royall at JPMorgan.

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

So in terms of capital allocation, your pro forma balance sheet is still in very good shape post this deal and below your target level, which I think Claude mentioned. So how should we think about the buyback going forward? Can you continue the program? Or do you view it as more prudent to kind of pull back and delever for a period of time post-acquisition?

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

Yes. John, I think nothing is going to change in terms of what we've been saying to you for capital allocation and how we're going to use our buyback. So it's still going to be, if we're under 2.25, we're going to make sure that we have an NCIB in place. And if there's any opportunity for us to buy shares at a price that we feel is compelling for us, then we're going to do so. So it's over 2.25x that we said that we would be really pulling back on our NCIB. So that transaction is going to pull our leverage to 2.1. And so we are going to still have NCIB in place and use it. I think it's the right time to use it.

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

I'd add, 2.1, our balance sheet is still in great shape with a lot of firepower left. So we're still in the M&A business and looking for the right opportunities. And I think that's been our best use of capital for many decades and we'll continue to look hard.

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

Yes. That pieces are like still at $9 billion to $10 billion of dry powder on our balance sheet.

Operator

Next question will be from Bobby Griffin at Raymond James.

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

I guess just 2 questions for me. One, now with your potentially becoming a bigger piece of the overall business, is just for our knowledge, are the structural drivers of fuel margins that have driven them higher here in the U.S. the same as they are in Europe? And then secondly for me on the food program in the U.S., is the long-term opportunity once this program gets to scale for the program to not only be dollar-accretive, but also margin-accretive? Or is the underlying promotional environment required for that category different than what you and I would have thought about 2 or 3 years ago?

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

The second piece of that first. If we look at our northern tier business, the food program, which, again, mirrors what we're rolling out elsewhere in North America is absolutely accretive to our margin on a percentage basis, probably by almost 10 points over where we'd run in aggregate. So that journey will continue and we're confident we can get to a very similar performance across the rest of the U.S. over time. Claude, do you want to get the piece?

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

Yes. In terms of structural driver for the margins in Europe and if you look at our business in Europe, it's been impacted a bit of the same way that the U.S. and North American business were. So still increase in cost. It may be not coming from the same places. It's more cost and store cost-driven than wage-driven in Europe, but still the cost pressure that are in Europe and also the traffic of stores is in line with what we are seeing in North America. So there's still pressure on the margins in Europe to be at the elevated level compared to pre-COVID.

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

Yes. And I'd add to that, I agree with everything Claude said and just point out, typically, the average site in Europe is lower volume than what we see in North America. So to the extent that we've got similar inflationary pressures as we would experience in the rest of the world, the CPL impact actually needs to be a bit bigger because normally they're smaller. So we absolutely believe that's consistent.

Operator

Next question will be from Derek Dley at Canaccord Genuity.

Derek Dley - *Canaccord Genuity Corp., Research Division - MD & Consumer Products Analyst*

Just wondering, is there an opportunity to convert any of the dealer-owned sites at Total to corporate-owned? And then from a systems perspective across the TE business, are they well-integrated? Does it run on one system? Is that compatible with what you have currently in Europe? Or would you have to implement something to bring that on a par?

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

Take the first piece of that. I think our reputation is to be a COCO mode or a company op model. But we operate a dealer CODO model, both in Canada and I believe all of our European countries. So that's not a concept that's foreign to us. You've got a hard time going into one of our stores in Scandinavia and telling the difference between a CODO store and a COCO store. And that makes us feel good about this business as well. We understand that there's 1,000 dealer partners out there that we're looking forward to meeting and we'll assess the right channel decisions over time based on where we see the opportunities.

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

In terms of system, like they're on a solid platform, so an ERP platform. We are on the ERP platform also in Europe. And there's a TSA in place. We're going to look at -- it's early days still, we're going to look at the transition of the systems and see which is going to be the system of choice at the end of that transition. But obviously, we're going to want to make sure that we can provide all the tools that we've developed in our networks all across in the customer offer also in Europe and we're going to take the decisions around the system to make sure that we're going to be able to operate that and also maintain the good customer program that they have on their side also. So the combination of both, I think, is going to be making a winning combination for the customer and those decisions are going to be taken in the next few months.

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

Yes. I'd add just a reminder, this is really a partnership in many ways with Total, as Claude and his team structured the TSA, it's got a lot of flexibility and the ability for us to extend this out for a significant time if we need it. So there's no fire sale here when we've got a rush and do something that risks the customer experience. So we feel good about that journey.

Operator

Next is a follow-up from Michael Van Aelst at TD Securities.

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

My question was covered.

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, operator. 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 fourth quarter 2023 results in June. (foreign language)

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

Thanks, everyone.

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

Thank you.

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

Have a good day.

Operator

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