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PRESENTATION

Operator

Good morning. My name is Sylvie and I will be your conference operator today.

I will now introduce Mr. Jean-Philippe Lachance, Vice President, Investor Relations and Treasurer at Alimentation Couche-Tard.

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

Good morning. I would like to welcome everyone to this web conference, presenting Alimentation Couche-Tard's Financial Results for the First Quarter of Fiscal Year 2024. All lines will be kept on mute to prevent any background noise. After the presentation, we will answer questions from analysts asked live during the web conference. We would like to remind everyone that this webcast presentation will be available on our website for a 90-day period.

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

Brian, you may begin your conference.

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

All right. Thank you, Jean-Philippe, and good morning, everyone. Thank you for joining us for this presentation. We're pleased to announce a good start to our year and a good first quarter with our Canadian operations leading the way with strong performances in both convenience and fuel. Same-store sales continued to grow in all Canadian business units with our packaged beverage category performing exceptionally well.

Fuel volumes also grew significantly in this region. And across North America, we're seeing the benefits of our promotional initiatives, including our re-occurring fuel days, which are contributing to our volume growth. At the end of August, we had our very first ever global Couche-Tard/Circle K fuel day with limited time food and fuel discounts across our network from Hong Kong to Europe and coast-to-coast in North America. With inflationary conditions continuing around the globe, our focus has remained on providing value and ease to our customers, both inside our stores and on our forecourts.

This quarter, we're especially excited to have launched our Innercircle loyalty program. Early in the summer, we went live with the program in nearly 430 stores across the Florida business unit. Innercircle is a free membership program with fuel rewards, food rewards and much more, while also providing new personalized experience to our most loyal and most valuable customers. We could not be more pleased with the rollout so far. In a few short weeks, we have over 2.7 million enrollees.

And in terms of customer adoption, we've had very positive feedback and growing popularity with our app. This past quarter, we also accelerated our rollout into the Grand Canyon business unit, and we plan to expand to more business units as the year progresses, starting in the Southeast part of the U.S. in the upcoming days and working our way across the continent.

No doubt, Innercircle is an important milestone in our personalization journey to see our members behave into what and how we're able to reach them with more relevant, meaningful communications and offers that drive repeat visits and loyalty. I want to thank the many cross-functional team members for bringing this to life. This is a very unique program that's targeted making it easier and more rewarding for our customers.

During the quarter, we also started the next stage of our strategic journey, having successfully completed double again at the close of fiscal '23, and we look forward to presenting to you at our analyst investor conference in a few short weeks in Phoenix, October 11.

Now let me turn to the results for the quarter, beginning in convenience. Compared to the same quarter last year, same-store merchandise revenues increased by 2.1% in the U.S., 2.7% in Europe and other regions and by 6.4% in Canada, all driven by our diversified offer in the beverage category as well as continued growth in our fresh food program and private label. As I mentioned in my opening remarks, we're very pleased to see the strong performance in our Canadian markets especially.

Across the network, our Fresh Food, Fast program is now in nearly 4,980 stores globally and sales and profits continue to grow double-digit as our store teams focus on optimizing pricing and assortment to maximize profitability. Assortment localization is increasing and we're introducing more operational innovations, which are bringing savings to the program, such as an equipment energy saving initiative this year that we anticipate will save us more than $4 million as to electricity consumption.

North America packaged beverage sales continue to be strong with new product lines in sports drinks, water, energy and ready-to-drink coffees accounting for the majority of the growth. Also in North America, we're seeing success in cold and frozen dispensed beverage with good promotional activity and the continued popularity of our Mountain Dew Purple Thunder, which launched in Canada during the quarter.

In Europe, iced coffee performed well, supported by our summer stock campaign. In age restricted, total company alcohol sales were up. And in tobacco, we're seeing continued pressure on cigarettes globally. Here, we have initiatives underway with our supply partners and we're focused on maintaining our market share. In Canada, sales performance is improving compared to prior year. OTP continues to drive sales in the category in both the U.S. and Europe. And in lottery, growth was driven by large Mega Million and Powerball jackpots in the United States during the quarter.

On the overarching supply chain landscape, we still have some isolated challenges. However, our in-stock and on-time delivery rates continue to improve from previous quarters. The bulk of the issues in supply chain remain upstream with manufacturers where production, labor and packaging shortages are still driving some of the outages. But overall, we're continuing to see ongoing improvements in the overall merchandise supply chain, and thus, our in-stock continue to improve in our locations.

Moving to the fuel business. Same-store road transportation fuel volumes increased by 0.7% in the U.S. and by a strong 7.2% in Canada, favorably impacted by lower crude oil prices and promotional activity in our stores. Same-store road transportation fuel volumes decreased by 1.5% in Europe, unfavorably impacted by challenging macroeconomic conditions, including persistently high inflation in many of our countries.

In our Circle K fuel rebranding work, we've now completed nearly 4,200 Circle K branded sites in the U.S. and Canada. We've also continued with our promotional events during the quarter and had over 7,000 sites in North America hosting local fuel days to alleviate some of the cost pressures at the pumps for our customers. These fuel events, including our first ever Global Fuel Day held on August 31, our leading to percentage growth fuel volumes as well as increased exposure of the Circle K fuel brand, at the same time, bringing significant value to our customers.

In our EV fast charging network in Europe, we've deployed nearly 160 fast charging points during the quarter, bringing the overall total to around 725 site points in more than 340 of our stores. We also now have over 3 chargers for 3 trucks in Sweden. In Q1, we had nearly 70% increase in charging transactions from the same period last year, driven by both network expansion and improved utilization of our existing chargers.

We continue to expand the charging network in Europe with increased focus on Ireland and pilots in the Baltics and Poland. In North America, including partners, we have over 80 EV sites in operation. Our footprints in Canada now cover Quebec, Ontario and BC. And in the U.S., we have charging sites in California, North Carolina, South Carolina, Virginia, Florida and Colorado. We remain committed to our 200 EV site target for -- in the next 2 years, which we communicated in the spring of '22.

Now before I turn it over to Filipe, I wanted to discuss the continually improving labor situation in North America. Candidate flow and our ability to hire remained strong. We're averaging over 25,000 applicants per week, which is a 6,000 applicant per week increase over the same time last year. Rolling 12-month annualized turnover in North America for our frontline store teams is trending materially better than the same time last year and just improving our ability to operate our stores, both effectively from a customer service standpoint, but also to control our labor costs.

We also continue to utilize our Smart Checkout tool to improve labor efficiency at our stores as well as enhancing the customer experience. In North America, we now have nearly 2,700 Smart Checkout units in around 2,200 stores with about 40% of our in-store payment transactions running through the Smart Checkout at these sites. More importantly, the equipment makes payment faster and easier for our customers as well as making it easier for our store team members to focus on serving them.

I'm going to pause here and let Filipe take you through more of our first quarter results.

Filipe Da Silva - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Thank you, Brian. Ladies and gentlemen, good morning. I'm delighted to report that our focus on cost reduction has yielded favorable outcome during this quarter. Our disciplined approach to expense management and streamlining processes has positively impacted our results, which include a normalized growth of expenses of 3.7%, lower than the average inflation observed throughout our network. This strong sequential improvement underscores our dedication to financial discipline and reflects our commitment to delivering sustainable value to our various stakeholders.

I am thankful for our team's continued pursuit of operational excellence, which enabled us to deliver strong results across our key metrics. At our upcoming Analyst and Investor Conference, we look forward to communicating our new multi-year strategic plan which will include a renewed focus on cost reduction initiatives. Finally, in terms of capital allocation, the recent private buyback transaction, which took place shortly after quarter-end, highlights the great use of our excess cash and will further enhance our key return metrics.

I will now go over some key figures for quarter. For more details, please refer to our MD&A available on our website. For the first quarter of fiscal 2024, we are happy to report net earnings of $834.1 million or $0.85 per share on a diluted basis. Excluding certain items described in more detail in our MD&A, adjusted net earnings were approximately $838 million or $0.86 per share on a diluted basis for the first quarter of fiscal 2024 compared with $875 million or $0.85 per share on a diluted basis for the first quarter of fiscal 2023, an increase of approximately 1.2% in the adjusted diluted earnings per share.

During the first quarter, excluding the net impact from foreign currency translation, merchandise and service revenues increased by approximately $228 million or 5.6%. This increase is primarily driven by organic growth as well as by the contribution from acquisition which amounted to approximately $52 million. Excluding the net impact from foreign currency translation, merchandise and service gross profit increased by approximately $105 million or 7.5%. This is primarily due to organic growth as well as by the contribution from acquisition, which amounted to approximately $28 million. Our gross margin increased by 0.4% in the United States to 34.3%, in Europe and other regions by 1% to 39.9% and in Canada by 0.8% to 33.9%, all impacted favorably by a change in product mix.

Moving on to the fuel side of our business. In the first quarter of fiscal 2024, our road transportation fuel gross margin was $0.5005 per gallon in the United States, an increase of $0.0105 per gallon. In Canada, it was CAD 0.1325 per liter, a decrease of CAD 0.079 per liter. Fuel margins remained healthy throughout our network -- North American network due to favorable market conditions and the continued work on the optimization of our supply chain. In Europe and other regions, our road transportation fuel gross margin was $0.0821 per liter, a decrease of $0.0405 per liter, mostly driven by the volatility of the global fuel market, more impactful to our European gross margin due to a more integrated supply chain model in this region.

Now looking at SG&A. For the first quarter of fiscal 2024, normalized operating expenses increased by 3.7% year-over-year. This is mainly driven by the impact of cost from rising minimum wages, inflationary pressures and incremental investments to support our strategic initiatives, while being partly offset by the continued strategic efforts to control our expenses. This control is evidenced by our normalized growth of expenses remaining lower than the average inflation observed throughout our network.

Excluding specific items described in more detail in our MD&A, the adjusted EBITDA for the first quarter of fiscal 2024 increased by $10.7 million or 0.7% compared with the corresponding quarter of fiscal 2023, mainly due to organic growth in our convenience stores, convenience operations as well as the contribution from acquisition, partly offset by lower road transportation fuel gross margin in our European operations as well as higher expenses. The transition of our foreign currency operation into U.S. dollar had a negative impact of approximately $6 million. From a tax perspective, the income tax rate for the first quarter of fiscal 2024 was 22.8% compared with 21.9% for the corresponding period of fiscal 2023. The increase is mainly stemming from the impact of a different mix in our earnings across the various jurisdictions in which we operate.

At the end of the first quarter, our return on equity remained strong at 23.8% and our return on capital employed stood at 17%. During the quarter, we continued to generate strong free cash flows and our leverage ratio stood at 1.39x despite having repurchased 4.7 million shares for $250 million under our NCIB program. Subsequent to the end of the first quarter of fiscal 2024, we repurchased 10.8 million shares through a private agreement for an amount of $529.7 million. We also had a strong balance sheet liquidity with $2 billion in cash and an additional $3 billion available through our main revolving credit facility, net of USCP borrowings.

Turning to the dividend. The Board of Directors declared yesterday a quarterly dividend of CAD 0.14 per share for the first quarter of fiscal 2024 to shareholders on record as of this September 15, 2023 and approved its payment effective September 29, 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, Filipe. And it's been a pleasure working with you this quarter in your new role as our Chief Financial Officer. I look forward to many of you having the opportunity to meet Filipe at our analyst investor conference in October. The 2 of us will be joined on stage by several of our team members and we're excited to show you the achievements we've made during the 5 years of double again and how we'll continue to build upon that during the next stage of our strategic journey.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first 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 start with fuel margins, if we could, specifically on the U.S. It's now 6 quarters of sort of upper-40s and now $0.50 a gallon. So can you just help us with how to think about that range? It's clearly a material step-up from sort of previous levels and even the early days of the pandemic. So is it just that the breakeven for the smaller operators has sort of continued to rise or your company-specific efforts contributed materially more in the last year than in the prior year? And maybe put another way, what sort of factors should we be on the lookout that could reset the margins lower?

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

Mark, I'll take a shot at that. I think it's a mix of the 2. We continue to see pressure on the industry in several fronts. Inflation is not gone. Certainly, there's some wage pressures there yet. And we'll talk about tobacco in a bit, but a lot of the industry, particularly the smaller players, rely very heavily on the tobacco category, which after a couple of years of pause during COVID, we've seen an acceleration in volume decline in that category. So I think you put those things together along with some of the bottom half of the industry losing gallons to larger and more modern facilities, I think the pressure builds. So I think the breakeven needs of that independent just continue to rise.

And then conversely, I think we just continue to double down on the benefits that we think we can bring in terms of our scale, whether that's continuing to grow our private fleet. I was just in Europe and met our new trading team in Geneva, our partnership with Musket, all the things we're doing to try to really optimize every last gallon of fuel that we buy, we just think those 2 things come together.

And then I would say, third, just continuing to work really hard on our pricing decisions. It's the biggest commercial decision we make each and every day. And just bringing more data, more analytics to those decisions to make sure that we're balancing, delivering value to our customers and also maintaining the appropriate amount of volume versus gross profit. So we feel good about it. The last quarters have been solid and we continue to see the market remain very disciplined. So as we enter kind of halfway through our next quarter, we feel good about where we're at on the fuel side.

Operator

Next question will be from Tamy Chen at BMO Capital Markets.

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

I wanted to talk about merchandise gross margins. So I think I get the sense that recently some good performance out of there from all your regions. It sounds like it's more of the favorable mix of lower cigarette sales and more beverages and private label. So one thing I wanted to drill more on though is the Fresh Food program. You talked about it a little bit. It still sounds like it's early days aside from the holiday business. And I'm just wondering, can you talk about how that's progressing maybe versus last quarter or even 2 quarters ago? I'm just trying to think incrementally, how are you feeling about the progress of that business in both the size as well as the gross margin? Because I think you're trying to bring that closer to what the holiday stores are doing.

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

Yes, happy to address that, and you're right. If you look at the strength we've had globally, we've grown the car wash business, so that shouldn't be lost. We've got almost 2,500 car washes globally, so it's a pretty material business for us and it's performing very, very well. And then our new acquisition with Clean Freak continues to perform well in the U.S. And beverages are too, as you noted, both continue to be strong.

On the Fresh Food, Fast, we've seen great growth in sales as we launched this during COVID, continue to have very high customer satisfaction. But I think the teams should be very proud. We've taken and grown the discipline around running the food business and building a food culture. Not saying we've won that journey, we're on that journey. But if you look at the last 6 months or 2 quarters, we've grown the profitability of that program over 750 basis points.

So again, I'll always point to sales as being the priority, but we've become more disciplined in the operation. There's always that balance of having the right amount of product out there and making it available versus having too much. We continue to provide tools that help people make better decisions there. And again, I think we're seeing a better balance than we've had the last -- in the last year on both profitability and sales. So strong improvement in margin out of that program and we think there's more to do.

Operator

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

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

I wanted to get your insight on the U.S. same-store sales trends. We did see slower growth sequentially at Couche-Tard, just like we did for all your peers, at least in the U.S. So I'm wondering what's the consumer behavior that you're seeing that would explain the differences in your performance in Canada versus the U.S.? And what is it going to take to get that U.S. same-store sales back to a 3%-plus rate?

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

Michael, I'll take a shot at that and happy to have Filipe jump in as well. We're watching the consumer closely. There's -- it's no secret that we've had pressures on that customer, stimulus kind of working its way out of the system, saving rates declining a bit, SNAP benefits in the U.S. expiring and higher fuel prices versus a year ago. So those are headwinds. At the same time, we've got reasonably good employment rates. We've got -- our customers have jobs, which is just huge. And there's been real wage growth in many of our markets. So kind of 2 competing things.

When we look at our sales in the U.S., we're seeing certainly some trading down to more budget and price conscious decisions. We continue to see double-digit growth year-over-year on private label. So that tells me that certain segment of our customer base is stretched and stressed a little bit. And so we're focused on providing them with consistent value and leading first with high visibility value. But I also want to point out the cigarette piece of this. We've got significant headwinds there. The industry does, not just Couche-Tard. If you look at what Altria or B&K are reporting.

Sticks units, while fairly stable during COVID, they've had a pretty hard year, minus 7%, minus 8%. And that results in soft traffic and certainly a big headwind on same-store sales in certain markets where we rely more heavily. If you took out cigarettes, we'd be up mid-single-digits. So the bulk of our business I think is still very healthy and the consumer is there, being led by beverages, as we talked about earlier. So as we look forward, you'll see us continuing to invest a bit in that category to make sure that we're staying relevant with that tobacco consumer and we're maintaining our share.

In terms of Canada, I think there's a couple of things that happened. One, lockdowns lasted a little bit longer. So some of that's cycling. And then two, we've just -- we've done a nice job blocking and tackling. And the consumer just seems to be a bit stronger north of the border than in the U.S. And so we continue to see that be a bright spot in our business.

Operator

Next 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*

Would you be able to give us a little bit more color, please, on what's going on in Europe, both on the volume and within the supply chain that's having a negative impact on profitability in the region?

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

Irene, I'll take that. Profitability has been fine. We've got a longer supply chain. So if you look at North America, our average inventory held is a little under 5 days. In Europe, because of the nature of the beast, we've operated 15 terminals. We've got product on the water in route to our countries all the time. So we averaged closer to 15 days of inventory. So as prices fluctuate, the valuation of our inventories fluctuates along with it.

If you looked at our costs -- replacement cost, if you said, hey, I'm buying today, our margins are absolutely very stable quarter-over-quarter and even year-over-year. So again, I would point to this just largely being a timing and it's showing up more than it does in North America just because we've got a longer supply chain. So the market remains very disciplined there and we're very happy with the performance.

On the volume side, we have a couple of soft markets. Poland continues to be stressed. There's some political issues around the leading player there and being owned by the government and elections coming up. And so that's been a market that's been under some strain. And then Scandinavia was a bit soft in the quarter, not great weather there. So I hate to call out weather, but it just wasn't heavy rains throughout the northern part of Europe. And so those are the big 2 factors. Again, margins, I'd say, are just absolutely normal. It's just more of an accounting and timing issue.

Filipe Da Silva - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Maybe a bit of color. On the regions, Europe and others, I just want to highlight also that Europe performance -- on the convenience is very strong. And here, you have also some impacts coming from Hong Kong. The Hong Kong business actually is going through some macro factors that are impacting the performance. The first one is the implementation of the new tax in cigarettes and cigarettes is a very important category in (inaudible) there. And the second one also, we are -- in Hong Kong, we are lapping the lockdown period. And during this period, the government was distributing coupons and vouchers to the customers, and that's also impacting, I would say, the comparison. So I think it's very important to separate Europe as a region doing pretty well and Hong Kong where we have those impacts, external factors.

Operator

Next question is from Chris Li at Desjardins.

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

When I look at 2 of your bigger initiatives, Fresh Food, Fast and your fuel rebranding, it seems like you have already are close to achieving the store target. Fresh Food, Fast almost at 5,000 stores and then rebranding at 4,200 stores compared to the targets you set out a couple of years ago at the Investor Day. And I don't want to still any thunder from the upcoming Investor Day, but I was wondering if you can share with us what is your longer term rollout target both for Fresh Food, Fast and rebranding stores? How many stores are still left to go over the next few years?

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

Yes, Chris, I don't have an exact number in mind. Our penetration on food is still relatively small in Canada. So that journey continues there. I won't go into details, but there's certainly supply chain issues getting the same product availability and things like that in the Canadian market than we have in the U.S. And so more work to do there. U.S. I think is supposed to being complete. There's, I'd call it, hundreds of sites, not thousands of sites left to go. And that just could be the traffic level we have on the site or the size of the box or what we plan for that site longer term that would impact that. But in terms of profitability of the program, we're still very early in that journey, as I talked about earlier. Sales as we look at pro forma versus our Northern tier business, which is a decade in, we have a lot of runway to grow there yet.

On the fuel side, we couldn't be more excited. We know when we started this journey 5 years ago that people are confused when we had a partner brand out front and Circle K on the back. And now having almost 5,000 locations, we're growing the awareness of that Circle K brand. And as we rollout our Innercircle program in Florida, now in Arizona, we're seeing strong uptake, strong consumer enrollment and the ability for us to make that brand come to life and be more valuable, more important to our consumers. It's a great opportunity for us and believe it will take that all day, won't we?

Operator

Next question will be from George Doumet at Scotiabank.

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

Brian and Felipe, I was just wondering if you're satisfied with striking the right balance of promo in the U.S. when it comes to fuel? Where are we in terms of premium penetration? And what are you seeing in the competitive environment today? And maybe anything you can share on market share in the quarter?

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

Yes. I mean, I'd say, positive growth is in the wheelhouse we're kind of striving for right now. A lot of our promotional activity has been kind of guerrilla tactics. It's paper coupons, it's been fuel days, but it's been great for building awareness of the Circle K fuel brand and we've seen a halo effect as we run those events. And so we think as we cycle through some of the partner brands we had and some of the associated loyalty programs, which quite honestly, were very strong that we'll continue to see strength in the volume profile of the Circle K branded sites. And then again, you layer Innercircle on that where we can really target larger discounts toward those most valuable customers.

We think the ability to both attract new customers, heavy users and also to increase the loyalty or minimize the switching of those customers is an opportunity in front of us. So we feel good. We feel good about where we're at. And we've talked about AI pricing and the ability to bring more technology and data to those decisions. And so when we talk to you guys in October, that's an area I'm not pleased with where we're at, but we've got a road map I think that's very promising in front of us to just continue to optimize those decisions each and every day and improve our profitability.

Operator

Next question will be from Vishal Shreedhar at National Bank.

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

I just want to follow-up on that last question in terms of market share in the U.S. I'm just looking over the last several years post-COVID. Is management's strategy to sacrifice market share to boost margins? Is that a conscious effort that management is making saying we value margin more? And how has organic fuel margin ex-acquisition trended over the last several years? I'm talking particularly in the U.S.

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

I think, again, we'll talk to you guys in October. But on the fuel side, we would absolutely believe we need to grow our market share in the fuel category globally. That's a big goal for us and you'll see more tactics around how we plan to do that. That said, the market has been very disciplined in the last 3 years. We're not here to disrupt that. We're here to provide very consistent value to our customers.

When I look at the data, it's cloudy. Whether you look at the IA data, OPIS data, there's big discrepancies both nationally and also state to state. So again, when we look at our results versus some of our public peers, we feel pretty good about where we're at. But absolutely, our goal over time is to systematically take share in that space.

Operator

Next question will be from Bonnie Herzog at Goldman Sachs.

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

I had a question on your OpEx, which was pretty low in the quarter on a per store basis. So hoping you could talk about the key drivers of this? And then maybe how we should think about OpEx for the remainder of your fiscal year? I guess, I'm asking or thinking about in the context of inflation potentially easing further. And then could you highlight some of the key initiatives maybe you've implemented that have been contributing to better OpEx performance? And really how sustainable that might be moving forward?

Filipe Da Silva - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Yes. On the OpEx, we feel pretty good on our performance on Q1. And I think here we have to recognize the work done by the operators and across all the regions. At corporate level also, we are really seeing all the focus that we (inaudible) the recent move just making sure that we get the expenses on control. And yes, we have seen those results in Q1.

You wanted me to point it out on some of the initiatives. So in-store, definitely, we are seeing a great improvement in terms of productivity. So lower number of hours. So some automation there. You know that Mashgin rollout is doing pretty well, so helping us there. Also on the energy side, so we are seeing nice initiatives in Europe where we see construction going down quite significantly. So really seeing good momentum. Also we had kind of decided to do some reorganization at corporate level, so just to make sure that we are fit and we're ready to face this inflation.

So to your point, we are seeing this inflation kind of easing a little bit and we see this trend to continue in the next coming quarter. And overall, we feel that this trend on beating inflation as OpEx growth is something that we feel comfortable for the next quarter. And yes, that's -- I would not say that that's not a guidance, but where we feel comfortable of -- that we are able to achieve for the next quarters.

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

And then 2 more. Labor has been a challenge for the industry over the last couple of years. So as that stabilized now, our staffing levels are much more normal and over time is way, way down. So that's significant on the cost side. And then again, we'll share more in October, but both at store level and in our support offices, there's a heavy focus. It's more of a medium-term pay-off, but heavy focus is on automation, just making our operations more efficient at site level, getting managers out of the offices and just streamlining our help desk and really all the points of contact. So again, we'll share more with you guys next month.

Operator

Next question will be from [Antonio] Bonadio at Wells Fargo.

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

Congrats on a nice quarter. So I just wanted to talk a little bit more about the loyalty program. I realize it's still early days here. But I guess, more broadly, one, how has that evolved so far versus your expectations, especially as we think about things like lift to same-store sales in gallons? And then two, how should we think about the cadence of the rollout and gating factors in terms of getting it out more quickly?

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

We're excited. This has been 3 years in the making. So too long, but we also were pretty committed to say we're not just going to be in the other key fob in your wallet. We really want something that differentiates and resonates and our pilots that we conducted around tier-based loyalty is kind of typical in the industry, we think is the right approach for our customers and really focuses our dollars where you can get a good financial return on those customers that really will move the needle for us versus kind of treating everybody the same. So we're pumped about it.

I'd call it too early. I've asked us next quarter that question about results. We're very pleased with sign-ups. We're well ahead of our sign-up projection. Again, in weeks, we're up to 2.7 million enrollees. We're seeing good penetration both at the forecourt and in the store in terms of usage. If you look on the Apple website, I think we're rated one of the highest-rated websites out there or apps -- excuse me, apps out there. So it's a good consumer experience. And then we've done some basic NPS scoring, Net Promoter Scoring and getting very, very good reviews there as well. So again, early to call success, but I don't know that I could be more pleased with the launch.

Operator

Next question will be from Bobby Griffin at Raymond James.

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

I was just curious if we could circle back on U.S. merchandise. If you kind of look at the business ex the cigarette decline, what are you seeing volume versus pricing? Is the inflation-related price increase is still flowing through? Are those largely leveled out at this point?

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

I think basket is still positive. I have to separate tobacco out there. The basket is still positive. Traffic is a bit negative. If you do the math, it's my back of the envelope math on the traffic impact, the lost units of tobacco, that largely explains the softness in the traffic. And so take tobacco out, I'd say, we're probably pretty stable on traffic and we've got pretty nice basket growth, again, in that 4%-plus range in the U.S. and even stronger in Europe as fleet-based share, really, Europe has been impacted by Hong Kong, big in the mix there.

So again, you take tobacco out, we feel pretty good about it. But that's not dismissing the fact that we do believe there's pressure on that consumer today. So we're very, very closely watching that and just making sure that we're consistently balancing the need for basket and profit growth with the need for a value proposition to that segment of our consumers.

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

Congrats on a strong start to the year.

Operator

Next question will be from Luke Hannan of Canaccord.

Luke Hannan - *Canaccord Genuity Corp., Research Division - Analyst*

I just wanted to ask about what you're seeing as far as the strength of the morning daypart. Curious to know if it's back to pre-pandemic levels? If not, how far is it? And are you seeing any material differentiation across each of your operating segments?

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

Yes, it's a great question. I'm not sure I've got specific data on that available, but just anecdotally, that morning daypart is important. And when we look at both gallons and morning traffic, I'd say we're not back to pre-COVID levels. We've still got -- and you guys -- you read the same stuff we do. We still got a lot of employers that have people coming in 2, 3, 4 days a week versus pre-pandemic was 5. And so while miles -- total miles driven have increased, I think that morning daypart is still soft for us. Continues to improve, continues to come back to normal, but we're still not at pre-COVID levels for sure. That's why we had Fresh Food, Fast, quite honestly, so important. It's got a great morning offer. And we think being able to differentiate that morning daypart is a key for our long-term success.

Operator

Next question will be from Martin Landry at Stifel.

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

With TotalEnergies, your acquisition expected to close in the coming months, just trying to get a bit of sense as to your acquisition appetite in the months following Total. Is there going to be a focus more on integration or do you have enough capacity to continue to look for large deals? And while you're there, wondering if you could just discuss a little bit your acquisition pipeline?

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

Martin, thanks for the question. We're excited to close both MAPCO, which we received FTC clearance during the quarter and should close next month. And then we feel good about TotalEnergies closing in December, both very, very nice acquisitions for us.

In terms of our ability to integrate or maintain focus, I mean, I think one of the beauties of our decentralized model is that we're able to do M&A and not just stop the machine. It's -- we're able to use local teams to help bring the businesses on, bring the teams in. So when I think about Total, certainly we'll be busy in Europe, but our ability to do M&A either in Asia or North America or another part of the world remains fully intact.

And I'll let Felipe talk about the balance sheet piece. But for me, 20 some years into this and I've seen the cycles and I'm excited that we've got an environment where, quite honestly, it's a little more difficult, whether that's raising capital, raising affordable capital, those types of things. So I'm optimistic that the M&A environment will continue to improve for us and that we'll be ready for when it is. But Felipe, a little more color on the balance sheet.

Filipe Da Silva - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Yes. (inaudible) including Total Energy and MAPCO completion, our leverage would be at 2.15. So we believe there is still a lot of room actually to -- and grid power to do some M&A. And as we have mentioned already a few times is that we see a more favorable environment, people slowing down. So yes, we remain disciplined, but at the same time, we -- if we see opportunities, we will have the balance sheet to go for it and that's what we have as an ambition.

Operator

Next question will be from Daniel Silverstein at Credit Suisse.

Daniel Silverstein - *Crédit Suisse AG, Research Division - Research Analyst*

Congrats on a nice quarter. My question is on the U.S. fuel business. Just given the promotional days that you guys cited, what are you seeing in terms of underlying comp gallon trends today, whatever you can share, versus earlier in the summer when it sounded like there was a solid level of pent-up travel demand? Curious to see if the momentum has continued heading into the fall.

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

Sure, Daniel. We really continue to see trends being pretty consistent. We've had solid demand across most of the geographies, a little stronger in the West than in the Midwest, but it just continues. No big variations as we look forward into kind of halfway through the 6 quarter. And again, as I mentioned earlier, margins continue to remain very solid.

So again, we feel good about it. And even think there's an opportunity with our Innercircle loyalty to continue building on the volume momentum that we have and continue to capitalize on the guerilla tactics that we have out there. Again, we have a segment of our customers that are feeling the pinch. I'm glad that we're able to be there for them and provide meaningful discounts, at the same time, build the awareness of the Circle K and Couche-Tard brands in our markets.

Operator

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

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

No, we just want to thank everybody for attending today. Thank you for your interest. And well, hopefully, we'll see all of you on October 11 in Phoenix. Thanks, everyone.

Filipe Da Silva - *Alimentation Couche-Tard Inc. - Executive VP & CFO*

Thank you.

Operator

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