REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ATD.TO - Q3 2024 Alimentation Couche-Tard Inc Earnings Call

EVENT DATE/TIME: MARCH 21, 2024 / 12:00PM GMT

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

CORPORATE PARTICIPANTS

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

Filipe Da Silva *Alimentation Couche-Tard Inc. - CFO*

Mathieu Brunet

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*

Scott Edward Stringer *Wolfe Research, LLC - Research Analyst*

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

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

PRESENTATION

Operator

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

(foreign language)

I will now introduce Mr. Mathieu Brunet, Vice President, Investor Relations and Treasury at Alimentation Couche-Tard.

(foreign language)

Mathieu Brunet

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 third 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.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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, Mathieu. Good morning, everyone, and thank you for joining us for our presentation of our third quarter results.

As we continue to navigate some near-term headwinds, particularly in the U.S., we remain focused on providing value and ease for our customers with a growing selection of private label options, continued rollout of our Inner Circle loyalty program, which now has 1,600 members, including almost 5 million fully enrolled members in the U.S, and then we continue to execute on recurring Circle K fuel promo days, bringing value to our customers. All these offers are providing meaningful rewards and compelling value, especially for more cash-strapped cost consumers that are out there. However, our business is extremely diversified around the globe, and we feel very good about its proven resilience and the continued focus on our strategy, building on our key points of differentiation with our customers and maximizing the advantages of our scale.

We're especially pleased this quarter with a significant growth in our network. In January, we closed on the acquisition from TotalEnergies, welcoming 4 new countries, nearly 22,000 new team members and 2,175 sites into the Couche-Tard family. We have a strong track record of successful integrations and realization of synergies, and we're proud of how the transition is progressing to date.

We've identified local leadership, rebranded our first 2 Circle K locations, 1 in Berlin, the other in the Netherlands and we're well on our way. We're working closely with our new highly engaged teams to test new programs and share best practices. As previously reported, with this acquisition, we have an ambition to unlock synergies of approximately $187 million over the 5 years, and we have a clear, well-structured plan to make that happen.

We're also advancing nicely on the integration of 112 MAPCO sites that we closed on last quarter, including the rebranding of many of these stores. And we're excited to have these locations and team members as part of our family, as we increase our presence in the southern part of the U.S. On the organic front, we're making good progress on our 5-year goal of building 500 new-to-industry stores. We're on track to open about 100 in North America this fiscal year, and we have a great pipeline for the coming years.

Now, let me turn to the results for the quarter, beginning with our convenience business. Compared to the same quarter last year, same-store merchandise revenue decreased by 1.5% in the United States, by 0.3% in Europe and other regions and by 1.2% in Canada. As I mentioned earlier, these results were impacted by near-term headwinds in the economy, as well as the continued softness in the cigarette category, partly offset by the growth in other nicotine products, which I'll go into more detail later.

It's worth noting that Europe really has had good performance during the quarter with a positive 2.6% same-store sales growth. However, the overall Europe and other region results were impacted by weak results in Hong Kong, driven by a very large tax increase on cigarettes and continued softness in tourism. In the U.S., we continue to focus on the expansion of Inner Circle. As a free membership program with rewards, fuel rewards, food rewards and much more, Inner Circle is providing a differentiated, personalized experience to our most loyal and valuable customers.

I'm pleased to report that registrations and full enrollments have doubled over the quarter, and we continue to see steady growth in enrollments in the program. We now have over 4,000 locations on Inner Circle, and we've expanded to 3 new business units in early March, bringing the total to 10 and covering over 30 states in the U.S. We're seeing that our highest penetration sites that have more than 25% of their transactions coming from Inner Circle are outperforming our non-loyalty sites, and that these loyal customers are visiting our locations more frequently and with a higher basket.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

In Europe, our updated Extra loyalty program continues to perform well, is now fully rolled out in the Baltics, with plans to bring it to Ireland in the new fiscal year. We're also piloting a new tier-based concept in Scandinavia to drive both fuel volume and store traffic, being based on visits versus purchases. Across the network, Fresh Food Fast is now in more than 5,700 locations globally. Over the quarter, our operations teams have focused on improving execution and profitability.

Margins and profitability are up materially year-over-year. However, as we continue this journey in building our food culture, we need to ensure availability and in-stock during our busiest times of the day. In our quest to have our customers have what our customers want, when they want it, while making it easier for our team members, we're excited to be rolling out a new forecasting production tool in North America that leverages AI to more accurately determine demand on a site-by-site and time-of-day basis.

Sampling has also increased across our business units as we promote our food offer and try to gain trial. Winning the thirst occasion is a core part of our long-term strategy. And in this quarter, packaged beverage sales were up across the network, with especially strong performance in Europe due to well-executed initiatives, including the first to launch Red Bull Purple can in Europe and an always-on value, multi-buy beverages in Ireland. Alcohol sales were also strong in Europe.

In the U.S., we announced an exclusive partnership with Warner Brothers and Legendary Pictures in conjunction with the upcoming film, Godzilla x Kong: The New Empire, which will be introducing 5 exclusive limited-time offers, including 2 exciting new Froster flavors and branded cups. Also in the U.S., where alcohol sales have been a bit soft, we're leveraging aggressive promotional activity to drive volume, present value and gain share. As I mentioned earlier, we continue to see pressure on cigarette units globally, while poly usage continues to grow, driving strong growth in other nicotine products in the quarter.

In the U.S., we have initiatives underway with our supply partners, including brand-focused contest and personalization programs for our age verified customers. Here, we're starting to see positive results, with gains in market share as we look to stay relevant and provide choice to our nicotine consumers. In Europe, other nicotine remains strong, with Ireland leading the way, following successful new launches of new products.

Moving to our fuel business. Same-store transportation fuel decreased by 0.8% in the U.S., 1.9% in Europe and other regions and increased 0.2% in Canada. During the quarter, fuel demand was certainly impacted by economic uncertainty, particularly in diesel, which was significantly weaker than gasoline. In that context, when we compare results to industry data and our public peers, we're pleased with our results and remain positive about our long-term initiatives to gain share in the fuel space.

Over the quarter, we had healthy fuel margins across the network, and we're continuing to build value for our customers and business through the optimization of our fuel supply chain globally. While the advantage model we've developed does better in periods of higher volatility, this was not the case this quarter. Our increased trading supply and logistic capabilities continue to capture opportunities. In North America, our partnership with Musket empowers us to explore new and lower-cost sourcing options, while ensuring we maintain supply across their network.

In Europe, our newly built fuel supply and trading capability, which we based in Geneva is moving forward to integrate our supply chains through expanded counterparty engagement and new supply paths. As our B2B business continued with solid growth in Europe, we are gaining traction in the U.S. B2B business, where we believe we have tremendous opportunities, our Circle K Pro proprietary card platform is seeing a positive momentum in volumes as new initiatives and strategic partnerships are bringing in fuel customers, while we continue to invest in developing our U.S. B2B offer with simple, self-serve solutions, easier site experiences and compelling Inner Circle offers.

Also, our network of more than 440 truck high-speed diesel truck sites is growing, as we expand our offer of diesel, DEF and relevant services for the long and short-haul trucking. Our EV fast-charging network now consists of more than 2,400 charging points, including those in our 4 new European countries and 50 charge points for heavy trucks in Sweden. We're seeing a significant increase in charging actions on our Circle K-branded chargers driven by network expansion, improved payment offers and station upgrades, making them easier for our EV customers. In North America, we remain committed to deploying 200 -- charters at 200 sites, and our footprint in Canada now covers Quebec, Ontario, BC and Alberta and 11 states in the U.S.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Before I conclude, I want to mention the important work that we're doing in North America to improve retention and turnover at our stores. Operations-first culture, we're investing in our team members in areas that they (technical difficulty) including benefits, training and engagement. As a result, we're seeing notable improvement in turnover, both in our associate and manager ranks. And we're doing significantly better than the industry when compared to recently released NACS data.

We're also continuing to implement solutions that reduce administrative hours, making it easier for our store teams and allowing them to focus on serving our customers. We are continuing the evolution of our easy office program and gaining efficiency in store labor hours through automation. We're also bringing our successful European inventory management program to North America to help simplify the ordering process and enable more informed store merchandising decisions, which we believe and we've shown in Europe will lead to better to stock conditions.

Now with that, I'll turn it over to Filipe to go more deeply into the results. Filipe?

Filipe Da Silva - *Alimentation Couche-Tard Inc. - CFO*

Thank you, Brian. Ladies and gentlemen, good morning.

Our commitment to disciplined operational cost control has led to a 1.6% reduction in normalized expenses, a performance that is notably better than the weighted average of inflation affecting our business operations. This standout achievement in the quarter highlights our commitment to financial prudence and operational excellence, even amid widespread economic challenges.

A key highlight of our capital structure initiatives this quarter was the issuance of a new CAD 500 million 5-year unsecured notes. Following the end of the quarter, we also priced private debt offerings denominated in both U.S. dollars and euros, achieving combined totals of $1.5 billion and EUR 1.35 billion, respectively, across several tranches. These carefully planned financial actions strengthened our capital structure and set us on a firm path to execute our 10 For the Win strategy successfully.

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 first quarter of fiscal 2024, net earnings attributable to shareholders of the Corporation were $623.4 million, or $0.65 per share on a diluted basis. Excluding certain items described in more detail in our MD&A, adjusted net earnings attributable to shareholders of the corporation were approximately $625 million compared with $741 million for the third quarter of fiscal 2023. Adjusted diluted net earnings per share were $0.65, representing a decrease of 12.2% from $0.74 for the corresponding quarter of last year.

During the third quarter, excluding the net impact from foreign currency translation, merchandise and services revenue increased by approximately $62 million, or 1.2%. This increase is primarily attributable to the contribution from acquisitions, partly offset by softness in traffic. Excluding the net impact from foreign currency translation, merchandise and service gross profit increased by approximately $48 million, or 2.9%. This is primarily attributable to the contribution from acquisitions, which amounted to approximately $75 million, while partly offset by softness in traffic. Our gross margin decreased by 0.1% in the United States to 33.1%, increased by 1.9% in Canada to 34.2%, mainly due to pricing initiatives and increased by 1.9% in Europe and other regions to 39.2%, mainly due to a change in product mix.

Moving on to the fuel side of our business. In the third quarter of fiscal 2024, our road transportation fuel gross margin was $0.4319 per gallon in the United States, a decrease of $0.0366 per gallon, mostly driven by the low volatility of the global fuel markets. In Europe and other regions, our road transportation fuel margin was $0.0856 per liter, an increase of $0.55 per liter. In Canada, it was CAD 0.1299 per liter, an increase of CAD 0.47 per liter. Notwithstanding the decline from previous levels, fuel gross margin remained healthy throughout our network.

Now, looking at SG&A. For the third quarter of fiscal 2024, normalized operating expenses decreased by 1.6% year-over-year. This is mainly driven by the continued strategic effort to control our expenses, including labor efficiencies in our stores. Our Fit to Serve program is well underway and delivering tangible results across the organization. We are enhancing our centralized back office operation by extending its reach to areas such as HR, facility management and customer contact, aiming at optimizing our cost structure by leveraging our scale while improving service levels and capabilities.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Our control of expenses is evidenced by our reduction in normalized expense as disciplined cost control compensated the inflationary pressures, the impact of cost from rising minimum wages, as well as incremental investment to support our strategic initiatives. Excluding specific items described in more detail in our MD&A, the adjusted EBITDA for the third quarter of fiscal 2024 decreased by $18.5 million, or 1.2%, compared with the corresponding quarter of fiscal 2023, mainly due to lower road transportation fuel, gross profit and softness in traffic, as a portion of our customers are impacted by challenging economic conditions, while being partly offset by the contribution from acquisitions, which amounted to approximately $65 million, lower expenses, as well as the translation of our foreign currency operation into U.S. dollar, which had a net positive impact of approximately $6 million.

From a tax perspective, the income tax rate for the third quarter of fiscal 2024 was 22% 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. As at February 4, 2024, our return on equity remained strong at 23.2%, and our return on capital employed stood at 14.9%.

During the fiscal year, our leverage ratio increased to 2.19, mainly due to the acquisition of certain European retail assets from TotalEnergies. Subsequent to the end of the third quarter of fiscal 2024, we issued U.S. dollar denominated and euro-denominated senior and secured notes totaling $1.5 billion and EUR 1.35 billion, respectively. We also had strong balance sheet liquidity with $1 billion in cash and additional $2.8 billion available through our main revolving credit facility.

Turning to the dividend. The Board of Directors declared yesterday a quarterly dividend of CAD 0.175 per share for the third quarter of fiscal 2024 to shareholders on record as at April 1, 2024, and approved its payment effective April 15, 2024.

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.

Again, I want to welcome all of our new TotalEnergies and MAPCO team members to the family and thank everyone for their relentless focus on making it easy for our customers. We feel really good about our resilient and diversified business, relevance to our consumers of our long-term strategy with our differentiated convenience mobility offers and the way in which we're increasing efficiencies and taking advantage of our global scale. We're also significantly expanding our footprint, both through acquisitions and organic growth as we bring increased value to our customers, our team members and our shareholders.

Now with that, I'll turn it back to the operator to answer analysts questions this morning.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Irene Nattel with RBC Capital Markets.

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

Could you provide -- you provided some color, but can you please provide more detail around what you're seeing with respect to consumer spending, where the pockets of weakness and maybe less weakness are? And also notably, what you're seeing in terms of competitive response and how that plays into the gas margin environment?

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Yes. Thanks, Irene. Happy to. In terms of fuel, I think a lot of you would compare us to OPIS, and we pretty traditionally outperformed OPIS by a wide margin. The model we've built, which we've gone up the supply chain a bit in certain key areas and certainly developed the supply and trading capabilities really does and outperforms when we've got periods of volatility that we can take advantage of, whether that be location ARBs, things like that, or buying in multiple different contracts or bases. And it was just a boring quarter, candidly. We didn't have any disruptions in any significant refining pads either in (technical difficulty) or the U.S. And so this can happen. Our margins are not linear or flat. They do us some volatility. But we feel good about the levels we're at and we've seen no consumer behavior -- or excuse me, competitive behavior changes that would lead us to believe that the margin profiles we've had over the last couple of years won't continue.

On the consumer side, on the convenience side specifically, it's really that lower income consumer that we're seeing strain today. One example would be our EBT or SNAP, which is a U.S. federal government program for low-income consumers. Our SNAP volume or revenues were down 40% over the same period last year. And that's just a sign that consumer is being more value conscious and we're seeing that show up in trip consolidations with the center store. So if you think about salty confectionery grocery is certainly the softest part of our business, while the beverages, which we think is a continued opportunity for both our industry and for Couche-Tard Win, continues to perform fairly well. It was plus 2% in the U.S. as an example. So again, it's that low-end consumer. And we can look geographically and see that where we've got lower income consumers, our results are worse and where we've got higher-income consumers, the results are pretty stable.

Operator

Your next question comes from the line of 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 gross margin performance specific to the U.S. merchandise business. Sales mix had been a tailwind in previous periods. And obviously, that didn't net out at least to a benefit this period. If you could just talk about sort of the drivers on the U.S. merch gross margin number and specifically the impact of sales mix.

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

Yes. Thanks, Mark. Really, we signaled last quarter that we're going to make some investments towards the nicotine consumer and that's really what you're seeing here. We've been pleased with our results. We were really mirroring the industry. If you looked at Altria and Reynolds results, our volumes were very similar this quarter with, I think, some very strategic investments. We performed significantly better than overall industry in terms of tobacco units, but that has come with some investment in that category. So, that's really been the driver. On the positive side, our beverage margins continue to be solid and the food margins are up almost 600 points over prior years. So again, we're very much still in infancy in the food journey, but pleased that the profitability continues to improve dramatically. So, you combine all that, but cigarettes is the biggest factor to your question, Mark.

Operator

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

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

Brian, in your earlier comments, you talked about your diversified business and how you feel good about its resilience. And I'm wondering, I guess, how long do you expect this -- some of this softness to last at this point and affecting some of that leverage that you've been getting, particularly with the strong operating cost performance. And then I know it's early in the 5-year program, but at what point does the softness in consumer

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

spending raise concerns about the organic growth components in that plan and you have some buffer in the cost savings or margin side to offset that shortfall, if any?

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

Yes. I'll let Filipe talk about the cost program. We've been very pleased with that. But he can go in more detail. In terms of the consumer, we absolutely believe it's transitory. We've got a segment of our consumer base that is strained and our focus is on providing them value and ease. That's why we're excited about our Inner Circle loyalty program that allows us to be very targeted, providing value to our most valuable customers on a very targeted basis, both in fuel and merchandise. And we think it's differentiated from a lot of the points or earn-burn programs that are out there. So, we think that's going to help us gain share and gain traction.

If you look at across the categories -- and I'm focused on the U.S. right now, but the story is really the same in Europe and Canada. We've gained share in the majority of our categories. And so as we emerge and cycle that, when we say cycle, I would say late Q1, early Q2 will really cycle some of the pressures that not only we, but you look at our public comparators or really adjacent retail channels have shown the same weakness in that low-end consumer. We think we largely cycle that again, end of Q1, early Q2 in our fiscal year. But again, gaining share fuel, gaining share merch, and we'll help the consumers get through this.

Filipe, do you want to comment on the cost side?

Filipe Da Silva - *Alimentation Couche-Tard Inc. - CFO*

Yes. So on the cost side, yes, we feel good about what's happening across the organization. As I pointed out in my comments earlier, normalized expenses have been going down by 1.6%. We see good productivity traction in stores, 2.8% lower hours compared to last year, again, across the regions. Coming to the Fit to Serve program, you know that we have announced $800 million program over the 5 years.

I'm happy to say that we have done significant progress in identifying and feeling comfortable about achieving this $800 million sooner than the 5 years that we announced. Just on the G&A, we had an ambition to find $50 million savings. I can tell you already that we already achieved that. So, we are really doing very strong progress on the cost program. And to your question, yes, we feel that we will be able to continue to see a good performance on the expenses side over the next quarters.

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

So, no concerns on the 5-year plan at this point, despite the short-term weakness in the consumer?

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

No. I think the key initiatives that we're focused on, we believe in, and again, we think that this is transitory. We don't think this weakness in that consumer base will persist over multiple years. And our focus is on continuing to build the advantages that we think we have today and widening them. And I'd remind too, this is probably, I think, the second quarter in my entire career that we've ever had negative comps. So, we're certainly taking this very seriously and focused on how do we help this customer. If you look at the 2-year stack, we had a strong quarter last year. So, 2-year stack is still -- I'm talking U.S. specifically is still plus 3.3. So again, I think we'll cycle this and continue to gain share in our key categories.

Operator

Your next question comes from the line of Chris Li with Desjardins.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Brian, just I think you've sort of answered this a bit earlier. Just maybe going back to the U.S. fuel margins. If you look at some of the industry data, I think late January and February and March, so far they have kind of tapered down. And I'm just wondering if you can share with us your thoughts of what's driving that softness? Is that just, again, lack of volatility in the markets? Or is there anything sort of more structural within the industry?

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

Yes. Again, I don't see changes in competitive behavior that would make me believe that something's changing. Industry, it's no secret, we get compressed when prices go up. We benefit when prices come down. Price -- when underlying costs don't do anything, eventually that margin gets compressed. And that's just been the way it's been my entire career. And this has just been a very flat quarter. No hurricanes, no major refinery issues in any parts of our geography. And again, that differentiated margin that we've been able to deliver quarter after quarter does best have some volatility. So, I've got no concerns. I think short term, we've got some pressures, but I don't think they're structural. I think it's more just the nature of the behavior of the market in recent quarters a response.

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

Okay. So, you're still very happy with sort of, I think, your low $0.40 long-term target still very good?

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

Yes. I think 4 is a really solid number. And again, I think our opportunities to outperform the industry are more in those periods where we've got volatility. And that will happen. That will happen. I'd call it more unusual than not to have something as boring as this quarter's been, candidly.

Operator

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

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

Brian, there's one thing that we've been looking at and we're just trying to wrap our heads around it, is you even got a slide on it on your quarterly presentation is the industry breakeven point has come down quite a bit compared to fiscal '21. But the industry's actual gross profit on a cents per gallon basis has really improved over that same time period. So whereas before the industry's breakeven point was worse than their actual gross profit, it's now reversed. And we're just wondering what you think about that with respect to how much other operators are leaning in on fuel margin, or maybe less so now? I do understand that fuel volume and the cigarette category is still weak. So, maybe that suggests what you're seeing out there. People are still somewhat relying on fuel margin. But just find that reverse of breakeven to actual gross profit interesting. And so we just wanted to hear how you're thinking about that and if you're seeing anything different with respect to this dynamic.

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

Yes. Thanks, Tamy. I'd be cautious about looking at that industry breakeven data on a quarterly basis. I think about it in terms of longer-term structural components. And when I think about the industry having fairly soft cigarette demand and some players not being as active in the poly space, that's pressure. When I look at overall performance or inflation, you can call it 3.5, you can call it 4, depending on the market. We've been proud of our performance. So, I think we've underperformed -- we've outperformed inflation significantly. I don't think the industry has done that.

So when you look at those 2 big components and then just overall weakness in that low-end consumer, my belief is that industry needs on fuel EPG are actually continuing to go up. And to that extent, we're focused on just making sure that we leverage both the scale that we have, the

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

diversified geographic footprint and then creating a better consumer experience for our customers and our stores, and gaining share in that category. We feel good about our long-term prospects to gain fuel market share.

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

Okay. And so I'm pivoting here. That's helpful. On the merchandise, so gathering from your answers to other questions, would it be fair to say that the sequential deterioration in the U.S. merch comp is from that income group? Whereas the challenges you've been experiencing on cigarettes, given some of the investments you did this quarter, would you say that dynamic is somewhat stable or maybe you got a little bit better volumes on cigarettes this quarter versus [Q2]?

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

Yes. Certainly, when you look at our tobacco category, we feel good about the trends we have in units, which equates to trips, right, and that also equates to basket. We're not done with that journey. We're excited to be rolling on to Altria's personalization program, which allows us to distribute electronic coupons to millions of our customers that are funded by the supplier. That's something that is really available to only change of some scale. So, we think we can continue to do significantly better than industry on units. But Tamy, that certainly puts some deflation into that category. So when you look at our same-store performance in the U.S., if you took out tobacco or took out cigarettes specifically, it would be better than that. But again, we're building basket, we're working on traffic, so we think it's the right investment to make.

Operator

Your next question comes from the line of Vishal Shreedhar with National Bank.

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

I was wondering if you can talk to us about what you're seeing in the M&A market, what you're seeing about multiples, and if you can remind us again what your focus is on in terms of M&A?

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

Yes. Thanks, Vishal. We continue to say that we'd love to do more in the U.S., which is probably our best market for synergies and then being opportunistic in Canada and Europe. Without going into detail, I would say that the deal flow has been good, probably the best I've seen in 4 years or 5 years in terms of the number of opportunities that are out there in front of us. There's not been a lot that's closed. A lot of this has been newer. So in terms of price, I'll refrain a bit.

I certainly feel less competition from the private equity space than we had over the last 3 years or 4 years. Yes, I think there's an opportunity to get some things done at a better price and some of that just has to happen with the interest rates being where they're at. And that's why I'll continue to be pleased that we're investment grade and have a balance sheet that's really for almost any opportunity that's out there in front of us. So, our appetite is there and we're actively looking at some things.

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

Okay. And maybe just in terms of the cadence of the investment that is made in order to accelerate that tobacco customer and just reinvigorate the merchandising business. Is that complete? Or do we expect more of that to heighten into the next quarter before you anniversary that?

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

I don't think that we need to go deeper. So if the question is around margins, I think the investment level we're making today and then the partnership that we have with Altria, which is Marlboro in the U.S., which is largely funded by them, that the activity we have out there, combined with our Inner Circle program that allows us to be even more targeted. I feel pretty good that the investment level we're at today will allow us to continue to significantly outperform industry and boost traffic in that category. And again, that's a great basket. That's just a great customer to have.

Operator

The next question comes from the line of Bonnie Herzog with Goldman Sachs.

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

All right. So, I had a question on how you're balancing pricing at the pump in the U.S. to drive traffic and then share, while at the same time trying to continue to capture these strong fuel margins. I guess, when looking at the quarter, it seems like you were more aggressive with pricing at the pump. So, hoping to hear a little bit more color on your strategy with that. And then could you touch on any changes you're seeing with conversion inside your store in light of the negative inside same-store sales? And I'm just wondering, are you seeing conversion moderating? And if so, are there any other initiatives you might have to implement to maybe drive better conversion going forward?

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

Thanks, Bonnie. Fuel pricing, we strive to be very consistent, provide a very consistent value message to our consumers every day. So, we measure our deltas to our competitors, both near and far on a very systematic basis and we've remained very constant. And when we look at competitors, again, we don't see a big change in behavior and certainly, we don't think we've changed our behavior. And again, it's around providing very consistent value.

In terms of the pump experience, it's kind of a tale of two cities, that low-end consumer or 2 worlds, if you will, that low end consumer, certainly reduction in trips, so less frequency, less traffic. And I think that's showing up inside the store too, particularly center stores, I said earlier. But then we've got a broader consumer base, which is the fill per trip is actually up pretty significantly, which means there's a segment of that consumer base that's feeling pretty good or feeling normal.

And so our fill has gone up almost a gallon per stop. So, that's a positive. And premium has also gone up. So, our premium penetration in Europe and U.S. has increased year-over-year. So again, that's a strong consumer sign. But again, more fills, more gallons per stop, or more liters per stop does equate to less stops. So that's also maybe pressured the inside store a little bit, but I don't think it's material. I really think it's that low-end consumer that we're feeling today.

Operator

Your next question comes from the line of George Doumet with Scotiabank.

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

Brian, I know it's early days, but can you give us an update on TotalEnergies? What are some of the learnings in the first month of operation? How's the integration going? And do we see some upside or perhaps quicker realization on the EUR 170 million synergy target?

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Yes. Thanks. We're pumped about it. We've met great people. You always wonder what's the culture going to be like and how will this work with new countries. But I think we've got a team that's just happy to be a part of a family that's focused on their business. We've done a couple of pilots. We'll call them technical pilots, but including the brand. We've got Circle K fully branded at 2 sites, but we've got more sites where we're testing coffee, we're testing beverages, we're testing some of our food offers and we're very pleased with the early results.

Like most acquisitions, it's 1,000 different things, 1,000 different opportunities. We've got them documented. We've got action plans prioritizing the big ones. And I'd signal today that the synergy target that we've got out there, we think we can front load the majority of that into the 2-year to 3-year period versus the 5. So, again, very pleased with the start and just thrilled to have the talent that we found there over the last 90 days.

Filipe Da Silva - *Alimentation Couche-Tard Inc. - CFO*

Maybe to complement Brian on the TotalEnergies, on the synergies and to add on the confidence that we have on the synergy completion, we see a great potential on the COGS side. So, leveraging our scale on negotiating with vendors and also on the operating cost side as well, we can confirm that we see a lot of potential there. So, yes, very confident on the synergy side.

Operator

(Operator Instructions) Your next question comes from the line of Martin Landry with Stifel.

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

I would like to dig a little bit more into the U.S. merchandise sales, more on the tobacco category. Just to be clear, is the entire tobacco category down on a year-over-year basis this quarter?

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

Yes, Martin. Thanks for the question. Yeah, I mean, both Altria and Reynolds via BAT are public companies. You can see the industry results. Minus 8, minus 9, I think would be a fair number in terms of units. And that's been triggered, I think, by some pretty active price increases by key suppliers in the industry and at the same time, a pressured lower-income consumer. And I think in some cases, we've hit a tipping point there that's really driven that. So as we've invested in that category, we're doing it at a very targeted basis. Our performance in recent weeks and months has been significantly better than industry. And this is on combustibles.

The poly side is a good story. We continue to see strong conversion in positive unit and sales growth on the new nicotine categories. And so we think about whether it's white nicotine or vape or things like that, they continue to be strong growth and those are higher margin and higher ring categories for us. So that's not all bad that we see the combustibles decline, because again, there's a big part of that is converting to other ways, healthier ways to consume nicotine. So again, we're trying to balance the investment into both sides and our commitments to outperform the industry -- our internal commitments to outperform the industry on units and make sure that we're providing value to those customers.

Operator

Your next question comes from the line of Anthony Bonadio with Wells Fargo.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

So, I just wanted to ask about fuel margins in Europe, given those came off quite a bit sequentially. I know you guys have some upstream commodity exposure and we've now got TTE layering into that number. But can you just talk a little bit more about what drove that and how we should think about modeling?

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

I'd say Europe's been pretty stable. When you see volatility, it largely is inventory gains and losses. The street margins that we've experienced in Scandinavia, Ireland being our largest markets been pretty consistent. Bio is a component that's different this year. We had a couple of large countries, particularly Sweden, back off of their bio mandates. So, HVO 100 things like that, renewables. And so that's an area that, again, when there's market volatility with our supply capabilities, we tend to benefit more than most in those periods. And so that's been a factor in Europe, the HVO being a smaller part of the business. But again, I'd say most of the volatility you see would be just the fact that we hold more inventory. We own our own terminals and supply chains in, I think, every country we have. So, that's what you're seeing there. The competitor dynamics have been very consistent.

Operator

Next question comes from the line of Luke Hannan with Canaccord.

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

Brian, you touched on in your prepared remarks that you witnessed some softness in the alcohol category as well. I'm just curious, is that related to category-specific dynamics? Or is that stemming from the weakness in the overall consumer?

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

It's the latter, Luke. Again, you can look at AB or Constellation's results. We see continued strength in Mexican imports, things like that. But there's certainly a trade down happening in that lower-income consumer base and probably some value seeking we see in our own business. Private label continues to grow at double-digit rates. So, those things are signals that there's trip consolidation happening. You're seeing, I think, Walmart benefits from some of the large take home categories in that space. Our focus is on continuing to provide the right level of value, but then also our industry is just unparalleled and its ability to deliver assortment to our consumers. And that's really our focus. We've just got to continue to act more local and make sure that we've got what the customers need there in that category.

Operator

Your next question comes from the line of John Royall with J.P. Morgan.

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

So, I had a follow up on Europe. Can you talk about how fuel demand has compared in the Benelux and Germany regions that you just picked up from Total relative to the legacy Europe and other region where you've had some, I think, declining same-store gallons for, I think, 7 quarters? Is the dynamic similar in these new regions in Europe? Or should we expect any mixed impacts kind of one way or the other?

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

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

Yes. It's a good question. I would say that, I think about these countries being very similar to our Scandinavia and Ireland business. We've got Eastern Europe for the Baltics, Poland, just more stable. EV penetration is negligible. We're starting to see penetration in certainly Scandinavia, which is not new. And then also you think about Germany or Belgium. They're on a, not the same curve, but they're on an EV curve as well.

So, I think our expectation between fleet efficiency and EV is that the curves in those new countries will be very similar to what we see in our Western European countries. So to that end, we're focused on making sure that we're rolling out chargers with the best possible experiences to those customers and winning share. We were very pleased with our business in Scandinavia, and look forward to rolling out similar offers and loyalty programs to our new countries.

Operator

(Operator Instructions) Next question comes from the line of Greg Badishkanian with Wolfe Research.

Scott Edward Stringer - *Wolfe Research, LLC - Research Analyst*

This is Scott Stringer from Wolfe Research on for Greg. I was wondering if you could provide any commentary on how you expect fuel gallons to trend through the remainder of the year, just given the weakness in the consumer here?

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

I think near term, we would expect what you see now to continue. Diesel demand continues to be weak. And to me, that's a leading indicator of some softness in sectors of the economy. As I said earlier, I think when we think about cycling this late Q1, early Q2, we would cycle some of this weakness and expect to get back to more normal trend. But again, in near term, I think the trends you're seeing are consistent. But again, we're pleased with our fuel volume performance in both Europe and in North America compared to our public competitors, compared to what we're seeing out of government data. So, we continue to take share and we'll continue to focus on doing that rateably over a long period of time.

Operator

At this time, there are no further questions. I'll now turn the call back over to Mathieu Brunet for closing remarks.

Mathieu Brunet

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 fourth quarter results in June.

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

Thank you.

Filipe Da Silva - *Alimentation Couche-Tard Inc. - CFO*

Thank you.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect. (foreign language)

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.

©2024 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.