



Parkland Corporation

Q2 2024 Analyst Conference Call

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TD Cowen – Analyst

Ben Isaacson

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Raymond James – Analyst

Gabriel Chiu

National Bank Financial – Analyst

PRESENTATION

Operator

Good morning. My name is Chris, and I will be your Conference Operator today. At this time, I would like to welcome everyone to the Parkland Q2 Analyst Conference Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star two.

Thank you. I would now like to turn the conference over to Valerie Roberts, Director, Investor Relations for Parkland. Please go ahead.

Valerie Roberts — Director, Investor Relations, Parkland Corporation

Thank you, Operator.

With me today on the call are Bob Espey, President and CEO, and Marcel Teunissen, Chief Financial Officer.

This call is webcast and I encourage listeners to follow along with the supporting slides.

We will go through our prepared remarks and then open it up for questions with the investment community. Please limit yourself to one question and a follow-up as necessary, and if you have other questions, re-enter the queue. We would ask analysts to follow up directly with the Investor Relations team afterwards for any detailed modeling questions.

During our call today, we may make forward-looking statements related to expected future performance. These statements are based on current views and assumptions and are subject to uncertainties which are difficult to predict. These uncertainties include, but are not limited to, expected operating results and industry conditions among other factors. Risk factors applicable to our business are set out in our annual information form in management's discussion and analysis.

We will also be discussing non-GAAP and other financial measures, which do not have any standardized meanings prescribed by the IFRS accounting standards. These

measures are identified and defined in Parkland's continuous disclosure documents, which are available on our website or on SEDAR Plus. Please refer to these documents as they identify factors which may cause actual results to differ materially from any forward-looking statements.

Dollar amounts discussed in today's call are expressed in Canadian dollars unless otherwise noted.

I will now turn the call over to Bob.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Thank you, Val, and good morning, everyone. We appreciate you joining us today.

I am very proud of our accomplishments in the second quarter, which demonstrate the quality of our business and the capabilities of our team. Following a slow start to the year, we delivered a record Q2 with Adjusted EBITDA of \$504 million. This is consistent with a \$2 billion run rate, despite pockets of economic weakness and continued underperformance in our U.S. business.

After the unplanned refinery outage in Q1, it was running at full capacity in Q2 and continues to perform well. We set a new co-processing record for the quarter, which provided an opportunity to capture additional margins. Our U.S. business has made significant improvements and is trending to plan except for our Florida retail and supply business. This is an ongoing area of focus for the team.

As you read in our news release, we have lowered our 2024 full year Adjusted EBITDA guidance to between \$1.9 billion and \$2 billion. This represents a recovery from our Q1 Burnaby unplanned refinery shutdown due to cold weather, however, reflects ongoing weaknesses in the consumer and fuel demand in some markets due to ongoing macroeconomic trends.

As you know, the Parkland team likes to win. We are focused on executing our strategy and improving our returns, specifically by growing our market share through investing in our brands and customer experience and building our supply advantage across our business through a common supply platform, ensuring we can sustain future growth by investing in our core processes and systems. This gives me confidence in our ability to finish the year strong, en route to achieving our 2028 targets.

With that, let's turn to Slide 3 to review our Q2 results in more detail.

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Thank you, Bob, and good morning, everyone.

In the second quarter, Parkland delivered Adjusted EBITDA of \$504 million. This is up 7 percent from the prior year and is, as Bob indicated, one of our best quarters on record. Every segment delivered year-over-year growth, except for USA, which represents approximately 10 percent of our total Adjusted EBITDA.

Canada was up 15 percent year-over-year with an Adjusted EBITDA of \$172 million. This performance demonstrates consistent execution, the ongoing uplift from organic growth investments, and the successful integration of strategic acquisitions such as Husky and Vopak. Canadian fuel margins remain strong through the quarter, and we maintained market share after growing it materially earlier this year.

Many of our peers have spoken about the macro environment, so I'll provide some colour on what we are seeing in terms of consumer behavior. While overall commercial demand was weak in the first quarter due to warm weather, we saw this recover in Q2, and our results are tracking to plan.

Conversely, retail consumers are feeling stretched with overall discretionary spending down versus both the prior year and quarter. Retail fuel volume demand was weaker during the quarter, particularly in June, as the start of the driving season was slowed by poor weather and resulted in fewer people on the road.

While consumers in each market are different, this macro environment has resulted in some seeking value in response to increasing costs of living. Across the country, we saw lower volume fills but a higher frequency of visits from our customers. In B.C., where pump prices were the highest in Canada, we saw the largest volume decline. In that province, some consumers are crossing the border to the U.S. to purchase fuel, convenience items, and groceries. We believe these effects are transitory.

While we don't control the macro environment, we do control how we react to it. We have demonstrated capability to continuously evolve our customer offer as their needs change due to economic pressures. During the quarter, we attracted consumers to our sites with targeted fuel incentives, in-store convenience offers, and cross-promotions between the

forecourt and backcourt. Through the quarter, food and convenience growth margins remained robust at 35 percent, and our basket sizes remained steady.

The Ontario government announced their plan to expand the sale of alcohol in convenience, grocery, and big box stores by the end of October 2024. In addition to providing consumers with more convenience, this will create new revenue opportunities for our ON the RUN convenience stores. Driven by the work we have done to optimize our store design and merchandising capabilities and our experience in the alcohol category in Quebec, we aim to sell alcohol in 120 stores by the end of the year. We expect this will become a top category for us and help bring more consumers into our stores where we can cross-promote other items.

Our International segment delivered Adjusted EBITDA of \$182 million in quarter two. This is 8 percent higher than last year. We continue to see strong demand with good unit margins in the region, and in Guyana demand returned to normal after a softer Q1.

During the quarter, we benefited from an extended tourism season and ongoing supply optimization, and I'm pleased to report that our operations sustained minimal damage during Hurricane Beryl shortly after the quarter. We are bullish on the growth prospects for the region, where the macroeconomic environment is much more constructive. We are well positioned to participate in expected economic growth in fast-growing economies such as Puerto Rico, Jamaica, and the Dominican Republic, as well as in the tourism and natural resources sectors.

Our USA segment delivered Adjusted EBITDA of \$49 million in the quarter. This is down from the prior year, but up nearly 50 percent from Q1. Across the U.S. market, unit margins improved as wholesale prices were declining most of the quarter. We continue to see declines in retail and commercial fuel volumes across the U.S. compared to 2023, and specifically in the markets we operate in. We believe these are driven by higher fuel prices, weather, changes in consumer behaviour, and some indications of economic slowdown.

If we look at our U.S. business by region, we see differences in performance. Our northern mid-continent business, which includes Idaho, Utah, Montana, and the Dakotas, is tracking to plan, despite some industry-wide volume declines. There, the team has been able to offset these trends with targeted cost-saving initiatives. These include over 300 staff reductions since January 2023, the elimination of 150 underutilized trucks, and the consolidation of regional branches.

In Florida, the commercial business is on track, but our retail and supply business have yet to reach their full potential. Following the loss of market share in the first quarter, we went back to our suppliers and are renegotiating pricing that was negatively impacted our competitiveness in the region.

We are encouraged by the improvement in the U.S. in the second quarter. However, there is more work to do. The team remains focused on executing our integrated strategy, rebranding stores, implementing merchandising and procurement initiatives, and optimizing our labor and logistics operations.

Our refinery segment reported Adjusted EBITDA of \$121 million, which is 11 percent higher than last year. The refinery delivered composite utilization of 98 percent during the quarter, including record co-processing volumes of 3,000 barrels per day. We expect high utilization rates for the remainder of the year, and while the crack spread environment has softened in Q2, refining margins are now in line with our mid-cycle planning assumptions.

Across the business, we remain focused on improving our cost base. Both OpEx and MG&A were lower year-over-year as the impact of inflationary pressures was offset by successful ongoing cost-saving initiatives.

Parkland delivered available cash flow of \$831 million on a trailing 12-month basis, or \$4.75 per share. This is up more than 50 percent from 2023. Over the past 12 months, we used these funds to invest in organic growth initiatives, pay our increased dividend, reduce debt, and buy back more than 3 million shares. This balanced approach is in line with our capital allocation priorities communicated last year.

During the quarter, we maintained a leverage ratio of 3.1 times. Without the impact of unfavorable foreign exchange, our leverage would have been 3 times. We continue to see a clear pathway to reducing leverage to the low two times by the end of 2025.

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

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Thanks, Marcel.

In addition to delivering strong quarterly results, the team continues to focus on improving returns from strategic acquisitions through integration and synergy capture. I

am pleased with progress we have made with many of our recent acquisitions, including Husky, M&M, Bowback, Jamaica, and our joint venture in Dominican Republic. We are implementing tactical improvements in Florida. These actions aim to increase margins, reduce costs, and optimize in-store results through refreshed merchandising strategies, rebrands, and targeted promotions.

The U.S. team is making sound progress on integration. Examples include optimizing scheduling practices, which will reduce retail site labor and overtime by over 300,000 hours per year, refreshing more than 40 ON the RUN sites, which includes an in-store upgrade and merchandising plan, along with major site upgrades to truck stops, and divesting of several non-core commercial operations and retail sites, which will simplify operations and improve returns.

I am encouraged by the improvements the team has been able to make in the USA. While certain supply margins were challenged during the quarter, we have seen these subsequently improve and I know our talented supply team will be able to take advantage of this to improve results. I have confidence that the team will overcome these temporary setbacks and deliver the run-rate EBITDA that was previously guided in the upcoming quarters. We continue to invest in accretive organic growth and optimization initiatives. Parkland has achieved significant scale through M&A and there are many opportunities within the existing platform to further strengthen our customer and supply advantages.

As laid out in our five-year capital allocation framework, we have earmarked 25 percent of available cash flow to grow the business organically. This includes strategic investments in our refinery, marketing businesses, and supply platform, which targets 15 percent unlevered IRR.

Optimization work is currently underway to implement an enterprise-wide ERP platform, which will lead to more consistent and efficient execution of our business processes and integrated artificial intelligence in our operations. We have also centralized our supply and trading organization, which will help us leverage the global scale of Parkland for lower-cost product and better manage our commodity exposure across the business.

Ultimately, we are strengthening our existing business platform to support future growth. This includes the simplification of our business through the disposition of non-core assets, which will streamline operations and reduce overhead.

We recently announced the agreement to sell our Canadian commercial propane business for cash proceeds of \$115 million, plus a 10-year exclusive supply agreement to

the new owner. We also continue to advance the retail disposition plan with sites in Canada and the U.S. being in progress.

At the end of June, more than \$460 million are included in assets held for sale on our balance sheet and have received or entered into agreements for approximately \$200 million of cash proceeds to date. I am confident we will achieve our target of \$500 million by the end of 2025.

JOURNIE is another critical part of our business platform and customer advantage. It is an example of the capability we are building for future growth. It has grown significantly since being launched in 2020 and is one of the top loyalty programs in Canada. In addition to partnerships with CIBC and Aeroplan, we continue to expand our ecosystem in the second quarter through a pilot with Walmart Canada. Partnering with these super brands offers consumers tremendous choice, and value and broadens the reach of our fuel and convenience brands.

In closing, I am proud of the team for delivering an excellent quarter. The second quarter has demonstrated our run rate, and we continue to focus on improving our business despite some softness in the economic environment.

We continue to focus on delivering the strategy outlined in our Investor Day that will create shareholder value in the long-term. These activities put us on track to deliver our 2028 ambitions related to leverage, Adjusted EBITDA, and cash flow per share. We have an amazing team at Parkland, and I have every confidence that they will succeed.

Before I turn it over to the Operator for questions, I would like to personally thank Steve Richardson, the Chair of the Board, who has announced his retirement, for his leadership and dedication over the past seven years. Steve has made significant contributions to Parkland's growth and governance. While Chair, he stewarded a strategic board renewal process that led to the recruitment of highly qualified directors, including the recruitment of Mike Jennings as his successor.

Mike joined the Board in February 2024 and is a highly experienced executive with over three decades of international integrated energy experience. We share confidence in Parkland's strategy and growth trajectory, and I look forward to working with him in the interest of all shareholders.

With that, I will turn it over to the Operator for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging a request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Michael Van Aelst, TD Cowan. Michael, please go ahead.

Michael Van Aelst – Analyst, TD Cowen

Thank you, and good morning. I just wanted to start on the U.S. side. This is three quarters in a row where U.S. retail fuel volumes were under pressure. Bob, I know you alluded to it in your opening remarks, but can you just give us some more colour as to whether the problems that you are seeing in the Florida division are the same problems that you pointed out a few quarters ago, where I think it had more to do with pricing, your price optimization software, and things like that? Are the problems the same, and what are the more specific solutions to addressing this and getting it back to the number, because you did express some confidence in hitting your targeted run rate within the next couple of quarters?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes. Good morning, Mike, and thanks for the question. We see across the U.S., we do see some headwinds on volumes, both in our retail and commercial business. With that, I would say our northern business and commercial business within Florida are on track or at expectation at this point. As you pointed out, we continue to see some weakness in our Florida business. The root cause of that is two items. One is, again, we have seen volumes come off. We've had a margin issue there because some of the supply contracts that were previously negotiated didn't give us enough room to maneuver in a tough price environment. We're in the process of fixing that, and that will enable us to be more responsive on the pricing side.

I would say the team has worked hard there to make a number of improvements, many of which both Marcel and I alluded to in the script, but there's still work to do specifically around supply, which will enable a more dynamic pricing environment.

Michael Van Aelst – Analyst, TD Cowen

So, the volume reduction is due to your lack of competitiveness?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes. Again, in overall, the business has had some—the macro environment has been tougher, and we do see volumes down. When we look at Opus comps and peel out Florida, we're roughly tracking to where industry is. Florida has underperformed, and again, with the right supply in place, we expect to be able to recover that and be more responsive on our pricing.

Michael Van Aelst – Analyst, TD Cowen

Okay. When would you expect these new pricing agreements or supply?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, look we're in markets negotiating that right now. We want to make sure we get the right deal in place before we lock in, so the team's working on that. Expect that presumably to be done in the quarter, and we'll see the full impact of that in Q4.

Michael Van Aelst – Analyst, TD Cowen

Okay. Thank you. I'll get back in the queue.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Thanks.

Operator

Thank you. Your next question comes from Ben Isaacson, Scotiabank. Ben, please go ahead.

Ben Isaacson – Analyst, Scotiabank

Thank you, very much, and good morning, everyone. Bob, two questions for you. First one is, you mentioned in your script that supply margins are already beginning to improve. Can you just give us a couple of examples of where you're seeing that and the magnitude of those improvements?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, when you look at our business, there are a number of key supply differentials that we look at on a continual basis, and I would say two of those which have been depressed would be going into the U.S. business. The first is north to south, so out of Canada into the U.S. Particularly in Q2, we had a tough environment where those differentials tend to be quite constructive to us, and they basically were on a neutral basis. We have seen that start to recover here in the early days of Q3.

Then also, we do have a pipeline position that goes from California into Nevada. Again, in the first half of the year, there was some pressure there, and we have seen that recover here in Q2. Why was that? It goes back to the fundamentals in the market where we've seen slow diesel demand and a market that's usually tight to short. There was excess diesel in the market, and that put pressures on those differentials. We have seen some refiners cut back on diesel runs, which has enabled the market to recover. Again, that with some planned shutdowns should enable that differential to recover for the balance of the year.

Ben Isaacson – Analyst, Scotiabank

Thank you. Then just my follow-up, maybe similar to Mike's question, if we look at Canada volume, we've seen year-over-year declines three quarters in a row. I just want to understand, can you parse out how much of that is macro or structural or just even adjustments to your portfolio?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

I think when you look at our business, there's sort of three chunks to the volume. The first is the retail, which again, in our corporate side and in actually corporate end dealer, we're lapping a tough comp. Last year we had 9 percent same-store sales growth, and this year we're slightly lower than zero. Overall, if you look on a 24-month trend, the trend is very constructive. Again, lapping a tough quarter. Commercial, which is our diesel channel, we're holding in year-over-year. Then the third is our wholesale channel, where volumes

are lighter. Again, in our wholesale channel, we're selling to other smaller independents in the marketplace, and some of those have been feeling more pressure than us in a tough market.

When I look at the core volumes in terms of core retail business, our company network is in fact tracking up. Our dealers are slightly off, and then our core commercial business is certainly on track right now, and it really is that wholesale business. That's also a factor in the U.S. and then in international. Again, it's that marginal sale that really isn't driving a lot of gross profit.

Ben Isaacson – Analyst, Scotiabank

That's helpful colour. Thank you very much.

Operator

Thank you. Your next question comes from Adam Wijaya, Goldman Sachs. Adam, please go ahead.

Adam Wijaya – Analyst, Goldman Sachs

Hey, thank you for taking my questions, and good morning, Bob, Marcel, and team. I really wanted to start on the international segment. When we look at this segment versus our model, we've seen relatively strong performance here. Maybe drill down on what you're seeing real-time from an end-market demand standpoint, and then talk about where demand is either surprising to the upside or the downside versus your expectations.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, it's interesting. This is the beauty of the Parkland diversified portfolio, where while we have seen some challenges in our North American business, Canada, and the U.S., the international is kind of the opposite. There we've continued to see robust demand across all of our segments. I'll point to a couple, our commercial business, particularly in Guyana, where we are a key service provider into the oil exploration business, we've seen that be very robust, and it shows that continued demand growth because exploration continues to grow. Again, we're the prime supplier into that market in diesel. So very pleased with that.

Overall, natural resources have been robust. The other big sector is gold. What we're seeing is certainly in the commodities that are present in market, we're seeing continued high prices and driving demand. Then the other thing is tourism. Tourism lasted a little longer. There were some international sporting events in the market that drove people in. Also, we continue to see people go into the market to vacation.

I would say those are the two primary drivers, and they manifest themselves in the tourism driven markets and retail. Again, retail kind of floats along with the economy. The second thing is jet fuel. Demand was really good as people were moving in and out of the market. Then finally, distillate, again, mainly driven through our natural resource market. Overall, very pleased. We did see some drop off in wholesale. Again, these are the marginal sale for us, and we'll pull out of those when we can't get enough margin to justify the underlying working capital in the business.

Adam Wijaya – Analyst, Goldman Sachs

Got it. That's super helpful. Then maybe just wanted to switch gears here and ask about the leverage profile. For the quarter, leverage ratio came in at 3.1 times, which was relatively flat, quarter-over-quarter. Given the current margin environment and some of your commentary on the macro, how should we be thinking about the cadence of the leverage reduction? Then maybe put that in the context in terms of shareholder returns as well. Thanks.

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Yes. Let me take that question, Adam. I think overall, our leverage profile in general, and we've said this before, we deliver at around half a turn a year, given the cash flow we've had. We have allocated our capital in line with the capital allocation framework, which we laid out last year. Dividend was increased, of course, earlier this year. Growth capital we've invested. Then between paying back some of our debt this quarter, we've also used the opportunity to buy back some shares. We'll continue to do that in a measured way and bring leverage down.

As I mentioned, the weaker Canadian dollar or the stronger U.S. dollar, however you look at it, added some leverage to it. Otherwise, we would be in a 3.0, so down on that light path. I expect that to happen over the next few quarters and to continue being that low to range by the end of next year.

Adam Wijaya – Analyst, Goldman Sachs

Got it. Thanks so much.

Operator

Thank you. Your next question comes from Luke Hannan, Canaccord Genuity. Luke, please go ahead.

Luke Hannan – Analyst, Canaccord Genuity

Thanks. Good morning, everyone. I wanted to ask about the rollout of beverage alcohol in your stores in Ontario. Is there anything that we should be considering as far as what you guys will be doing in advance of this, either expanding shelf space within the fridge and the store to accommodate these new SKUs, anything to think about as far as employee training in advance of this rollout happening as well?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, good morning, Luke. We do see the rollout of beer and wine in Ontario to be a great opportunity for Parkland and should really start to drive some good same-store sales growth. Our team has identified roughly 120 sites where we can add beer, wine, and look, when you're working with a legacy network, sometimes you're constrained, but generally what it will mean is expanding coolers. It will either be repurposing coolers or expanding coolers where we can make sure that we can maximize the opportunity and we'll expect to see that come through here over mainly in '25; '24 will be where we're investing in the sites.

To your point, Luke, our retailers, so our retailing partners are very excited about this opportunity and our model there where we have aligned incentives to joint ownership works really well. The folks there will be keen to learn and make sure that they can support this. Our channel has always been a very reliable channel for age-controlled substances, so it fits very well within our current operating model. Again, very positive and expect that to drive some good same store here for the next couple of years, hopefully.

Luke Hannan – Analyst, Canaccord Genuity

That's great. Then my follow-up here is more of a broader question on consumer behaviour. Marcel, you gave great colour on sort of what you're seeing as far as the macro environment in Canada and really across your footprint, but I guess my question is on the

responsiveness of the consumer or your ability to drive traffic. I know that there's a coordinated offer, of course, where you guys have the pump as well as in-store, and certainly if you can match up those incentives, that's going to help drive traffic. But my question is, in this sort of environment, are you seeing any promotional strategies or tactics that seem to be working well compared to others when it comes to driving traffic or capturing more fuel market share?

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Yes, and we talked a little bit about it. I think the beauty of course, the convenience store is that we can quickly adapt to where the consumer looks for value. Whether that is two for one promotions or otherwise, we can do that, and we've seen that as being successful.

Those that are part of JOURNIE, one is we can do this with targeted discounts on fuel, and so for those value-seeking customers, that helps. Then with the conversion to the C-store, and I think we have that within our Canadian market. Clearly, we have those tools available, and we're using them. Similarly, on the M&M segment where we see that's a bit more discretionary spend, where we see that in. There, again, to targeted promotions, and we have a lot of experience doing that as well, targeted promotions at the right time still drives that consumer that seeks value back to the store. That's what we've kind of been seeing earlier this year, but definitely in quarter two that the consumer is more sensitive to that.

What we've seen in the past as well, and we talked a little bit about it on the fuel side, people tend to fill up a fixed amount of dollars rather than a fixed amount of liters. That just means that if prices go up, the absolute price goes up a bit, they come more frequently as they fill up less. Then, overall, of course, the resilience of our segment, and that's what's quite different from what you hear more broadly in the industry. People still need to drive, and when people go to our stations, they still buy convenience items, and both of those are quite resilient in a general weak macro environment, but we definitely see consumers looking out for more value.

Luke Hannan – Analyst, Canaccord Genuity

Very helpful. Thank you.

Operator

Thank you. Your next question comes from Steve Hansen, Raymond James. Steve, please go ahead.

Steve Hansen – Analyst, Raymond James

Oh, yes. Good morning, guys. Just a quick one on the JOURNIE program. You mentioned perhaps just a little more detail around this pilot with Walmart, the scope that it stands today, and perhaps the longer-term vision there would be helpful. Just as a derivative to that is if there's any other marquee brands that you might be contemplating some work with. Is there a roadmap that you've developed? Probably can't give us names, but is there a roadmap here for additional brand capture over time as well with the broader program would be helpful. Thanks.

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Thanks. Yes, good question. Look, we're really pleased with JOURNIE and the continued rollout and the leverage we get off our partnerships. CIBC initially, Aeroplan has been very successful at driving incremental volume. The pilot with Walmart is small initially. It really is some cross-promotion, and what we're trying to do is develop a relationship with them and see if there's a broader opportunity, particularly the food segment within Walmart and fuel or high-frequency purchases. If we can link those in a successful way, I think it could drive some nice volume going forward.

The other item that we're rolling out this year or later in Q4 will be a fully integrated loyalty program with M&M. If you recall, when we bought that business, one of the assets was an active loyalty program with about 2 million participants. What we've seen there on cross-promotion has demonstrated that we can get some good same-store lift out of both into our fuel network and back into M&M. Again, a tighter integration there should continue to drive a good adoption of Journey.

In terms of other partnerships, I mean, it's interesting as the program gains momentum and we get more and more participants, we are sought after as a good partner in loyalty, and we have ongoing discussions with other retailers about opportunities to connect and promote.

Steve Hansen – Analyst, Raymond James

That's very helpful. Thanks. Just one quick follow-up around the buyback cadence. It dovetails on one of the earlier questions I think on leverage reduction, but just how are

you feeling about the cadence of the buyback here going forward? It's been active, of course, but there's been some, I'd call it volatility, at least in the magnitude of the buyback here at the last quarter or two. How should we think about that going forward relative to your other objectives out there, whether it's organic growth or even leverage reduction? Thanks.

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Yes, as I said, we balance that overall within the framework with Q1, and we, of course, with less cash available today, we have to make some adjustments in the way that we're looking at buybacks, and we prioritize bringing leverage down over buybacks. You see that the pace has slowed down after that initial faster pace earlier in the year, and I think we don't on the growth side, so in growth investment, there's no opportunities that we have to forego within that overall framework. Bring leverage down, continue to invest in our business and then buying back shares. That's the order in which we look at it.

Steve Hansen – Analyst, Raymond James

(Inaudible). Thanks.

Operator

Thank you, ladies, and gentlemen, as a reminder, should you have a question, please press star, one on your touchtone phone.

Your next question comes from Vishal Shreedhar, National Bank Financial. Vishal, please go ahead.

Gabriel Chiu– Analyst, National Bank Financial

Hi, it's Gabriel on for Vishal. Thanks for taking our question. I just had a couple of clarifications. First one on the \$200 million in retail sales. I was wondering if you had a timeline on that. Then secondly, just a follow-up on the international. Appreciate the colour earlier. Just wondering how would you think about the distance and fuel volumes going forward? Like Q1, it's unimpacted. Now we're in a sense wholesale.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

That's right. Sorry, Vishal, we're having a hard time hearing you. You broke up. I think your first question was around divestitures and specifically the retail sites. Is that correct?

Gabriel – Analyst, National Bank Financial

Yes, sorry about that. Can you hear me better now? Yes, the first one was on the retail, the \$200 million. I was just wondering on the timing on that. Then secondly, the following up on the international. How do you think about the business going forward? Would Q2 be a good run rate? I understand Q1, it's unimpacted. Now there's some drop off in the wholesale. Just wondering on that.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, so on the divestitures, again, our divestiture program is progressing well. We've now either closed or locked in roughly \$200 million of disposals. It does not include broader retail divestiture that we were doing. We expect that to occur in subsequent quarters. On the low-value sites or high-value sites, we have good, firm commitments. We've closed some of those and expect several more of those to come here through subsequently. I would say on the high-value, we definitely see that being on track on the lower-value sites.

Look, there's a lot of work on that many sites. We'll need to see it move through the system here and are confident that we can hit our 2025 target.

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Maybe on just your second question was on the run rate for international. Is Q2 a good marker? I think it is. We have been, over the last couple of years, you've seen that it's less—the international sector has become less seasonal. That's with the growth of the resource sector, which, of course, is more steady throughout the year. We've seen that as well. I think Q2 is a good demonstration of that.

Operator

Thank you. Your next question comes from Michael Van Aelst, TD Cowen. Michael, please go ahead.

Michael Van Aelst – Analyst, TD Cowen

Thanks again. Firstly, on the guidance reduction, I don't think anybody is overly surprised. When you missed your estimates in Q1, it was tied to the refinery shutdown. You reiterated guidance at the time. It seemed like at the time it was mostly because crack spreads were strong and there were some other opportunities to recapture that shortfall in Q1. Is it just the crack spreads that's led you to reduce guidance at this point?

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

No, look, I would say, first of all, we have a robust recovery plan in place and we're tracking well against that. At the time, we hadn't factored in outsized crack spreads. What caused us to reduce is more the macro environment. Some of the continued headwinds we're seeing, we're not able to generate enough short-term opportunity to fully offset that. But again, if you look at where the shortfall in Q1, being roughly \$130 million, and we've lowered guidance by \$50 million, so it would show that we're making good progress on our initiatives and the team continues to deliver. Again, we haven't factored in outsized crack spreads here going forward as part of that. Should they come, we'll get that as a bonus through the balance of the year.

Michael Van Aelst – Analyst, TD Cowen

Okay. Then just confirming or clarifying what you said earlier, Bob, about hitting your annualized run rate or your target run rate for the U.S. I think your guidance for the U.S. was supposed to be \$230 million to \$250 million annually this year. Obviously, there's been some headwinds that have prevented you from getting there. But is that the run rate that you're talking about getting back to by the end of the year?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes.

Michael Van Aelst – Analyst, TD Cowen

Okay, perfect. Great. Thank you.

Operator

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

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Great. Well, thank you for listening in and look forward to connecting with folks next quarter. Have some time off over the summer here. We'll speak to you in November.

Operator

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating.