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ATD.TO - Q4 2023 Alimentation Couche-Tard Inc Earnings Call

EVENT DATE/TIME: JUNE 28, 2023 / 12:00PM GMT

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PRESENTATION

Operator

Good morning. My name is Joel, and I will be your conference operator today. (foreign language)

I will now introduce Mr. Jean-Philippe Lachance, Vice President, Investor Relations and Treasury at 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 financial results for the fourth quarter of fiscal year 2023. (Operator Instructions) 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; Mr. Filipe Da Silva, Senior Vice President, Finance and Future Chief Financial Officer effective July 1, is also present with us on this call.

Brian, you may begin your conference.

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

Thank you, Jean-Philippe. Good morning, everyone, and thank you for joining us for this presentation of our quarterly results.

We're pleased to report strong results this quarter as well as exceptional results for the fiscal year. Before I go into more detail, I want to highlight some of the other significant investments in our business. First, let me say a few remarks on our 5-year double again strategy, which came to a successful close at the end of this fiscal year. Many organizations charted ambitious strategic plans along the way they can lose momentum and don't stay their course. We were able to march forward, growing, innovating and producing exceptional financial results, thanks to our team members and their focus on our customers.

Even with the global pandemic, labor shortages and supply chain issues, our stores and forecourts continued evolving for the future of convenience and mobility, introducing new programs and initiatives, always striving to make it easier for our customers and creating value for our shareholders. We're very proud of keeping on track with all of our strategic goals and we look forward to going into more detail on double again in the next legs of our strategic journey and our upcoming Analyst and Investor Conference on October 11 in Phoenix, Arizona.

Keeping to our customary financial and operational discipline, we did not close on any large acquisitions through most of this 5-year time frame. We're excited in recent months by the progress in more positive environment for M&A after many years of inflative multiples that we did not think would create shareholder value. As opposed to sitting back, we took the opportunity during those 5 years to focus on organic growth, and we're more than pleased with the EBIT result of almost $5.8 billion, well above our double again objective that we set 5 years ago.

At the beginning of the quarter, we announced our game-changing proposed acquisition of certain assets from TotalEnergies in 4 new European markets that are very strategically placed versus our existing network in Europe and we're looking forward to closing on that transaction by the end of the calendar year. We also reached an agreement during the quarter to acquire 112 fuel and convenience retail sites to be carved out from MAPCO which includes a very strong network of modern, well-located sites in attractive markets, predominantly in Tennessee and Alabama.

During the quarter, we also closed on the acquisition of 55 high-quality locations in Arkansas and Florida, and 65 express tunnel carwash sites, primarily in Arizona and Illinois that are very close to our existing network. In each case, we see significant opportunities to bring value to these businesses.

I also want to take a moment to go over our recent announcement that Claude Tessier will retire as our CFO on July 1 of this year. At that time, Filipe Da Silva will become Executive Vice President and Chief Financial Officer. Claude has been our CFO for more than 7 years and be hard to list all the ways his leadership has impacted the business, adding tremendous value over those years.

During his tenure, we launched and successfully completed our double again strategy. We made sustainability a lens to the business with transparent reporting. We greatly expanded the scale and reach of the organization with acquisitions of Topaz, CST and Holiday in addition to Hong Kong and more recently announced the transactions in Europe and the U.S. that I just outlined. And our stock price more than doubled during Claude's tenure. Through his wise counsel and leadership, Claude made us a better, stronger business. We will miss him and wish him all the best in the future.

We're also pleased that Claude identified and mentored his successor in Filipe, and Claude will be around for a while to help with the seamless transition. Filipe brings a wealth of international retail and financial expertise to Couche-Tard. He started his career with TotalEnergies in Argentina and joined the Carrefour Group, where he worked in Buenos Aires, Colombia, India and Indonesia. He later worked with Groupe Exito, one of the South America's largest big box retailers before joining Walmart's Central American subsidiary as its CFO and then later becoming Walmart Canada's CFO.

For the last 4 months, Filipe has been Senior Vice President of Finance here at Couche-Tard and I've greatly enjoyed getting to know him, and I'm sure you will, too. I'm also confident that he will help drive our exceptional and disciplined growth journey in the years ahead.

Now I'll ask Filipe to make a few short comments following Claude's presentation.

Now let me turn to our results for the quarter, beginning with convenience. Compared to same quarter last year, Same-store merchandise revenues increased 3.3% in the United States, 3% in Europe and other regions and 5.9% in Canada, driven by strong performance in the beverage category as well as continued growth of our Fresh Food, Fast programs and also private label. This has been offset a little bit by continued softness in our cigarette and other tobacco products driven from illicit trade here in Canada and then also increased restrictions in some of our markets.

Across the network, our Fresh Food Fast program is now in nearly 4,860 sites globally. Sales and profits continue to grow double digit as store teams dial up execution and our customers drive strong trial and repeat purchase of our products. Our Griddle cake limited-time breakfast sandwich offer concluded this quarter and was the most successful LTO or limited time offer in our company history. The current limited time offer with this Philly cheesesteak sandwich has now launched and is showing very strong early results.

Assortment localization in the food category is increasing as business units refine their offers for local taste while leveraging our national supplier relationships and scale. We introduced a digital time and temperature system that's been implemented across North America, allowing for more efficient monitoring and rapid resolution of any quality issues. This is just one of the many operational innovations to make the lives easier for our team members to ensure high-quality safe food for our customers.

Total company packed beverage sales across the network were up significantly from prior year. Currently, we're gearing up for the warmer weather with our 100 days of summer promotion in North America, including a 33-stop Purple Thunder anniversary tour celebrating the highly successful first anniversary of Mountain Dew Purple Thunder, which was the Circle K exclusive in North America.

In age-restricted beverages, global alcohol sales had a strong performance. In the U.S., we now have private-label wines, selling in nearly 3,100 stores. Our exclusive Sunshine Bliss wines includes 7 varieties priced under $8 while our 6 premium Fine Wines range in price between $10 and $25. All Sunshine Bliss and Fine Wines, both strong tasting point ratings and received several gold and silver awards and have been named Best Buys by tasting.com and the wine enthusiasts. These proprietary wine offers as well as our private brand products in general are doing very well in providing highly competitive products and good value for our customers.

I also want to share that earlier this month, actually 3 weeks ago today, our Inner Circle loyalty program went live in 429 sites across the Florida business unit. Inner Circle is a free membership program delivering targeting value -- targeted value via a seamless experience to our customers with fuel rewards, food rewards and much more, while also providing new personalized experiences. No doubt, launching Inner Circle turned out to be more difficult than we expected as we navigated a highly complex tactical road map and our goal to get it right, developing a unique, valuable and easy-to-use program for our customers.

Three weeks in, I couldn't be more pleased with the rollout so far with over 1.2 million people enrolled in just 3 weeks. I want to thank the many team members across the organization who have contributed to bringing Inner Circle to life. We plan to expand in more business units starting in the U.S. as the Southeast U.S. as this year progresses.

Moving to our fuel business. Same-store road transportation fuel volume increased 0.8% in the U.S. and by 6% in Canada, favorably impacted by lower pricing and pent-up demand for travel. In Europe and other regions, same-store fuel transportation volume decreased by 2.4%, unfavorably impacted by challenging macroeconomic conditions, particularly in Eastern Europe, higher inflation and the cycling of the Ukraine war that created an influx of refugees last year into our Baltic countries in Poland.

In our Circle K fuel rebranding work, we completed nearly 360 new sites in the quarter, bringing our total to nearly 4,200 Circle K fuel branded sites in the U.S. and Canada. We also continued with our fuel promotional events, hosting up over 140 local events to help alleviate some of the cost pressures at the pump for our customers. In May, we had 2 national fuel days in the U.S. and Canada, which included over 6,500 sites and created great saving opportunities for our customers in both countries.

Our EV fast-charging network in Europe now consists of 1,570 charging stalls, covering more than 320 sites. We also have 1,600 truck charging locations in Sweden and Norway alone. And year-to-date, we have sold over 10,000 home and workplace chargers. In fiscal '23, we had 1.5 million charging transactions on Circle K transit chargers, doubling the amount from last year. The increase is driven both by network expansion and higher utilization of our existing network.

We continue to expand the charging network in Europe with increased focus on Ireland and pilots in the Baltics and Poland. In North America, we expanded our own and operated network to Virginia and California, [BC] and Canada as we progress on our commitment of 200 EV sites in the next 2 years. We've received good customer feedback on our integrated offer and our well-located sites.

Before I turn it over to Claude, I want to discuss the notable improvement in labor situation. Candidates in the last fiscal year topped 1 million versus 670,000 in the year prior. This is due to more robust internal sourcing of candidates, better employer marketing and recruiting tools and then the macroeconomic environment. It allowed us to be far more selective with our candidates that we hire, and we're seeing turnover for stores decreasing over 13% this year versus prior year, and the trend continues to improve. Retention has also continued to improve as well as we pilot innovative approaches, including store, employee store discounts and new manager hiring and training programs.

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

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

Good morning, everyone. Thank you, Brian, for the kind words. I truly appreciate them and we'll say more about my...

However, being a finance guy, I want to first turn to the numbers in our quarterly and annual results. Our results for both the fourth quarter and fiscal year '23 have exceeded our expectations on many fronts allowing us to significantly surpass our double again strategic ambitions, bringing our adjusted EBITDA for fiscal '23 to almost $5.8 billion.

For the fourth quarter of fiscal '23, adjusted diluted net earnings per share increased by 29.1% compared to the fourth quarter of fiscal '22, driven by strong results on all our key metrics, including a decelerating normalized growth of expenses, which was below inflation for the fourth quarter when normalized for the additional week in this quarter. Our balance sheet continues to be particularly strong, and our key return metrics are also healthy with returns on equity and return on capital employed, reaching 24.7% and 17.5%.

We're also happy to report that following the end of the quarter, Moody's has upgraded our long-term senior unsecured rating to Baa1 from Baa2 with a stable outlook as a reflection of our strong track record, enhanced scale, broad geographic footprint and conservative balance sheet.

I will now go over some key figures for the quarter. For more details, please refer to our MD&A available on our website. For the fourth quarter of fiscal '23, we are happy to report net earnings of $670.7 million or $0.68 per share on a diluted basis. Excluding certain items described in more detail in our MD&A, adjusted net earnings were approximately $698 million or $0.71 per share on a diluted basis for the fourth quarter of fiscal '23, compared with the $573 million or $0.55 per share on a diluted basis for the fourth quarter of fiscal '22, an increase of approximately 29.1% in the adjusted diluted earnings per share.

For fiscal '23, net earnings stood at $3.1 billion, an increase of $407.6 million or 15.2% compared with fiscal '22. Diluted net earnings per share stood at $3.06 compared with $2.52 for the previous fiscal year. Adjusted net earnings stood at $3.2 billion, an increase of $382 million or 13.8% compared with fiscal '22. Adjusted net earnings per share were $3.12 compared with $2.60 for fiscal '22, an increase of 20%.

During the fourth quarter, excluding the net impact from foreign currency translation, merchandise and service revenues increased by approximately $472 million or 12.5%. This increase is primarily attributable to the impact of the 13th week in the fourth quarter of fiscal '23 to organic growth, as well as to contribution from acquisitions, which amounted to approximately $33 million.

During fiscal '23, excluding the net impact from foreign currency translation, merchandise and service revenues increased by approximately $1 billion or 6.1%, including the net impact from foreign currency translation, merchandise and service gross profit increased by approximately $250 million or 16.9%. This is primarily due to organic growth as well as to the impact of the 13th week in the fiscal -- in the fourth quarter, sorry, of fiscal '23.

Our gross margin increased by 1% in the U.S. to 34.1%, by 2.6% in Europe and other regions to 40.9% and in Canada by 1.7% to 34.1%, all impacted favorably by a change in product mix.

Fiscal '23, excluding the net impact from foreign currency translation, merchandise and service gross profit increased by approximately $409.3 million or 7.2%. Our gross margins in the U.S. increased by 0.1% to 33.8% by 0.6% in Europe and other regions to 38.8% and by 0.9% in Canada to 33.1%.

Moving on to the fuel side of our business. In the fourth quarter of fiscal '23, our road transportation fuel gross margin was $0.4534 per gallon in the U.S. a decrease of $0.078 per gallon. In Canada, it was CAD 12.13 per liter, a decrease of CAD 1.28 per liter. In Europe and other regions, our road transportation fuel margins was $0.106 per liter an increase of $0.0309 per liter due to the geopolitical context and difficult supply condition in the comparable quarter last year.

Fuel margins remained healthy throughout our network due to favorable market conditions and the continued work on the optimization of our supply chain. During fiscal '23, our road transportation fuel gross profit was $6 billion, an increase of $779.5 million compared with fiscal '22. Our road transportation fuel gross margin was $0.4751 per gallon in the U.S., $0.998 per liter in Europe and other regions and CAD 0.1275 per liter in Canada.

Now looking at SG&A for the fourth quarter of fiscal '23, normalized expense -- operating expenses are increased by 9.9% year-over-year. This is mainly driven by the impact of the 13th week in the fourth quarter of fiscal '23, in addition to the costs from rising minimum wages, inflation -- inflationary pressures, increased usage of Software-as-a-Service solutions, increased investments to support our strategic initiatives as well as by charges for the early termination of an existing fuel supply agreement, while being partly offset by the impact of lower pressure in the employment market. When factoring in the estimated impact of the 13th week in the fourth quarter of fiscal 2023, our normalized growth of expenses remained lower than the average inflation observed throughout our network of 5.8%, as we have continued to deploy strategic efforts in order to mitigate the impact of a higher inflation level and continued pressure on wages.

Excluding specific items described in more detail in our MD&A, the adjusted EBITDA for the fourth quarter of fiscal '23 increased by $189.6 million or 16.7% compared with the corresponding quarter of fiscal '22, mainly due to the impact of the 13th week in the fourth quarter of fiscal '23, organic growth in our convenience store operation as well as higher road transportation fuel gross profit in Europe and other regions, partly offset by higher expenses by the translation of our foreign currency operations into US dollars, which had a negative impact of approximately $14 million.

During fiscal '23, on the same basis, the adjusted EBITDA increased by $509.3 million or 9.7% compared with fiscal '22, mainly attributable to higher road transportation fuel gross profit, organic growth in our convenience store operation as well as to the impact of the 53rd week in fiscal '23, partly offset by higher expenses and by the translation of our foreign currency operations in US dollar, which had a negative impact of approximately $133 million.

From a tax perspective, the income tax rate for the fourth quarter of fiscal '23 was 19.2% compared with 22.6% for the corresponding period of fiscal '22, the decrease mainly stems from the impact of the different mix in our earnings across the various jurisdictions in which we operate. As of April 30, '23, our return on equity remains strong at 24.7%, and our return on capital employed stood at 17.5%; both figures higher sequentially compared to the third quarter.

During the fiscal year, we continued to generate strong free cash flows our leverage ratio stood at 1.49x despite having repurchased 52 million shares for $2.3 billion during the year under our NCIB. Subsequent to the end of the fiscal '23 and under the renewed program, we repurchased more than 4.1 million shares for an amount of $204.1 million. We also have strong balance sheet liquidity with $834 million in cash and an additional $3.5 billion available through our main revolving credit facility.

Turning to the dividend. The Board of Directors declared yesterday a quarterly dividend of CAD 0.14 per share for the fourth quarter of fiscal '23 to shareholders on record as of July 7, 2023, and approved its payment effective July 21, 2023.

Before I go, I would like to say a few personal words as this will be my last call as Couche-Tard CFO. Believe me, deciding to leave was not an easy decision, yet being at the end of our double again strategy, it was the right time for the business and for me to focus on my family and other challenges ahead. I leave with a great sense of pride and accomplishments, and I would like to take this opportunity to sincerely thank our Founder and Executive Chairman of the Board, Alain Bouchard, Brian, and executive leadership team, all my wonderful colleagues around the world and the world -- and the Board members for their support over my years spent with Couche-Tard.

I would also like to thank you all of you on this call today. It has been a pleasure working with you being a steward of your trust and your investment in our business. My parting promise is that you can expect the transition to be seamless and transparent as I pass the baton as we say, to my friend and colleague, Filipe Da Silva.

On this, Filipe, do you want to address that?

Unidentified Company Representative

Thank you, Claude. Thank you, Brian, and thank you to all on the call this morning. I won't take time to go over my background, as Brian covered that at the beginning of the call, and I know there are many questions to be answered in remaining time.

Let me just take the opportunity to say that I'm humbled and honored to be the next CFO of Couche-Tard. During my 4-month here, I have learned firsthand about Couche-Tard's special One Team culture. It's a great company with strong financial foundation, a great future ahead and with a welcoming and including environment. I have been around long enough to know how rare and wonderful it is. I'm excited to get started as CFO and glad Claude is sticking around to further show me the ropes. I am also thrilled about proposed acquisition of certain retail assets of TotalEnergies as Brian said earlier, I started my career there, and I look forward to working again with this fantastic business.

Finally, as we look again to fiscal '24, we are excited to hold -- excited to hold our Investor Day on October 11 in Phoenix, Arizona. We will be discussing our new multiyear strategic plan in greater detail, including the renewed focus around cost optimization. I look forward to meeting you all in person at this event.

With that, I will turn it back over to Brian.

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

All right. Thank you, Filipe, and thank you sincerely, Claude. I want to finish my remarks by thanking all of our team members for their hard work and commitment to the business. They are the ones that have produced the really strong results this year. And together, we recently received the Gallup Award for Exceptional Workplaces for the second year in a row. This award recognizes our efforts to create a culture where employees feel valued and respected and that one embraced the roles in our success and seize opportunities for personal professional growth. We're among the largest organizations to win this award, and I'm delighted and proud to see our engagement paying off, allowing each of us to reach our strategic goals, we continue our exceptional and disciplined journey, growing together as one team.

Now with that, I'll turn it over to the operator to answer analyst questions this morning. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Vishal Shreedhar with National Bank.

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

I wanted to focus in on the merchandising margin and maybe some help on understanding the quarter, the sequential progress that you've made in the merchandising margin, some notable strength there. So maybe if you go down the regions, if you can help me understand what changed sequentially to drive the improvement in the gross margin rates that we're seeing?

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

Vishal, I'll take a stab focusing on North America. Say, in Canada, largely driven by mix issue where we've seen softness in cigarettes driven by illicit tobacco. It's sad, taking these government intervention, but illicit is now approaching almost 40% of total volume in Canada. So that category has been weak for us, but we've seen strong growth in the beverage category in particular. So it's -- the mix has really driven the growth in Canada.

U.S. is a little different. Tobacco has been soft. Our trends have been largely in line with market, which candidly is quite not good enough. So we're working with our suppliers to engage with them on how do we use our loyalty properties to drive growth in that category. So you'll see more activity from us in the coming quarters.

So, one is mix, two food continues to grow and improve. Just the shrink which is one, better operational controls, but also two, just driven by sales. The best thing to fix food spoilage is growing sales, and we continue to see sales grow strong double digits on a same-store basis. And then third, beverage continues to do very, very well in the category. And so that's certainly accretive to the margin picture.

So I'd say those are the 3 drivers. And then we continue to work with our suppliers and with our procurement groups to optimize how we procure and we try to take advantage of the scale where we can.

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

Okay. And maybe just a longer-term question. Your car wash initiative. How significant can car wash be? Is this a major driver? Or is it more of an adjunct driver for Couche-Tard's, you think, over the next few years? And maybe just on that on an unrelated note, if one could just -- Claude, maybe you could just jump in and also help us understand how much the extra week added to EPS? And that's it.

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

Okay. Car wash. We love car wash business. When we complete the acquisition of TotalEnergies sites, we'll have over 3,000 car washes in the network. So we're in that business. The tunnel offer that we purchased in Illinois and Arizona, it's a bit of an experiment. We like the model. We like the customer experience of that tunnel business. We know that cars will continue to get dirty no matter what propels them or powers them. And so we're in the middle of several very disciplined pilots to see if we can drive carwash customers to our forecourt and to our stores at Circle K. And also, can we create value with our Circle K customers driving them to the car wash sites and maybe the subscription membership. So early in that process, but I'm pleased with the initial results. So whether we go deeper or not remains to be seen. But we like the business.

Claude?

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

Yes, Vishal, on your question on the extra week. We're not providing the exact information on that, as you know. But our -- if you're taking an estimate of 2% for the year and 8% for the quarter, I think you're pretty close to the impact that it would have on our EBITDA, and you can translate that into net earnings and EPS, taking the same metrics.

So that's the impact that we have from this 53rd or 13 weeks, depending on how you look at it.

Operator

Your next question comes from Mark Petrie with CIBC.

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

I wanted to ask about the U.S. merchandise, but same-store sales and specifically sort of the sales performance, specifically some color on the trends in basket and traffic. Any commentary about the trajectory of same-store sales growth through Q4 and then so far in Q1? And then, I guess, finally, just any commentary on what you're seeing in the market and the consumer and if price is getting any tougher to pass through?

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

Yes. Thanks for the question, Mark. The 3.5%, again hampered significantly by tobacco. We're continuing to see growth in alternative nicotine but the combustibles have a very soft year. And again, you can see Altria and RAI's results were largely in line with negative units in that category. So if you say, hey, tobacco is 30% of sales and that's either 0 or negative growth, you can do some math and say that the rest of the business is actually very strong.

The one issue I missed before on the margin, too, was private label continues to be very robust for us, above 27%, I think, for the quarter year-over-year. So that continues to be very strong. And I think that's an example of your question about the consumer. We're certainly seeing the consumer in certain pockets of our geographies looking for more value. So we're seeing some trade down certainly in brands, in the beer category, we're seeing, again, strong private label growth, seeing some brand trading in the tobacco category as well.

So -- but overall, the consumer has held up pretty well. Employment has been good and we're not seeing some of the same weaknesses that maybe some of the other channels have had. Traffic, relatively flat. So most of the sales growth that you see is basket-driven units relatively flat as well. But again overall pleased but certainly watching the consumer and we're focused on fewer, more impactful value-oriented offers to our customers.

On the opposite side, as we've seen fuel prices come down, volumes increased and we're actually seeing premium sales recover as a percentage of total volume as well. So that's obviously good for our margin profile. So a little bit of a mixed message there. But again, overall, pleased. And as I think about what we've seen in the last 6 to 8 weeks, I'd say largely the trends have continued, if not strengthened a little bit.

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

Okay. Excellent. Appreciate the comments. And Claude, congratulations on excellent career and run at Couche-Tard and all the best.

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

Thank you, Mark. Appreciate it.

Operator

Your next question comes from Irene Nattel with RBC Capital Markets.

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

Before I ask my questions, I want to echo what Mark just said. It's been a pleasure working with Claude all these years. I wish you best of luck and welcome Filipe.

I have a couple of follow-up questions, please, from some of the commentary. On private label, can you give us an update on private label sales as a percentage of total? And also, can you give us an update on food sales or food penetration as a percentage of total in the stores in which it is offered right now?

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

I'll take the private label and ask Claude on the food.

Private label is roughly around 7% of inside sales in the U.S. slightly less in Canada. And then if you look at gross margin contribution, it would be a bit higher than that. Food, we have 5,000 whatever stores that we talked about earlier.

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

Yes, yes, we have 5,000 stores that we've deployed the food into -- I think we did during the quarter, 320 more and also, we are still enjoying great sales performance. So we're trending well over 20% in same-store volume growth. And we still are excited about the results of our program and how the consumer likes our program. Obviously, Brian told earlier that we're still working on the shrink side of the equation. But in terms of sales, the impact is there.

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

Our northern tier business, which was really the model for this program in North America. We would be north of 15% food penetration as a percentage of total sales. So that's our -- that's certainly a goal post that we're shooting for as we grow the food culture and create awareness of trial in other geographies.

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

That's great. Very helpful. So moving on to the other questions. One of the things, obviously, gas margins really, really strong. Would it be possible for you to give us an idea of how much of the strength in the gas margins is really due to shifts that you have made in your procurement strategies and your more sophisticated pricing algorithms? And therefore, how much of this sort of gas margin, if we call it premium to the market should be sustainable?

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

Yes. I'd say again, we're pleased with our results and also pleased with recent trends in the fuel category, both in terms of volume and margin. I'd say we continue to develop and strengthen our fuel trading and procurement practice. We're now transporting 60% of our own fuel with our own trucks. Two years ago, it was almost 0. That gives us tremendous flexibility to maximize cost arbitrage as they exist geographically.

The rebrands Circle K are not immaterial, almost 400 for the quarter with the Circle K brand, it gives us a lot of flexibility to source from alternative points and just -- it's a better margin profile for us. Shrink control as we look at the fuel business. So it's 100 little things, Irene, both in Europe and North America, our trading business is certainly creating value.

And then I would say just geographically, we're a very diverse organization. You've got -- sometimes you've got areas that are compressed and other areas that are performing very well. And so geographic diversification, I think, has been our friend in this case, too.

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

Yes, just to add maybe a point of references on Europe, I think we had improved margins. You need to think about last year also with all the geopolitical disruption that we had last year, our quarter was not probably up to par. So we have an easier comparable also in Europe, and that explains the great performance of Europe this quarter.

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

And then just a follow-up question, if I may. On M&A, the tone of the release was decidedly more positive than, let's say, a couple of quarters ago. Can you talk about what you're seeing right now and whether there's been any changes in your geographic hierarchy, if you will?

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

Yes. So I'd say no change in focus. We still love North America. We would be open to South America, Asia as those opportunities would arise. And then opportunistic in Europe, as you saw with the TotalEnergies acquisition. So we'll do 4 or 5 material deals this year. And then again, just our hypothesis is that the competition has to be less than it was a year ago. High-yield money is largely on the sideline, private equity should be largely on the sidelines. So -- and we're in great shape. As Claude said, our balance sheet is robust. We've got plenty of dry powder. And we've got an organization that's capable. So we're ready to do more and just need the right opportunities at the right values.

Operator

Your next question comes from Michael Van Aelst with TD Cowen.

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

Going to ask on M&A, but just to finish off on that, can you just comment maybe, you talked about 4 to 5 deals possible. And I think you're talking about fiscal '24. What size range are you looking at? Like what's -- what kind of scale can we be thinking about?

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

Michael, you've kind of seen it, right? You've got a high watermark, 2,200 sites in Europe, and then we did 1 for 10 stores. So I think anything in between there is likely in play. So again, I think it's going to be a variety of things. So I really can't say much more than that.

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

Well, that 4 to 5 deals that you commented on, is that including the ones already announced? Or is that still to come?

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

Combination, I guess?

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

Okay. All right. And then on the loyalty program, you gave us a little bit of an update there, but what do you see as the most attractive features on this loyalty program since it is new? And what's your geographic ramp rollout looking like over the next year? How quickly you're going to be able to get this throughout North America?

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

Yes. So again, we're very early and we took a long time to do this. But everybody's got a loyalty card, loyalty tag in their wallet. So we're really focused on trying to do something that's differentiated. It's a tier-based program that will be across really all of our offers, car wash subscriptions and save fuel, store. And we're targeting the high-value customers. The more you spend more you earn, instant gratification, easy to use, knock on wood, but if you look at the App Store, I think we had a 4.8 or 4.9 rating on all of our downloads so far. So really, it is just focused on easy-to-use clear value, focusing the value on the high-value customers that we know are out there in our stores but also at our competitor sites.

Claude, anything to add there?

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

No, I think you covered it well.

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

Yes, I missed the rollout piece. So our plan right now is to roll out to about 2,500 stores before the end of the calendar but we've got a plan B that if we've got good technical performance on the platform by the end of July, so next month, we'd be prepared to expand that to another 2,000 stores. So making a total of about 4,500 stores for the year. that would cover a big chunk of the U.S.

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

Okay. So you're starting...

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

Yes. The other piece I'd add, there's an engine inside of this that allows for much more personalized and targeted offers, really getting to know the customer as a customer, not as just someone. So we feel we've got the opportunity with the right work to just be more personalized and more in touch with our customers.

Operator

(Operator Instructions) Your next question comes from George Doumet with Scotiabank.

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

Congrats Filipe and all the best Claude. I just wanted to touch on the SG&A. It was a really strong performance in the quarter. Can you maybe talk to how much that extra week contributed and perhaps how you see that run rate evolving in the context of your commentary around renewed focus on the cost optimization?

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

Yes. So that 9.9% is the disclosed number that we have and that was -- a big part of it was mainly driven by the 13th week. Obviously, the same buckets that we have -- I've been talking about the last 2, 3 quarters were there. So there's inflation on the wages. There's inflation also in our expenses and a lot in utilities and energies for our stores as well as support to our strategic initiatives. But that's all the offset also a bit by -- our lower floor expense and the efforts that we're taking to control our cost base.

So if we're looking at it and try to look at the impact, the inflation for the quarter was 5.8%. We're taking out the 13th week, our number would be closer to 5.5% increase in terms of SG&A. And if you look at it by bucket, they are probably split like wages is less impactful this quarter. And I think that's what we said earlier this year that at the end of the year, we would see an easier compare and we would see the end of the cycle, also the start of the cycle happened early last year. So we -- we're cycling that right now. And the 5% -- 5.5% is -- continue to be, I think, through the beginning of this year but we're going to see more in our usual target for cost increases to be lower than inflation.

So I think you need to look at inflation and we're trying to beat inflation, and we're taking the measures to make sure that we're beating that.

Operator

Your next question comes from Chris Li with Desjardins.

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

Claude, let me also add my congratulations and best wishes. You will certainly be missed. Brian maybe -- Brian, just maybe a question on the U.S. merchandise same-store sales growth. It was obviously very strong at over 4% in fiscal '23. Just curious, do you think this rate of growth is sustainable in fiscal '24 as you lap some of the price increases? And I know you touched on this already, but can you remind us what are some of the major growth drivers in the, let's say, upcoming 12 months?

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

Yes, Chris, thanks for the question. Yes, I think it's watching the consumer. And I think every retailer is saying the same thing, but if we continue the trends we're on and have a relatively soft landing, we feel pretty good that we can continue our trends. We think this industry continues to be uniquely positioned in the beverage category and that is a big focus for us. You will see us push hard on both alcoholic and non-alcoholic beverages to drive traffic.

We know food is a differentiator and a reason that people turn right versus left. And so if we can continue to grow that category double digit and then provide true value to our customers where and when they need it. And we think our loyalty platform, while certainly not available in every site tomorrow, we're on a path to have a tool that we think is pretty unique in the industry and can drive loyalty and help us gather new customers and increase frequency of visits. So pending no big change in the macro environment, we feel pretty good that we can maintain those trends.

Operator

Next question comes from Tamy Chen with BMO Capital Markets.

Tamy Chen - *BMO Capital Markets Equity Research - Cannabis Analyst*

My one question is I wanted to go back to the U.S. fuel margin specifically. So the press release called out the optimization of supply chain. Can you elaborate on what that's referring to? Is that the fuel rebrand? Or is that other something else? And I was just curious, were there any favorable but transitory or opportunistic dynamics that occurred in the quarter because your U.S. fuel margin is just such a strong outperformance versus what it looked like the industry was tracking to?

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

Yes. So just in terms of one-offs, there were no one-offs in the quarter for the U.S. So it was just straight organic performance.

And then I'll just be a little repetitive or redundant with earlier, but we've got a really unique relationship with Musket that allows us not only to bring the scale of both of our companies to bear, but also has really accelerated our capabilities in the trading space and then the fuel rebranding that's occurred over the last couple of years, shifting from mostly a major branded fuel offer to Circle K brand just allowed a lot more flexibility in purchasing and procurement. So I think that's been a big, big piece. And certainly, we do focus also on the consumer side of this, very thoughtful on our pricing, trying to bring more technology into those pricing decisions.

And then when we're trying to bring value to our customer, we're trying to do it off MID in a lot of cases, whether that be through cards or fuel day promotions, as you saw over the Memorial Day holiday. So it's just -- it's a combination of all those, Tamy, that we think continues to deliver strong results for us.

Operator

Next question comes from Bonnie Herzog with Goldman Sachs.

Bonnie Lee Herzog - *Goldman Sachs Group, Inc., Research Division - MD & Senior Consumer Analyst*

I just had a quick question on gallons and maybe traffic. Just hoping to hear a little bit more color on the consumer in terms of traffic, fill-up rates and maybe anything else impacting volumes in the quarter? Or May, June, did anything, I guess, surprised you in the quarter? And then really, what are the trends you're seeing with the consumer this summer? Any dynamics to call out maybe from a macro perspective?

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

Yes. I guess I read the same things you do. I think in the Wall Street Journal, they talk about this being one of the busiest summers in the U.S. for travel. So we feel good about miles driven despite all the economic uncertainty that we read about. And that's showing up in our results a bit. We've been positive same-store gallons, both in Canada and the U.S. And so far into June and -- May and June, those trends have continued.

Now they vary geographically. I would say that the -- we've got some Western markets that continue to be a little bit soft, but the center of the country in contrast has been very, very strong. So we feel good that while we're certainly not at pre-COVID levels that we stabilized and hopefully, with -- again, the loyalty platform and other things we're doing, we can start to readily take share in the fuel space.

Operator

Next question comes from Martin Landry with Stifel.

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

Congratulations, Claude, on your achievement. Good luck with your future endeavors. And also congratulations on Filipe for your appointment.

I just -- I just had a -- maybe a high-level question on -- on your -- when you look at your double again achievements, your fuel initiatives and your fresh food program have been a very important contributor to get there. And I'm trying to better understand where are we in that journey for these 2 programs? Are we getting towards the end of the life cycle of these programs? Or is there still more to come?

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

I'll start and then ask Claude to contribute there. Fresh Food Fast, I think we're just scratching the surface, quite honestly. We've got a significant number of sites to roll out yet and sales continue to grow. And then I think the margin piece comes. Again, that comes with culture that comes with execution that comes with trial. We launched a program in the middle of COVID. You couldn't sample in some geographies, you couldn't even put our product. So we think we've got a lot to do to get that out in front of the customer and continue to grow that.

Food -- the fuel journey, I think -- we've got a lot to do yet. We've, I think, tackled some of the big areas, but I think our opportunity is on the consumer side, how do we continue to bring targeted value to those customers on the fueling journey. And so whether that be seamless payment, whether that be our loyalty platform, whether that be just something as simple as having receipt paper in the card reader. So we've got lots of opportunities to continue to just provide a better experience for that customer across the experience. And so more to do. I don't think that's run its course.

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

And maybe if I can complete on a couple of things, Martin, if you want to refer also to the document we shared with you last Investor Day where we outlined the impact of our initiatives and what we think they would bring in the time frame of fiscal '23 and then later, I think that is still very accurate in terms of what we think we've achieved and the potential further. So there's still a lot of potential there.

But the exciting thing, I think, and Brian, I think would agree is that putting loyalty on top of this is going to -- but it could also trigger more value. So we're going to talk more about this and where growth came from and where it's going to come from in the future in our Investor Day on October 11, and I invite you to stay tuned because then we're going to be going into more details on the opportunities in the future and also giving you feedback on the performance for double again.

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

And I'd also add data and analytics. We've got tremendous data from the customer visits we have. I've just returned from a week in India last week and met a really solid team that we've assembled there that's helping us on that journey. And that's another area I'd say, Martin, that we just are scratching the surface, using data to just be more personalized, whether that's in the loyalty, whether that's being very localized in our promotion activity, our pricing activity or our assortment. So we're excited. There's just a lot more to do there.

Operator

Your next question comes from Karen Short with Credit Suisse.

Unidentified Analyst

This is actually [Wayne Brock] on for Karen. Great quarter. I also wanted to congratulate Filipe on his new role and Claude, best of luck to you with your future endeavors.

Our question is on the promotional environment in the U.S. It seems like the tone has continued to tick up a bit in the U.S. I was just wondering if you could talk a little bit about, first, what you're seeing in the environment and how you expect to manage promos going forward? And maybe comment on your philosophy around price investments in the coming year, especially in the wake of decelerating inflation and increasing competition? And maybe as a part of that tie that into the analytics pilot you're doing on the price and promo side.

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

I will take a shot at that. One, I would say, just as a general theme, given the context of where the consumer is, I would say there's a theme of fewer more meaningful promotions. So not trying to be everything to everybody, but those areas where we've got high frequency visits and really good consumer awareness of what it looks like on price. We're trying to be a consistent value in those areas. And so general theme fewer but bigger promotions, and that includes fuel, which I think is a bit new to us. So we've really gotten active both in Europe and North America on treating fuel is more of a category and being relevant with our customers and how we price it.

But other than maybe tobacco, I really don't see a big need for price investment and tobacco will be thoughtful. I think our trend -- as I said earlier, our trends have been very consistent with the industry. I think we need to do better than the industry. And so we're going to figure out both of their loyalty platform and other properties we have like our lift screens, can we utilize those to be very targeted and drive additional sales in the combustible in particular category on tobacco. So I don't see us being compelled to make huge price investments today.

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

And if I may add also price investment could take form of promoting or putting our private label upfront if that drives value for the consumer -- for a consumer that's might be looking for value. We see that in our stores. We see that in the performance of our private label like we highlighted earlier on the call.

Operator

There are no further questions at this time. Please proceed.

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

Thank you, operator. Thank you, Brian, Claude and Filipe. That covers the Q&A portion for today's call as we are at the top of the hour. Thank you all for joining us. We wish you a great day and look forward to discussing our first quarter 2024 results in September. (foreign language)

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

All right. Thanks, everyone. Have a great day.

Unidentified Company Representative

Thank you all.

Operator

Ladies and gentlemen, this concludes the conference call for today. We thank you for participating and ask that you please disconnect your lines.
