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ATD.TO - Q2 2024 Alimentation Couche-Tard Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 29, 2023 / 1:00PM GMT

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CORPORATE PARTICIPANTS

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

Filipe Da Silva *Alimentation Couche-Tard Inc. - CFO & Senior VP of Finance*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

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

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

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

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

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

PRESENTATION

Operator

Good morning. My name is Joelle, 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's financial results for the second 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*

Thank you, Jean-Philippe and good morning, everyone. We're pleased to announce a solid second quarter with progress across most of our key metrics. Although we did see some softening in the quarter in same-store sales in the U.S., driven by weakness in the cigarette category and cycling against a very robust second quarter last year of 5.6%. In an environment with continued inflation and high interest rates, we remain committed to offering compelling value and ease, and we believe we'll continue to grow our share in key categories as we continue to implement key pieces of our strategies.

In the quarter, we substantially expanded the rollout of our Inner Circle membership program, which is providing meaningful convenience and fuel rewards to our most valuable customers. As America's thirst stop, we're focused on the growth of our beverage category by offering great assortments, innovation and value in both package and dispensed beverages at affordable price points. We also continue to be pleased with the performance of our fuel business in terms of both volume and margins as we continue to bring traffic to our sites through reoccurring promotional fuel days, now return to each of these areas with more detail later in my presentation.

During the quarter, we held a very well-attended Analyst Investor conference, and I want to thank those of you who joined us either in person or online. At that time, we announced our new 10 for the Win 5-year strategic plan with winning in growth being one of the lighthouses or pillars of that strategy. Here, we're excited by the recent developments in growing our network. In the beginning of November, we closed on the acquisition of 112 MAPCO sites, accelerating our development in key markets in Georgia, Tennessee, Alabama, Mississippi and Kentucky and adding approximately 1,300 team members to the Couche-Tard family.

We also received a very important decision by the European Commission, allowing us to now in only a few weeks, complete the acquisition of TotalEnergies in 4 new European countries. We're excited to welcome the TotalEnergies teams into the family and begin the journey of realizing significant value for all of our stakeholders.

On the organic front, we're making progress on our stated goal to build 500 stores over the next 5 years, having already finished 40 new stores this fiscal year with more than 100 sites in the construction pipeline and 1,000 sites identify future growth opportunities. We've also added 20 new Circle K branded sites during the quarter under licensing agreements, bringing that total to over 2,100 sites.

Now let's turn our results for the quarter beginning in convenience. Compared to the same quarter last year, same-store merchandise revenue decreased by 0.1% in the United States and 0.2% in Europe and other regions. It's worth noting here that Europe really had healthy same-store sales. However, the overall results were impacted by a challenging tobacco market in cross-border traffic in our Hong Kong market. Same-store sales increased by 1.6% in Canada, driven by our growth in beverage and food offers.

As I mentioned at the start, I'm especially pleased this quarter with the expansion of our Inner Circle membership program in the U.S. Inner Circle is, and will be an important tool in helping us provide consistent and high visibility value for our customers both inside our stores and at our forecourt. Starting only 5 months ago, we're now in 7 business units covering nearly 3,000 locations, and we're well on our way to reaching 10 of our 13 U.S. business units by the end of this fiscal year.

We continue to see steady growth in enrollments in the program with now over 8 million members enrolled since the program launched this summer. In Florida, our first business unit with the program, we're seeing enrolled customers visiting more often than non-Inner Circle customers, and we're learning how to best personalize our offers to increase traffic, grow fuel volumes and most importantly, reward those most valuable customers. In Europe, the updated Extra program continues to perform well and is one of the most -- in our most recent deployments into Lithuania are showing positive volume results, matching the results we've seen in other European markets.

Across the network, Fresh Food, Fast is now in over 5,500 locations globally. Our operations teams continue to improve execution in stores as we simplify assortments and increased number of locally relevant items and trials in our markets. Our LTO sandwiches continued to perform well as does our cookie offers. As the program matures, we're giving a better understanding of demand in controlling waste.

As America's thirst stop, packaged beverage sales were up across the network with energy products and carbonated waters and enhanced waters leading the way. Great assortment and exclusive product offers, innovation and activations are contributing to our overall success in that category.

As with food, we're focused here on better operational tools and procedures. In nearly 3,000 stores globally, we've introduced new core solutions, which greatly expands customer-facing assortment and holding capacity while simplifying the restocking process for our team members. We're well on our way to doubling our number of stores with this solution by the end of the fiscal year.

As I mentioned in the opening, we continue to see headwinds on cigarette [sales] globally, and we believe the belt tightening by this consumer group has increased price sensitivity impacted overall demand. We have initiatives underway with our supply partners and are looking at the best ways to invest in this category to make sure we stay relevant with our tobacco customers. On a positive note, [poly] usage continues to grow, driving strong growth in other nicotine products in the quarter globally.

Moving to our fuel business. After two positive quarters in the U.S., same-store road transportation volumes decreased 1.5% in Europe -- excuse me, in the U.S. In Europe, same-store road transportation fuel volumes decreased by 0.9% and increased 3% in Canada, favorably impacted by more people returning to the office, easing the retail prices and promotional activities. Our results compare favorably to our other public comps, and we believe we're growing share in key markets. Over time, we're excited at the prospect of further growing this category with our Inner Circle loyalty.

In addition, unit margins continue to remain strong, reflecting the increased margin requirements on a very fragmented overall industry. In our Circle K fuel rebranding work, we've now completed 4,300 Circle K fuel sites in North America. We also continued the promotional activities during the quarter, including our first ever global Couche-Tard, Circle K fuel Day with [an initial] of 50% locally, covering nearly 8,500 sites. These fuel days offer valuable discounts of the pump as well as fuel cards to save on future visits. We're bringing increased exposure to our new brand and significant value to our customers. Our EV fast charging network now consists of almost 1,900 charging stalls, and that's up over 50% from the same quarter last year. We also now have over 40 chargers for heavy trucks in Sweden and over 11,000 home and workplace chargers deployed.

Also in Europe, our B2B business had a solid quarter with truck volumes remaining very robust across both fleet and truck segments. Small fleet remains the main driver for growth and margin performance has remained very strong in the quarter.

As in recent quarters, we continue to see improving labor situation globally, particularly in North America, and we're now focused on piloting comprehensive programs to improve retention and turnover at our sites as well as positive impacting sales. We're also continuing to implement solutions that reduce administrative hours, making it easier for our teams and allowing them to focus more on serving customers. With that in mind, we now have more than 3,250 smart checkouts globally, which contribute to savings on labor hours while improving the customer checkout experience.

The technology at the forefront of every customer and team member experience, we're focused on market agility, quality and reliability. In the support of these objectives, early this quarter, we established a 10-year strategic partnership with CGI for our managed IT services. Through this collaboration, we're excited about the opportunities to better support our stores and customers while enabling our internal IT organization to focus on customer-facing enhancements. With that, I'll pause and turn it over to Filipe.

Filipe Da Silva - *Alimentation Couche-Tard Inc. - CFO & Senior VP of Finance*

Thank you, Brian. Ladies and gentlemen, good morning. It is a great pleasure to share that our focused efforts in managing costs are yielding tangible benefits. This quarter, we have successfully kept the growth of our normalized expense to a modest 1.5%, a figure that stands well below the average current rate of inflation affecting our operations. This is a clear indication of our team's dedication to efficiently operate and deliver value to our shareholders even amidst widespread economic challenges. Our ability to surpass expectations on this financial indicator demonstrates our commitment to financial discipline and operational excellence and certainly shows a great start to our fit to serve ambitions, one of our key focus areas as part of our 10 for the Win strategic plan.

Additionally, with the recent successful issuance in Canada of 7-year senior unsecured loans for a principal amount of CAD 800 million, which followed a rating upgrade by Sales & Poor Global to BBB+ from BBB with a [further strengthened] our capital structure, ensuring it remains robust and effective.

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 second quarter of fiscal 2024, we are happy to report net earnings of $819.2 million or $0.85 per share on a diluted basis. Excluding certain items described in more details in our MD&A, adjusted net earnings were approximately $792 million compared with [$838] million for the second quarter of fiscal 2023. Adjusted diluted net earnings per share were $0.82, unchanged compared with the corresponding quarter of last year.

During the second quarter, excluding the net impact from foreign currency translation, merchandise and service revenues increased by approximately [$37] million or 0.9%. This increase is primarily attributable to the contribution from acquisitions. Excluding the net impact from foreign currency translation, merchandise and service gross profit increased by approximately $37 million or 2.6%. This is primarily due to organic growth as well as by the contribution from acquisition, which amounted to approximately $26 million.

Our gross margin increased by 0.8% in the U.S. to [34.8%], impacted favorably by a change in product mix and the improvement of our Fresh Food, Fast program. Gross margin increased by 0.3% in Europe and other regions to [38.6%] and remained stable in Canada at 53.2%.

Moving on the fuel side of our business. In the second quarter of fiscal 2024, our road transportation fuel gross margin was $0.4956 per gallon in the U.S., an increase of $0.04 per gallon. In Europe and other regions, our road transportation fuel margin was $0.102 per liter, an increase of $0.44 per liter. In Canada, it was CAD [0.1363] per liter, an increase of CAD [0.0108] per liter. Fuel gross margin remained healthy throughout our network due to favorable market conditions and the continued work on the optimization of our supply chain.

Now looking at SG&A for the second quarter of fiscal 2024, normalized operating expenses increased by 1.5% year-over-year. This is mainly driven by the impact of costs from rising minimum wages, inflationary pressures and incremental investment to support our strategic initiatives while being partly offset by the continued strategic effort to control our expenses, including labor efficiencies in our stores, allowing us to use less hours in the quarter this year compared to the same period last year. Our controlled expenses is evidenced by our normalized growth of expenses remaining lower than the average inflation observed throughout our network at around 3.8%.

Excluding specific items described in more detail in our MD&A, the adjusted EBITDA for the second quarter of fiscal 2024 increased by 26.9 million shares or 1.8% compared with the corresponding quarter of fiscal 2023, mainly due to the contribution from acquisitions, organic growth in our convenience operations as well as the translation of our foreign currency operations into U.S. dollar, which had a positive a net positive impact of approximately $2 million, partly offset by the impact of lower road transportation fuel volumes sold, excluding the impact of acquisitions.

From a tax perspective, the income tax rate for the second quarter of fiscal 2024 was 22.8% compared with 21.9% for the corresponding period of fiscal 2023. The increase mainly stems from the impact of a different mix in our earnings across the various jurisdictions in which we operate.

Moving now to the balance sheet. As of October 15, 2023, our return on equity remained strong at 23.7%, and our return on capital employed stood at 17%. At the end of the quarter, our leverage ratio remained healthy at 1.52x despite having repurchased [30.6] million shares for $672.9 million during the quarter under our NCIB.

Subsequent to the end of the quarter and under our NCIB, we repurchased 0.3 million shares for $15.7 million. At the end of the quarter, we also had strong balance sheet liquidity with $1.4 billion in cash and an additional $3.2 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 0.175 per share, an increase of 25% and in line with a 10-year CAGR of 24% for the second quarter of fiscal 2024 to shareholders on record as of December 7, 2023, and approved its payment effective December 21, 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*

All right. Thank you, Filipe. As we pursue our 10 for the Win strategy, we're pleased with our progress and plans to develop, deploy and pull key levers to widen advantages versus our industry. We're significantly growing the network with our upcoming TotalEnergies acquisition, continuing to provide value and ease to our customers through the expansion of our Inner Circle loyalty program and unit margins continue to be strong in our fuel business.

We've also worked hard to outperform average inflation and operating costs. And one last note, in mid-December, so two weeks from now, we are excited to celebrate the 20th anniversary of Couche-Tard acquiring Circle K. For me, it's humbling to think of the growth that's occurred over these past 20 years. And as I think about 4 weeks from now, expanding that brand into 4 new countries for a total of 29 countries as we continue to pursue our vision of becoming the world's preferred brand for convenience and mobility. Now with that, I'll turn it back to the operator to answer analyst questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first 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*

I was wondering if you could please just provide some more detail around what you saw in terms of consumer behavior and demand both in the forecourt and the backcourt as we move through Q2 and Q3 to date?

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

I'll start with the forecourt. During the quarter, we had sequentially higher retail prices, and that showed up. Traffic on the forecourts remain positive year-over-year, but we did see a contraction in average fills. As we look at more recent weeks, we've seen prices come down along with crude globally, and we've actually seen improvement in volumes. So we're feeling that the volume picture has looked better in recent weeks than it did in the prior quarter. So we feel good about the fuel business. And also just building on that, we just completed what probably is the largest fuel RFP ever done in North America and very successful with our partnership with Musket. So I think we continue to widen the advantages that we're building versus the industry.

On the backcourt side or the store, clearly, I think there's been some belt tightening, particularly we referenced the tobacco category. We've got some headwinds with inflation and just student loans in the U.S., other things that, again, things that we think are transitory, but the drag was really for us tobacco combustible. If you took that away, we would have positive same-store merch for the quarter. So we're looking hard at that category. It's core to our traffic. It's important to our business. So we're looking at very surgical investments to make sure that we continue to gain share in that category.

But again, we view these things as transitory. We've never said we're recession proof, but recession resistant and feel good that with the tactics we have both in tobacco and then also with Inner Circle that we'll continue to grow share in our core categories.

Yes. I would add, I guess I can't skip Europe as Europe grows for us, I did want to comment. Europe had a great quarter, both positive traffic, positive sales. If you take out Hong Kong, Europe was actually up 3.5% in same-store merch. So that's a good story. And as that grows as part of our portfolio, we'll constantly try to talk about that a little bit more.

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

And then just as a follow-up back to the U.S. Any early insights from Inner Circle that you would care to share with us just around sensitivity to pricing and value?

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

So we truly think we've deployed not just a me too, but a really unique program that helps us really focus in on the very valuable customers with a tiered approach. I'm pleased 5 months in, we've got 8 million people signed up. Florida was our first market. Looking at results there, we're balancing the activities of rolling out sites quickly to learning and doing hard at both at the same times hard. But we are clearly seeing growing fuel volume versus non-Inner Circle sites, growing merch traffic and growing basket versus non-Inner Circle sites. So some positive share growth in that state. So again, early, but we feel very good that we're off to a good start. Conversion has been solid. We're in the mid-teens, both in merch and in fuel and that's growing every week. And so we -- again, early, but we like where we're going. And when we started the year, our goal was to deploy about half of the number of sites we're actually going to deploy. So we're pleased that the technology and the platforms proved to be very robust and will be in over 3,000 sites shortly.

Operator

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

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

Filipe, can you talk a bit more about your OpEx and some of the bigger factors that allowed Couche-Tard to keep that OpEx so much below inflation? And if any of that, is it kind of temporary or timing? Or is that something that you expect to see occur for the foreseeable future?

Filipe Da Silva - *Alimentation Couche-Tard Inc. - CFO & Senior VP of Finance*

Yes, as we mentioned earlier, we are very pleased by the performance that we have in this quarter. So as we have announced during the Investor Day, we have launched a Fit to Serve program around $800 million costs that we are looking at finding over the next 5 years, and we see already good traction there. So on the SG&A side, so looking hard on procurement, standardization and also productivity. So I was mentioning, we have seen also less hours being used at store level. So overall, I would say across the region at the corporate level also, we are seeing really good discipline. As you know, our long-term ambition is always to outperform at least by 1% the overall inflation. Of course, that can fluctuate from one quarter to other. But overall, we are feeling pleased that this one, we did very well and very confident actually to -- yes, in the long term to beat this Fit to serve Ambition. So that's good.

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

And then just a follow-up on, I think it was Irene's question, but you had mentioned in the U.K. that excluding Hong Kong, your same-store sales were up. Can you give us an idea in the U.S. what your same-store sales were up, excluding tobacco?

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

Yes, Michael. The low single digits, kind of 2% type of number ex tobacco, I would say, ex cigarettes. When I talk about nicotine in general, noncombustible nicotine continues to grow. We've actually got some business units now where in terms of gross profit, the [power] usage of other noncombustible nicotine is larger than cigarettes. So the margin profile of the total nicotine category is strong, but again, that doesn't belay the need to be sharp on making sure that, that traffic in that basket is still coming into our stores.

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

And you talked about Fresh Food and beverage and private label in some areas doing well. I'm assuming they're all growing faster than that 2%. Other than cigarettes, what areas are weaker?

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

Beer was relatively flat for the quarter, really globally. Packed bev, so the cooler continues to grow at a faster pace. Food continues to grow at a faster pace as you hypothesized. Europe had a great quarter in food, in particular. U.S. was maybe not at the pace we've had. We've dramatically improved the margin profile of the food program. I think for the quarter versus prior, we were up 500 basis points in margin on the food program, but the growth is more in that single digits -- high single digits versus we've been running double digits in the past quarter. So our focus there is on trial and awareness and making sure that we're getting it out from the customers.

Operator

(Operator Instructions) Your next question comes from Chris Li with Desjardins.

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

Maybe a question on steel volume in the U.S. Brian, you mentioned that you outperformed the peers and gained some share. It looks like you're doing it also with limited impact on fuel margins. So I guess my question is, do you believe this is sustainable? And then in terms of your market share gains, can you remind us some of the initiatives that you do have? You mentioned that in your opening remarks, but if you can elaborate a little bit about that just to give us some sense of how sustainable this market share gain will be?

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

We're committed to fuel. We've spent the last 4 years converting from our supply partner brands to ours. That journey is largely complete, and now the journey is to build our brand, both for the B2B and B2C customers. And we think Inner Circle will play a key part of that. If you start with the supply chain, we've invested heavily in creating advantaged supply chain. Our partnership with Musket, our trading divisions in both Geneva and in Houston. So we think we're procuring fuel at a significant advantage versus what is mostly a globally fragmented market, and we continue to think we widen that advantage. So start with that.

And then I'd say second, we're investing pretty heavily in how do we price our products using machine learning and other tools to help us make very good decisions which equates to over 10,000 decisions each and every day around fuel. And so you look at both sides of that and then combine that with the Gorilla activities we have out there, just pop-up events, things like that to provide value to our customers. Our goal is to continue to slowly ratably take share in that marketplace. And so more to come there, but it's an area that we focus on being better than the industry.

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*

Maybe just a quick one. First on the follow-up on tobacco. Are you over or under penetrated in any of the categories of tobacco broadly, sticks, pouch, et cetera, or do you sort of match the industry? And then my question on Fresh Food, Fast, you mentioned 500 basis points of margin improvement. So thanks for that. Where does that put you in terms of where you think that margin should sit? And I'm sure it's a combination of factors, but is bridging that gap more of an operational issue, i.e., at the store level, or is it more broad about building the program across the network?

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

Yes. So Fresh Food, Fast. I'll take that one first. We're -- good progress on the journey, but we're still probably 10 points off of where we would like to be. And when we say where we'd like to be, that's where our Northern Tier holiday business has shown that program can deliver. So again, a journey there. On tobacco, we've always been kind of with the industry on combustibles. We've got good momentum, and I think we've been very much at the forefront of (inaudible) usage and the other nicotine products. And so I don't have exact numbers in front of me, but I think we would generally over-index competition on the innovation side of the equation. And we can follow up with more precise figures through JP, if you like.

Operator

Your next question comes from Martin Landry with Stifel.

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

I'd like to touch on your U.S. merchandise margin. I believe they were near or at highest levels in recent years. So you did touch on the Fresh Food program having an impact on your merchandise margins. But I'd love to have maybe a bridge to better understand how all of the put and takes that created the expansion in the quarter.

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

Yes, happy to. There's really 3 things happening. So with the softness in cigarettes, there's been a positive mix effect. And then when we convert those customers, nicotine customers to noncombustible, that is a higher-margin transaction. So that's one effect is the mix within the category and then overall. 2, we've had growth in some high-margin categories. That would include, as I said, a 500-basis point margin improvement in our food program. And then we've had great growth in car wash. So it's a high-margin category for us, great product, great service, and then we've added Clean Freak to that equation.

And then the third, I would say, beverages continue to perform very well. And that's -- when you -- particularly when you think about the non-sparkling, you get into energy, isotonics, things like that, the margin profile is better there, too. So there's a mix effect there as we continue to perform well in the beverage category. Okay.

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

And how sustainable are these levels? I mean, is there any seasonality that we should take into account? Or can they be replicated on a go-forward basis?

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

I think category-by-category, very sustainable. The mix can change seasonally for sure. And quite honestly, we'd like to do better in tobacco. So to the extent we're successful with our ambition to grow share there, that could bring it down a bit. But total gross profit dollars to the bank, we feel very good about the journey we're on there, and we don't see any material backsliding on total gross profit.

Operator

Your next question comes from Tamy Chen with BMO Capital Markets.

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

The press release had called out lower disposal income and a tougher macro environment, including inflation. I'm just wondering, was that all largely referring to the ongoing pressure in the cigarette category, or did that also impact some of the other backcourt categories, too? And Brian, could you just remind us what is going on in Hong Kong with respect to the cross-border headwinds there? It's quite significant given the underlying European business comp was quite good.

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

It is. So Europe continues to perform well in the backcourt. So when you talk about the consumer, our business, our traffic volume continues to be good there. Hong Kong specifically, really 3 things. There's been just an absence of tourism, whether that's from Mainland China or from the West. So that's way, way off. Last year, they were still really locked down and there were some significant government couponing to stimulate demand which was beneficial to us a year ago. And then third, there was a very material increase on tobacco taxes, which has impacted demand. There's been some pantry loading that certainly happened when that tax was put in place. So we're still waiting to see where that levels out. But I think those have certainly been. And then there's been a one-off, which I hate to talk about weather, but they did have a typhoon that really 2 types. I'm being corrected that certainly impacted our sales for the quarter there. But again, it was material in the overall context of Europe. But underlying Europe is solid, and we're looking forward to having Total being brought in. In the U.S., I think we've got to admit there's been some belt tightening. We see it. Our growth in private label has been strong. There's been trading down from premium to lower tiers in tobacco and in alcoholic beverages. So that's something we're watching with caution. Just making sure that we're communicating good value to our customers and focus on getting that loyalty program, getting people signed up, so we can deliver them -- deliver targeted value to those most valuable customers that we have.

Operator

Your next question comes from George Doumet with Scotiabank.

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

Brian, can you please talk a little bit about the performance of the car wash business? I'm just curious how much more room we have for that business to contribute to margins and top line kind of longer term? And is that business something that we can potentially see as being significantly bigger than the 2,500 locations that we currently have?

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

Yes. So we're adding almost 1,000 car washes with the acquisition of Total here in 28 days. So we are in the car wash business. And we like that business. When cars get dirty, I don't care how they're propelled. They'll get dirty. It's a great ancillary transaction for us. And so, I think we'll continue to focus on growing that business, both organically with our forecourts. And then we like our True Blue business. We'll see where that takes us and whether we can conduct any M&A in that space. But we're going to grow that base organically as well. We're investing in some core markets where we're currently at, and then we'll look at a couple of new markets to penetrate with that tell offer, which we think is just a better mousetrap than the current rollover. So expect that to be a growth sector for us over time.

Operator

Your next question comes from Bonnie Herzog with Goldman Sachs.

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

All right. I had a question. Pricing inside your stores in the U.S. You touched on this, but curious. Could you give us a sense of how much pricing you pass through to the consumer in the quarter? And then really what your expectations are for further pricing, I guess, next calendar year? And then also in the context of that, could you touch on any noticeable down trading within your stores? And ultimately, how your private label business is performing. I guess I'm really just trying to get a sense of any noticeable change in consumer behavior in the last few months.

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

Yes, I touched on earlier. Private label continues to grow double digits. Canada was up 30% for the quarter year-over-year. And so our ambition is to do more of that. We want to introduce more products in the coming quarters that we think will resonate with our customers. So certainly, we see that being one, a good thing, right? It's a deflationary in terms of sales, but it's a positive in terms of gross profit for us. And as I mentioned earlier, too, we're seeing pressure on the premium cigarette category. I think we had 2 things. One is your normal demand decline that we've seen year-over-year for decades.

But with the supply partners that we've had have been pretty aggressive about putting a price out in the market. And I think that combined and citing with a consumer that's maybe a little more cautious, we're seeing more trade down from premium into lower-tier brands in the tobacco categories than we have certainly in the past. And then I think the same thing would be if you look at the beer category, with premium brands versus trading down in the bush lights and others. So certainly, there's some signals that are out there.

In terms of our activities, I think our goal is to be very surgical. We're not out here to throw money at everything or everyone. Trying to be very conscious of what we think our customers care about where we can be price compared very readily versus other channels or other retailers in our channel. And again, being more surgical than not. So I wouldn't expect to see a massive change in our gross profit as I communicated earlier. The one category that we'll probably get a little more investment than others is tobacco. But that's going to be in a very structured, thoughtful way. It's not every site, and we're trying different trials to see what resonates most with our customers as we try to drive that volume.

Operator

Your next question comes from Anthony Bonadio with Wells Fargo.

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

I just wanted to ask about M&A dynamics. I know you've already got quite a lot under your belt for the year. But can you just talk about how the pipeline is evolving and how things have trended from a valuation perspective?

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

Yes, Anthony. One, we're excited about the MAPCO acquisition. We've taken on, I think, 73 of the 113 locations, going very smoothly. Our teams are just really, really good at doing this. So we couldn't be more pleased there, and these are great sites for us. Total in 28 days, 2,200 locations. A huge challenge for our European teams, but we've got really good talent in Europe, and I think we're bringing on some really good people. So those two are big lift for us in the coming quarter. But again, I'll remind, I think our decentralized model really is unique and enable us to pursue multiple opportunities. So this, by no way, shuts down our appetite for growth. In terms of the dynamics, I think we're feeling multiples coming off. And that's -- the math would say with higher interest rates, that should happen. There's always this lag between the customer -- or sorry, the seller looking at what they could have gotten versus what they could get today, and that's a period of adjustment.

But we think that's going to happen. Prices are coming down. And then also, I think the credit markets have taken away some of the people that we compete with over the last few years. So combine that with our balance sheet and our appetite, we feel good about the prospects for M&A in the coming years.

Operator

Your next question comes from John Royall with JPMorgan.

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

So my question is on U.S. fuel margin and 1Q had been a big outperformance versus our expectations. But 2Q is flattish, a little bit down and the industry level data I'm looking at which I know has its flaws, but the industry level data I'm looking at is up pretty substantially. So just wondering if you have any color on the 2Q versus the 1Q fuel margin? And anything in particular between those quarters we should be thinking about?

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

I think I touched on it earlier. We feel good about the fuel business. The volume, we think, has looked stronger in recent weeks, really in all of our markets, and the margins continue to be very solid. And as we said earlier, the supply chain continues to optimize and we think extend our advantages. So again, quarter-to-quarter, we'll have some volatility. We always will in the market, but we feel good that the gap versus the overall industry is widening. That the marginal need for margin continues to be higher with the independent competitor out there. And so as we widen the gap and how we buy and we're very thoughtful and deliberate in how we price, we continue to think that structurally, the market will deliver very, very good margins for us.

Operator

Your next question comes from Luke Hannan with Canaccord Genuity.

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

Just wanted to ask about package and dispensed beverage. Encouraging to see the growth that you guys have gotten there so far. My question is, who do you see as your main competitors here? Is it just other larger C-store operators? Is it the independents? Do you include grocery in this as well, QSRs, et cetera? Just curious to know who you see as your main competitors and then also against that competitive set, where are you capturing the most share as of today?

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

So really, maybe 3 pillars in there. So on dispensed beverage, the QSRs are by far largest competitors. The coffee shops and QSRs, both for hot dispensed and cold dispensed. So that's -- we've always had a very strong franchise in the U.S. with Polar Pop. Candidly, we may have taken our eye off the ball on price a little bit there. So we're looking at that to make sure that we're sharp and continuing to grow share in that category.

And then packaged beverage, it's really a take-home occurrence and an immediate consumption occurrence. We think we need to be better at take home. We've got pockets of where we do really, really well. And so we kind of recommitted to being relevant in that category being reliably priced for our consumer on those take homes. And that's not just a traditional sparkling but also take-home energy and things like that. And that's -- certainly a grocery would be our primary competitor in that space. And the media consumption is where our industry just continues to be unique. Our cold holding power, the ability to provide really unparalleled assortment as brands continue to proliferate and use cases continue to flip. We feel good, and we're seeing continued growth in energy, enhanced waters, isotonics. Other than fuel, that's our #1 trip occasion. And so we think that's the biggest lever we have to grow, and we'll continue to focus on being better in that space.

Operator

(Operator Instructions) Your next question comes from Bobby Griffin with Raymond James.

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

Brian, just a follow-up on the tobacco category. Is the weakness in the category just the weak dynamics that we've become used to with less people smoking? Or is the competitive nature of tobacco within the C-store channel changed over the last 6 to 12 months, where there needs to be more bigger changes inside Couche-Tard's strategy towards tobacco in general to maintain and go after market share?

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

Yes, it's a great question, Bobby. If you look at BAC's results, or you look at all 3 years results, you can see their stick performance. And I would say it's been an industry issue. We've actually held share. Our goal is to grow share. So that's the tactics I talked about earlier. But no, I think it's been a combination of kind of normal demand disruption, attrition if you will. That 2% a year type that we've felt layering on some pretty aggressive price increases taken by the suppliers. And then third, just a more cautious consumer. You multiply all those things together and I think that that's what's manifesting a steeper drop in demand than what we've seen in prior years.

So is that transitory or not? I'd like to think it is, but we're going to deal with play with the hand we've been dealt and continue to focus on good value to our customers and piling a lot of different activities and what's the most cost-effective ways to provide value and grow share in that category.

Operator

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

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

Okay. Real quick. Everybody, thank you for the support, but also -- and for those of you that came to Phoenix for our Investor Day and then also have a great holiday season. JP, go ahead.

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

Thank you, Brian, and thank you, Filipe. That covers all the questions for today's call. Thank you all for joining us. We wish you a great day and look forward to discussing our third quarter 2024 results in March. (foreign language)

Operator

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