



## **Parkland Corporation**

### **First Quarter 2023 Results Conference Call**

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## **CORPORATE PARTICIPANTS**

**Bob Espey**

*Parkland Corporation — President and Chief Executive Officer*

**Marcel Teunissen**

*Parkland Corporation — Chief Financial Officer*

**Val Roberts**

*Parkland Corporation — Director of Investor Relations*

## **CONFERENCE CALL PARTICIPANTS**

**Steve Hansen**

*Raymond James — Analyst*

**Ben Isaacson**

*Scotiabank — Analyst*

**Derek Dley**

*Canaccord Genuity — Analyst*

**Vishal Shreedhar**

*National Bank — Analyst*

**Michael Van Aelst**

*TD Cowen — Analyst*

**Peter Sklar**

*BMO — Analyst*

**Matthew Weekes**

*iA Capital Markets — Analyst*



## PRESENTATION

### Operator

Good morning. My name is Joelle and I'll be your conference Operator today. At this time, I would like to welcome everyone to the Parkland Q1 Analyst Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press \*, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press \*, then the number 2. Thank you.

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

### **Val Roberts — Director of 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 from the investment community. Please limit yourself to one question and a follow-up if necessary. And if you have other questions, reenter the queue.

We would ask analysts to follow up directly with the Investor Relations team afterwards for any detailed modelling questions.

During our call today, we 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 and 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 IFRS. These measures are identified and defined in Parkland's continuous disclosure documents which are available on our website or on SEDAR. 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.

The Parkland team has a lot to be proud of in the first few months of the year. I'd like to highlight a couple of accomplishments.

First, I want to thank and congratulate the entire team for safely completing our scheduled turnaround at the Burnaby Refinery. Our team has a track record of consistent execution, and they completed this eight-week process on time and on budget.

I'd next like to highlight our JOURNIE Rewards loyalty program, which is partnering with Air Canada's Aeroplan. JOURNIE Rewards links our family of fuel and ON the RUN convenience brands in addition to

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Calgary, AB T2P 4H4

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building closer relationships with our customers. JOURNIE's goal is to drive organic growth by incentivizing loyalty. In the three years since its launch, we have grown our cardholders to over 4.5 million in Canada.

The past few years have proven that JOURNIE members are loyal, higher-spending customers, and they are now responsible for a quarter of our retail fuel transactions. Members on average pump 20 percent more gasoline each fill and spend 7 percent more in our stores. During the quarter, JOURNIE members have contributed over 20 percent of the same-store sales volume growth we experienced.

In the past few months, we have made significant platform enhancements to our JOURNIE app. These strengthened our digital connection to our customer and set the foundation to support our new loyalty partnerships.

Our partnership with Aeroplan is exciting for many reasons. Firstly, our customers will benefit. By bringing these two leading loyalty brands together, we will deliver Canadians greater value, greater choice, and greater rewards.

Secondly, it significantly expands our reach, with over 10 million combined members.

Thirdly, it accelerates momentum in our organic growth strategies. Building on our relationship with CIBC, the addition of Aeroplan will further strengthen our loyalty growth platform.

We continue to explore additional partnerships for our JOURNIE program to offer more to our customers and extract greater value.

JOURNIE is quickly becoming one of Canada's top retail loyalty programs. If you are not already a JOURNIE member, I encourage you to sign up and download the app.

With that, let's move to Slide 3.

Before we discuss the quarter in detail, let me step back to provide a brief overview of our business as well as some high-level observations.

As followers of Parkland, you know that our purpose is to power journeys and energize communities. With operations in 25 countries, we are a fuel distributor, marketer, and convenience retailer. We meet the needs of over 1 million customers every day. We operate in two channels. Our retail business satisfies the fuel and convenience needs of consumers, and our commercial business provides companies with industrial fuels. These businesses are complementary.

Our retail and commercial businesses are backed by our multiproduct integrated supply chain. By operating in all three parts of the value chain, we secure cost-competitive supply for our customers, and at the same time capture attractive margins. This is our supply advantage.

Parkland is a growth company. Through consistent execution, strategic acquisitions, successful integration, and our talented team, we have built a portfolio of leading brands that provide our customers with their daily energy and convenience needs.

We bring these together through our ON the RUN food and convenience offer and with our JOURNIE loyalty platform.

Acquisitions have played a big part in our growth. We are now focused on integrating the companies we purchased, capturing synergies, and driving organic growth. We are exercising strict capital discipline by prioritizing lowering leverage followed by enhancing shareholder distributions and organic growth.



Our first quarter results are excellent. We have lots of good news to share, including exceptional same-store volumes and sales in our retail business, and robust growth in our international business from organic initiatives, synergies, and a recovery in tourism.

We continue to work on the reset of our US business. Donna Sanker moved from our Canadian business to be president of our US operations. She has simplified its structure, recruited external talent, and placed proven Parkland leaders into our US organization. I am confident the changes we have made over the past several months sets the US on course to deliver the consistent and improved performance we expect.

With that, I will hand it over to Marcel to discuss our segmented results in more detail on Slide 4.

**Marcel Teunissen — Chief Financial Officer, Parkland Corporation**

Thank you, Bob, and good morning, everyone.

Parkland delivered an adjusted EBITDA of \$395 million in the quarter. This is up \$12 million from prior year, despite an approximate \$100 million impact from the turnaround at the Burnaby Refinery. This is a tremendous result, reflecting the resilience of our business model, contributions from acquisitions, and organic growth. We are firmly on track to achieve our 2023 guidance.

Our Canada segment delivered adjusted EBITDA of \$167 million. Commercial volumes were lower due to unseasonably warm weather. Our retail business performed well, with a 7.3 percent lift in same-store sales volumes, a large portion driven by JOURNIE members.

In addition, we see the positive impact of our Crevier and Husky acquisitions.

Fuel unit margins were lower due to the declining commodity price environment but continue to trend above historical averages. Our convenience gross margin increased by 45 percent year over year to \$87 million. This was driven by same-store sales growth, ex-cigarettes, of 6.8 percent, and growing our food category through the acquisition of M&M Food Market.

Our international segment delivered adjusted EBITDA of \$183 million, up over 120 percent from last year. A key contributor of this growth was the consolidation of the remaining 25 percent of Sol last year.

Fuel volumes increased approximately 40 percent due to organic growth in contracted commercial volumes, combined with the completion of and synergies from our Jamaica acquisition. Fuel unit margins increased from 2022 due to our regional supply advantage.

USA delivered adjusted EBITDA of \$21 million, which reflects the impact of environmental compliance cost of \$17 million related to previous periods.

Fuel unit margins were higher, but volumes were lower compared to last year due to our decision to limit our US wholesale business and due to severe winter weather conditions in the Rockies and North Dakota. We have high confidence in the fundamentals of our USA business, and our new leadership team is focused on unlocking its full potential.

Refining delivered adjusted EBITDA of \$38 million. This reflects the scheduled eight-week turnaround, which resulted in composite utilization of 33 percent. During the turnaround, we optimized financial performance by selling our unused pipeline capacity and increasing our import of refined products. The turnaround was successfully completed on time and budget, and we returned to normal operations in early April.

Net earnings per share increased more than 20 percent year over year. This increase reflects good operational performance and the accretive returns on recent acquisitions, including our consolidation of Sol, and our leverage ratio decreased to 3.3 turns.



The pie chart on the right shows the trailing 12-month adjusted EBITDA contribution of our three business lines, retail and commercial, each of which includes the benefit of our supply advantage, and refining. As you can see, retail makes up almost half, with the remaining half split almost equally between our commercial and refining business. Growth in our retail and commercial lines of business will outpace the growth from the refinery, meaning the refinery's relative contribution to Parkland will continue to reduce.

On a trailing 12-month basis, Parkland has delivered \$1.67 billion of adjusted EBITDA, which includes 100 percent of Sol, the impact of the refinery turnaround, and our weaker Q3 last-year results. This shows the positive momentum in our results.

Moving to Slide 5, I would now like to shift the discussion to the future and our journey to 2025.

You are familiar with these numbers, and on this call, we will provide greater transparency into the actions we are taking to drive this growth. And as a reminder, this will be done without acquisitions.

In 2023, we are targeting \$130 million of incremental EBITDA from last year. This will get us to the midpoint of our guidance. Lower earnings from the refinery due to the planned turnaround and normalized margins will be offset by full year inclusion of the 2022 acquisitions and stronger US results. We expect to add \$50 million through synergies and cost efficiencies, and we expect organic growth to deliver approximately \$80 million this year.

Through 2025, we will deliver approximately \$200 million of incremental adjusted EBITDA to achieve our \$2 billion ambition. This growth is comprised of \$100 million of synergies and cost efficiencies, plus \$100 million from organic growth initiatives, or about 3 percent per year.

We continuously review our portfolio for optimization opportunities, including divestments. We will speak more to these actions in a moment, but first, I want to emphasize the expected outcomes of our near-term strategy.

By 2025, we expect that with a capital program consistent with current levels, we will achieve adjusted EBITDA of \$2 billion and cash flow of \$9.50 per share. We are focused on delivering shareholder returns and grow our return on invested capital to more than 11 percent by 2025.

And lastly, we expect to reduce our leverage ratio to the low end of our 2 to 3 times target.

The actions we are taking are clear, and we are confident that they will drive shareholder value.

And with that, let's move to Slide 6.

We continue to focus on integrating the businesses we have recently acquired. As you know, it can take up to three years to fully capture acquisition synergies, but we are already seeing meaningful progress, including in the first quarter.

For example, our recently acquired terminals in Eastern Canada have provided us with optionality, and we expect a material improvement in our supply economics and lower cost of product.

Although industry fuel unit margins have softened from Q4, our margins have held firm, reflecting our supply capabilities and advantage.

In our retail business, we have now converted 21 Husky sites to Chevron in Western Canada, with each providing a refreshed ON the RUN convenience store offering. The transformation is impressive. By offering a trusted brand, implementing robust merchandizing strategies, and linking customers to our JOURNIE loyalty program, we are seeing fuel volumes and same-store sales increase.



Since late 2020, we have spent almost \$3 billion on acquisitions, including the consolidation of Sol. We are focused on fully leveraging the benefits of our scale, on creating an operating platform to deliver additional synergies, and a competitive cost structure.

We expect to deliver approximately \$100 million of direct and indirect MG&A run rate savings. This will include a reduction of third-party spend, the consolidation of our systems and processes, and other cost efficiencies.

I'll pass it back to Bob to talk about organic growth on Slide 7.

### **Bob Espey**

Thanks, Marcel.

The Parkland team is also focused on organic growth, and we are seeing great progress. In the retail segment, we continue to expand our ON the RUN convenience network. We have 670 locations across Canada, US, and our international segment. This now includes our first stand-alone urban store in the Vancouver area. We are on track to meet our target of 1,000 ON the RUN sites by the end of 2025.

Our same-store sales growth in both fuel volumes and convenience speaks loudly to the value of the ON the RUN brand and how we generate attractive returns. On the commercial sites, scale has allowed us to become the trusted supplier of industrial fuels in the regions we serve.

The growth of our international business has been a few years in the making and was hidden by the impacts of the pandemic. We are now starting to see the benefits of the improvements the team has been making.

Our volumes increased by more than 600 million litres, or over 40 percent year over year. Our competitive advantage has allowed us to win new commercial business and optimize asset utilization. We are seeing continued strength in our retail business.

Turning to Slide 8. We have a clear strategy for identifying assets that no longer align with our core business objectives. We regularly review our portfolio to identify underperforming assets and assess the potential impact of disposition on our financial performance.

We have acquired many great businesses over the last couple of years, and there is an opportunity to optimize the portfolio and streamline our businesses. This is an important part of our broader capital allocation framework.

We expect to generate up to \$500 million from the sale of noncore assets, and work is well underway. At the end of the first quarter, we had more than \$200 million of assets held for sale. This includes approximately \$100 million of high-value real estate, of which 85 percent are in advanced negotiations. These sites are primarily in urban areas with high real estate value.

Assets held for sale also reflect noncore Canadian assets, including a terminal in Eastern Canada that is also in advanced negotiation and parts of our commercial business in Canada. We expect to be marketing that business in the next few months.

We carefully consider the market conditions and timing of asset disposals to ensure that we can maximize the value of the assets we sell. This involves assessing market demand, identifying potential buyers, and negotiating favourable terms for the sale. The cash generated by these disposals will be considered in our capital allocation framework and used to reduce debt and increase shareholder returns.

Moving to Slide 9. Parkland's management and board are focused on maximizing shareholder value. Earlier this year, and with the help of an independent financial advisor, we completed a detailed review of strategic alternatives for the refinery with the Board.



We reviewed several options, including a sale or spin-off, and considered the impact of leverage and dis-synergies. Following this detailed review, we concluded that Parkland's continued ownership of the refinery maximized shareholder value at this time.

The Burnaby Refinery is a highly strategic and integrated asset. Approximately 90 percent of its output supplies Parkland customers. The BC market has limited import options. Other key market participants own refineries outside of the province and ship finished product into the region on the Trans Mountain Pipeline. Burnaby Refinery allows us to remain competitive.

Parkland has added significant value to the refinery since it was acquired in 2017. Through a combination of safe and reliable operations, strategic commercial agreements, and logistics optimization, Parkland has contributed to a doubling of the mid-cycle adjusted EBITDA. As a result, a significant portion of this increase is unique to Parkland.

Turning to Slide 10.

I've been President and CEO of Parkland for 12 years. During this time, the Parkland team has delivered remarkable growth across many metrics. One of the highlights of my role is being able to spend time with our teams in each area of the business. I see firsthand their commitment to safely serving our customers.

Conversations I have and the operations I see underpin the confidence I have in our team to deliver continued growth and success.

In Canada, I recently visited our retailers. Many have had to work longer hours because of a shortage of staff. I'm impressed with how they continue to serve our customers with an exceptional level of service. I also toured our first stand-alone c-store and caught the enthusiasm of our operations team and our customers about the early success they are seeing.

In the US, I visited our team in the Midwest and spent time touring our convenience stores. I spoke with our distribution team and drivers and I'm grateful for the way they brave harsh winter conditions to supply our commercial customers with their energy needs.

On a visit to Puerto Rico, I saw the results of rebranding an entire market from Shell to Exxon in record time. This enabled us to free up supply and run it through our platform. The team did this without impacting our market share and we improved our supply economics by moving this volume into our system.

At our refinery, in parallel with the successful turnaround, our supply team captured an opportunity to improve our financial performance by selling our pipeline capacity and increasing our import of refined products.

These are just a few of the many accomplishments from our team that give me conviction that our strategy is the right one to deliver long-term value to all our shareholders. Our large long-term shareholders agree. I do not believe our current stock price reflects the performance and quality of our company. To close this gap and enhance shareholder returns, we are taking clear actions that will lead to improved cash flow and returns by growing our business to \$2 billion without further acquisitions or dilution to our shareholders.

Specifically, we will capture synergies and cost efficiencies. We will deliver organic growth. We will sell noncore assets. Through these actions, our leverage ratio will be lowered to the low end of our guidance range by 2025. And our return on invested capital will increase to above 11 percent.

We're excited about the future of Parkland and are confident that we're well positioned to create value for our shareholders. We look forward to keeping you updated on our progress and thank you for your continued support.





With that, we 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 the \*, followed by the 1 on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press \*, followed by the 2. 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 Steve Hansen with Raymond James. Please go ahead.

### Steve Hansen — Raymond James

Yes, good morning, everyone. Thanks for the time. Just curious on the pace of some of the synergy optimization that you talked about. I think the \$100 million target was referenced. Is that something we should expect sort of equally throughout the period? Or do you expect to capture some of that quite quickly?

### Bob Espey

Yeah, thanks, Steve, and thanks for the question. Capturing that is an annual run rate target and we'll see the bulk of that flow into the business towards the end of the year.

### Marcel Teunissen

Yeah. No. And, Steve, of course, as you know, we've done 20 acquisitions. So depending on which vintage those acquisitions were, whether they were earlier in '21 or later in 2022, those come at a slightly different rate, but we said \$50 million in this year, so in 2023, relative to last year, and I think a lot of that just goes rateably through the year; and then the additional \$100 million for the next two years. So that will be the run rate by 2025. Again, that will be equally. So normally our supply synergies, they come quite early in the periods because they're kind of instant, whereas cost synergies and operational improvements, they tend to be a bit more as we go through change and change programs a bit more later in the period.

### Steve Hansen

I do appreciate that colour. And just one follow-up, if I may, is on the refinery. Understand the strategic review took place. Curious if there's any change in the strategic value of the assets over time as Trans Mountain expands and different options become available. Is that something that was contemplated in the analysis? And how do you think about sort of the future temporal value of the asset?

### Bob Espey

Yeah, again, thanks for the question here, Steve. You're right; we did look at the refinery, and as part of that looked at the forward view and the economics. As TMX comes up, we don't believe that that'll have a material impact on the economics. We do believe that the impact of that will be pushed into the market. And ultimately, that refinery continues to be a highly profitable asset for Parkland. And certainly, when you look at the refining complex throughout North America, it's a top-quartile performer.

### Steve Hansen

That's great. Thank you, guys. I appreciate the time. And would just note that the new JOURNIE features on the pump are making the whole process far more seamless. Thanks. Appreciate it.

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**Bob Espey**

Great. Thanks, Steve. We appreciate your loyalty as a customer. Yeah.

**Operator**

Your next question comes from Ben Isaacson with Scotiabank. Please go ahead.

**Ben Isaacson — Scotiabank**

Thank you very much and good morning, everyone. And congrats on a good quarter and good to see the pieces starting to come together.

Two questions for you. Number one is you identified up to \$500 million of noncore asset divestitures. You talked about the \$200 million held for sale. Can you talk about the other \$300 million and whether or not you pursue them or not? Can you just give us a sense as to kind of where they are and what they are?

**Bob Espey**

Yeah, consistent with what we've communicated in the past, I mean, as the quickest area, and one that we're proceeding quite well on, is our retail business, particularly in Canada, where we're looking at high-value sites that don't generate a lot of cash flow.

The second thing within the retail business is looking at the tail of our network and pushing some of that and selling that to dealers or others, depending on the site.

We do have some distribution assets, particularly as part of our purchase of Vopak in Eastern Canada. We're looking at divesting one or two of those facilities.

And then in our Canadian commercial business, consistent which we've talked in the past, there are some businesses that we are looking at.

Again, these will be proceeding here over the next one to two years. And as you know, divestitures do take time. And also, I do want to assure people that these are good assets. And it will be dependent on getting a competitive price for these assets.

**Ben Isaacson**

That's great, Bob. Thank you. And just one more question, if I may. In terms of the US business, so if we clean up some of the noise that we had in this quarter, you're continuing to capture synergies. There may be a little bit of organic growth opportunities. It seems like you're putting a pause on further M&A in the US. When we put that all together and when we think about the US in a normalized or in a mid-cycle environment, how should we think about EBITDA or EBITDA margins? Or is there some way to kind of guide us in terms of what that business looks like?

**Bob Espey**

Yeah. Look, I think we've telegraphed here what the base business runs at. And when you do the sum of all the acquisitions, and it would be consistent that we would expect to get in the 30 percent lift through synergies. And consistent with what we've done in the past has come from three areas. One is our supply. Second is operating improvements in the business, many of which have been made, but many more to come. And then the third is looking at the MG&A within the business, so.

**Ben Isaacson**

Okay. Great. Thanks so much. Appreciate it.



## **Operator**

Your next question comes from Derek Dley with Canaccord Genuity. Please go ahead.

## **Derek Dley — Canaccord Genuity**

Yeah. Hi, guys. Thanks for taking the questions. I just want to switch gears a little bit. Can you just talk about the \$17 million compliance cost within the US business, what that was? It sounds like it was related to prior periods. And is this something that we should expect to reoccur at any point?

## **Bob Espey**

Yeah. Thanks, Derek. I'll turn that over to Marcel to talk through.

## **Marcel Teunissen**

Yeah. So thanks for the question, Derek. So yes, indeed. So this was related to previous periods and sales that we made in previous periods. So it was just a timing on recording the environmental obligation. So RIN obligations in Oregon, LCFS obligations specifically, so it was a timing of it.

And we should have recorded it when these were due, but as we were finalizing the year and closing it up, there was a gap in what we had recorded. So it's kind of more a timing issue and of a one-off nature for this quarter, but it wasn't per se a loss. It was more like when we accounted for it.

## **Derek Dley**

Okay. So then when we think about the US business, I mean, over the last couple quarters and, again, it's changed with the elimination of some of these spot market sales, is this sort of like a mid-\$40 million EBITDA run rate business per quarter? Is that how we should think about it going forward?

## **Marcel Teunissen**

Yeah, it should. And I think in the way that we've talked about both this year and the \$130 million of increase relative to last year, as well as when we look into 2025, a big portion of those improvements we expect to come out of the US business within that. So, yeah, you add back what was more of a special for the Q1 period, as well as that we did have some quite severe weather in Q1 and sort of moved, for instance, kind of the agricultural season into Q2 or early Q2, as opposed to Q1, which is what we normally see. So we expect that to kind of continue to improve in the second quarter.

And then the synergies, which we talked about and other value that we can create in the US business, we expect to see continued improvement there.

## **Derek Dley**

Okay. Good. And then just one, well, maybe two more, as it relates to the international business and Sol. Can you just give us a little bit more colour on what helped drive the strength there at Sol? I get tourism was very strong, and it appears like there was an increase in oil and gas drilling within the region.

And then secondly, can you remind us how many of the countries within Sol have regulated fuel margins?

## **Bob Espey**

Yeah. Look, again, I do want to thank the international team for driving a really strong quarter. You know, and it's a lot of the stars aligned for the team during the quarter. And as you highlighted, we did see—if you recall last year, there was continued lockdowns because of Omicron in the region, and it also curtailed tourism. So



there were sort of two factors. So we saw that recovery pull through quite nicely. I mean, look, that's sustainable on a year-over-year basis.

The business is cyclical. So we do tend to see higher earnings in Q4, Q1. And Q2, Q3 tend to be a bit softer.

And then, look, the team did an excellent job continuing to grow their wholesale business on the base platform. Some of those sales were spot, but not a material amount. And again, we do expect the business to continue just to perform strongly here going forward.

The other thing is we had Jamaica run through. We also had a full year now of the 25 percent minority piece that we purchased. So there's some M&A that's running through. And then the team's making great progress on synergies from some of the deals that they've done over the last couple of years. So, again, all around some excellent execution there and we're seeing that come through in very strong performance. So we're very pleased with the performance of the business.

### **Marcel Teunissen**

Yeah. And to your second question, I don't have exact number of how many markets are actually regulated on the retail side, but these are usually, just think of the smaller markets in the Caribbean, where we are often the only player, or one of two players, and that there is some regulations there that help that with the market dynamic.

The bigger markets, when we talk about the Dominican Republic, Puerto Rico, those are not regulated, as well as some of the markets in South America, they're not, but it's mostly those smaller markets.

### **Derek Dley**

Okay. Great. Thank you very much.

### **Operator**

Your next question comes from Vishal Shreedhar with National Bank. Please go ahead.

### **Vishal Shreedhar — National Bank**

Hi, thanks for taking my questions. Just wanted to jump back to the US segment for the \$17 million in compliance costs. Just wondering if management has made any changes to their controls to reassure that it won't happen again. And if so, how significant are those changes, such that these types of issues won't reoccur?

### **Marcel Teunissen**

Yeah, and it's a fair question, Vishal. So yes, we have made those, and as Bob already highlighted, we have made quite a number of changes in the team already in the US, more experienced team with all that. And that includes the finance team, so I'll mention that, as well as some of the controls that are around some of this. This is kind of the environmental piece. It's a bit of an emerging kind of activity in parts of the US. So an asset has grown. We have now tightened the controls to make sure that we're on top of those.

### **Vishal Shreedhar**

Okay. And moving on to the international segment, there was some contracted volumes. Wondering if that's a sticky piece of business that we should continue to consider as we reflect on our model? Is that more of a one-time event? And if so, could you specify the magnitude of that business for us?



**Bob Espey**

Wait. Of which business?

**Marcel Teunissen**

International holdings.

**Bob Espey**

Yeah. We don't break that out. Again, there is a lot of underlying sustainable growth in the business, the majority of the earnings, and the spot portion is relatively small.

**Vishal Shreedhar**

Okay. Thank you.

**Operator**

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

**Michael Van Aelst — TD Cowen**

Thank you. I'm wondering how the divestment of \$500 million worth of assets would affect your \$2 billion EBITDA target for 2025, if at all.

**Bob Espey**

Yeah. Look, I believe, and we talked about some of the assets, particularly the retail assets, now these aren't large cash flow producers, so we expect certainly there, the impact to be minimal. And in some of the other assets that we're looking at, there is quite a bit of overhead to support these businesses, so we do expect to be able to meet our target. And certainly if that changes, we will update our investors accordingly.

Look, I mean, the key thing is, is that we get the returns, that we continue to improve cash conversion in the business, and ultimately can redeploy that cash into deleveraging the business here.

**Marcel Teunissen**

Yeah, and some of the cash flow that we will generate from divestments, as we've indicated before, we'll use that to reinvest in our business, so it's not all going to the balance sheet, so some of that will be used to reinvest in business that generate more to offset it. There will be, at times, a bit of a timing difference between when we get the cash and when we invest and what comes out of it, but that will come to more organic growth as well.

**Michael Van Aelst**

Okay. So as you make these divestitures, we shouldn't expect you to adjust your guidance for 2025?

**Bob Espey**

No. No, certainly with the ones that we've identified, we're confident that we can do it and maintain. The other thing is looking at our cash flow per share. Right? That's another core metric here that we'll continue to drive.

**Michael Van Aelst**

Okay. Great. And then you talk about \$100 million of MG&A cuts, which is pretty substantial by 2025. I'm assuming that's off the current run rate of kind of around \$625 million. Is that a fair?



**Bob Espey**

Yeah. That's a good way to look at that.

**Michael Van Aelst**

Okay. And are those synergies or are those just getting leaner? What is that?

**Bob Espey**

Well, it's a mix of both. Right? So, as Marcel said, we did a significant amount of M&A. We've always said it takes up to 36 months to start to realize full impact. And part of it's the growth that we've experienced and would be part of our natural synergy capture. And then the others would be looking at, again, just the overall structure and looking for opportunities that have come through the growth that we've experienced.

**Michael Van Aelst**

Okay. And just going back to Sol, following up on earlier questions, you had a substantial increase in EBITDA. Even when you normalize for the 100 percent ownership of Sol, it was still up whatever, 64 percent or 80 percent or something like that; I don't remember the exact number. But when I was reading the press release, I got the sense that some of that spot volume was a bigger component of it and is less predictable, or less rateable as you guys like to talk about it. But in your comments, Bob, it sounds like that was a small part of it. So like, so I guess you're ...

**Bob Espey**

So, again the other thing is taking into account the seasonality of the business. Right? So, and we did have a COVID recovery here. So, like I say, the stars aligned for the business and they did exceptionally well here.

**Michael Van Aelst**

Okay. And just on some of that spot business, do you know why some of those buyers were switching over to Parkland? Is there a competitor having a problem? Are you actively recruiting new business like this? What was the driver?

**Bob Espey**

Yes. No, look, I mean, look, we'll always sell when we can. Right? So, but I would say it speaks to the strength of our supply system in that region, where we have a competitive cost structure. And, again, what we've seen over the quarters here is that team has been able to continue to drive growth through that channel. And again, ultimately, the economics that we have will ensure that we continue to win in that space.

**Marcel Teunissen**

Yeah, and maybe, Michael, I will also point out that if you look at when we acquired this business in 2019, that was probably the last normal comp year that you've had, 2020. We already saw COVID 2021, 2022. So 2023, you see actually also the outcome of three years of work of transforming that business, since we have had ownership. Right? And so I think that's important.

So the Jamaica acquisition, Bob already mentioned, and then we look at squeezing out more margin for the same volume. Puerto Rico, Bob mentioned it, what we did there, which I think is quite amazing. We rebranded that network to Mobile. That freed up our supply as well. And that gave us the ability to get more money out of it.



But I think you should see it more as when you compare to previous periods, this is the first year that we really see, under our ownership, with markets being kind of normal. And so that gives us confidence in those numbers for international.

It's the high season, but also a lot of hard work that's gone in over the last few years.

**Bob Espey**

Yeah. One other item is on the confidence around the base business. I mean, the team did add supply capacity. We added one new ship into the region to accommodate the growth that we've seen. So again, look, the business performing well.

The one thing that our team here can do is follow up a bit on the seasonality of the business just to make sure that you guys are understanding that and the impact of that in the run rate of the business.

**Michael Van Aelst**

That'd be helpful. Thank you.

**Operator**

Your next question comes from Peter Sklar with BMO. Please go ahead.

**Peter Sklar — BMO**

Hi, Marcel. Now that we're on the international business, how much of the lift in EBITDA was due to the Jamaica acquisition?

**Bob Espey**

Yes. Specifically, I'm not sure we've broken that out, right. But again, you know that business has performed well. The team integrated that business quite quickly out of the gate, so were able to capture not only operational, but also some of the overhead burden in that business. And then we did move that supply onto our supply system and that did create significant lift as well, so. But we don't specifically break that out in our in our disclosure.

**Peter Sklar**

Okay. But it sounds like it's something we should consider when we look at the year-over-year improvement. It sounds like it was significant.

**Bob Espey**

Yeah. Oh, for sure. And that is a sustainable portion of the EBITDA here.

**Marcel Teunissen**

And Jamaica, within the region, is a large market. Right? We often talk in our markets or in our international market about the larger countries and we refer to Dominican Republic and Puerto Rico. Jamaica is that as well; it is its own economy. And so there's quite a number of people there, so it's a significant portion of our business going forward.

**Peter Sklar**

Okay. Switching gears here, can you talk about mobility and traffic trends, both in Canada and US that you're experiencing, and where we're at relative to pre-COVID levels?



## **Bob Espey**

So in Canada, specifically, I mean, again, there is some recovery here because of the impact Omicron had in Q1 in Canada as well. You know, look, but I would point to just the fundamentals of the business. So a lot of the same-store sales growth we saw in the business has been driven by JOURNIE, in fact. Roughly two-thirds driven by JOURNIE and one-third driven by market recovery.

And it's interesting, because that's a program we've been investing in here for the last three years. If you recall, we launched that during the pandemic at about this time. And as we've been accumulating customers, we've been seeing the positive impact of that. And we did highlight that when we do get a customer onto the loyalty platform, we see about a 20 percent increase in their fuel spend and about 7 percent in the backcourt. So that does show the benefit of that program.

And look, I'm really excited about our partnership with Aeroplan. As you know, Aeroplan is one of the leading loyalty programs in Canada, and the ability to cross-promote with Aeroplan will lead to more participants in our program, so.

And we also are in discussions with a number of other partners. And we expect to see JOURNIE continue to grow here and drive good same-store sales going forward.

And one other point there. This is a great example where the investments we've been making in our marketing programs, whether that's ON the RUN, loyalty, and you know, we'll start to see that in our food offer here over the next couple years, they really do pay off in our organic growth. So, as always, I'm very bullish on the ability to grow the business organically. And these are great proof points of how we can do that.

## **Peter Sklar**

Okay. So, Bob, that leads into my last question, which I think you've partially answered there, which is the 6.8 percent comp you had in in the backcourt in Canada ex-tobacco, which, obviously, it's a very impressive number. Can you talk a little more specifically, like, how much was price? How much was JOURNIE penetration? What were the strong categories? Can you just dive in a little bit more?

## **Bob Espey**

Yeah. Look, certainly a portion of that was driven through the JOURNIE program as we said. Our penetration on the fuel side, it's still hard to get a correlation between forecourt and backcourt spend at times. But we do see a 7 percent lift in our loyalty customer. So that's certainly driving some of the same store.

If I look through it, it really is the centre of store that's driving the growth. We saw a healthy growth in packaged beverage, candy, salty snacks, and some of the other beverage products. So look, we've seen really good growth in the core part of the business. We don't specifically break out the volume margin. But it's something we can look to do here in the future just to make sure that we're not sacrificing volume for price.

I'd say anecdotally, we are seeing the volumes in terms of the SKUs are not falling off as price goes up. But I don't have any specific data on that at this point.

## **Peter Sklar**

And then, just lastly, I noticed in your laundry list of attributes there, you didn't attribute M&M, so maybe you can talk about that.





**Bob Espey**

Yeah. Look, we've seen M&M—and again, understand the integration is still in process here. It's been about a year. We've seen some good underlying base growth in that business. So they've had some very good same-store sales as well.

And the other thing is we continue to roll the M&M offer out within our ON the RUN brand in a larger format than others would typically have in our convenience channel.

And the third thing is we are developing our fresh offer in that category as well.

Look, with that, again, we'll start to drive organic growth here over the subsequent quarters, and we'll provide updates on that regularly.

**Peter Sklar**

Okay. Thanks for your comments.

**Operator**

Your next question comes from Matthew—

**Marcel Teunissen**

And, Peter, happy retirement as well.

**Peter Sklar**

Thank you.

**Bob Espey**

Yeah. Thanks for your coverage, Peter. We appreciate it.

**Operator**

Your next question comes from Matthew Weekes with iA Capital Markets. Please go ahead.

**Matthew Weekes — iA Capital Markets**

Good morning. Thanks for taking my questions here. Just on the assets, kind of held for sale, and you mentioned some kind of high quality urban real estate sites there. I'm wondering if there's a portion of assets held for sale, or potential asset sales, in the near term here that are related to certain Husky sites that you'd be required to kind of divest anyway under the Competition Act?

**Bob Espey**

Yeah, so we didn't have to divest a lot. And again, as you recall, we partnered with Federated Co-op and that gave us some flexibility through the Competition Bureau process. So ultimately, in the end, I think we're divesting six sites. And that would be part of the contribution that you would see on the retail divestitures.

**Matthew Weekes**

Okay. Thanks. That's helpful. And my second question, just in terms of the US business and thinking about sort of normalizing some of those impacts going forward and recognizing kind of more of those RINs and environmental obligations on sort of a regular ongoing basis. As those sort of grow under the environmental obligations, how do you see that impacting the run rate of the business going forward? And what kind of



strategies do you have to kind of offset that in terms of kind of taking some of the competencies from Canada to profit from those opportunities? You know, pricing, just things like that. Just wondering if you can comment.

**Bob Espey**

Yeah. Look, I mean, those mostly translate back to the RINs in the market, which is something that's been in the market here for quite a while. And look, it's a mixture of the market and market dynamics, which allows pricing of that into the marketplace.

And look, it's something that's been around for decades, right, or a decade. And it's not something that's new in the market.

**Marcel Teunissen**

The requirements, of course, keep changing. And so we'll be on top of that. And depending on each state within the US, that will work. And so we'll have to kind of look at that. It typically just gets priced on to the end customer. Right? So that's how that works.

Between Canada and the US, so to your question, there's not a lot of overlap. Each of these are provincial or state driven. So there isn't a lot of that. But in our kind of environmental compliance book, which we participate in, or where we participate in that type of business as one of the business, we do see some of those opportunities, which are a bit more of an international nature. And that's more of an opportunity for us.

But if you talk about generally environmental regulation, it gets passed on to the end customer.

**Bob Espey**

Yeah. And look, we don't expect that to be a drag on the business. This was purely just mismatch in recognition of revenue versus cost.

**Matthew Weekes**

Okay. No, thanks for the commentary on that. I'll turn the call back.

**Operator**

Ladies and gentlemen, as a reminder, should you have a question, please press \*, followed by the 1.

Next question comes from Steve Hansen with Raymond James. Please go ahead.

**Steve Hansen**

Oh, yeah. Thank you for the time on a quick follow-up. While I certainly understand and frankly commend the leverage reduction strategy, I'm just wondering if low 2s is really necessary or optimal. Is there perhaps a case that 2.5 times is plenty conservative and any incremental free cash flow should be deployed towards buyback? Just curious on your thoughts. Thanks.

**Bob Espey**

Yeah. Look, let me lead it off here and I'll turn it over to Marcel. Look, our desire to get our leverage down is, first and foremost, to demonstrate the cash flow strength of the business. As always, we're always looking at the best way to deploy capital, and certainly we can be opportunistic on share buybacks should our price continue to be low.



**Marcel Teunissen**

Yeah, so as you recall, our normal range of leverage is 2 to 3 turns and so we said we want to return to the lower end of that range. So I think that's what we have said.

We obviously look at generally what's the best way to allocate capital. And if we look currently at the cost of debt, that's of course one part. If you look at opportunities and the bid-ask spread maybe on opportunities, we believe to generate the right amounts of value that we should just park that money that we generated, cash that Bob talked about, that we park it in the balance sheet and then wait for the right opportunities following that. But it's important for us too.

It's really a lot of work to integrate businesses and show the synergies-generated cash, and with that, also create capacity within our balance sheet.

**Steve Hansen**

Appreciate the colour. Thanks, guys.

**Operator**

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

**Bob Espey**

Great. Thanks, everybody, for joining in the quarter. We appreciate your support as shareholders and look forward to chatting with you all next quarter.

**Operator**

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