# Parkland Corporation

## Third Quarter 2024 Analyst Conference Call

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## PRESENTATION

**Operator**

Good morning. My name is Elvis, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Parkland Q3 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'd 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 the star, followed by the number two.

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

**Adam McKnight** — Director, Investor Relations, Parkland Corporation

Thank you and good morning.

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

This call is webcast, so we encourage those listening on the phone to follow along with the supporting slides. We'll start with some prepared remarks and then open it up for questions from the investment community. Please limit yourself to one question and a follow-up question as necessary, and if you have additional questions, please re-enter the queue. The Investor Relations team will be available after the call for any detailed modeling questions that you might have.

During today's call, we may refer to forward-looking information 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 & Analysis.

We'll 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+. Please refer to these documents that 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, Adam, and good morning, everyone. We appreciate you joining us today to discuss our third quarter results.

I'd like to start by thanking the Parkland team for their dedication to servicing our customers while operating safely in a weak economic environment.

Despite robust operational performance, our third quarter financial results came in below expectations due to lower refinery margins, which were felt across the industry. Adjusting for this impact of approximately $140 million, our third quarter results would've been in line with our plan. We continue to see strength and growth across our underlying business.

Adjusted EBITDA from our retail and commercial businesses have grown 2 percent over the last 12 months, despite soft economic conditions.

We have also improved our market share during this time in Canada, and we are now the second largest fuel and convenience retailer. This is an impressive achievement and testament to the strength of our asset base, the execution of our organic initiatives, and the dedication of the Parkland team. I am confident in the resilience of our diversified business and the team continues to execute our organic growth strategy.

With that, I'll turn it over to Marcel to review our Q3 results in more detail.

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Thank you, Bob, and good morning, everyone.

In the third quarter, Parkland delivered Adjusted EBITDA of $431 million. In Canada, Adjusted EBITDA was $200 million, which is slightly below Q3 2023. Adjusting for one-time benefit in the prior year, we saw a 4 percent increase year-over-year in our underlying business.

Fuel margins remain strong, driven by continued price and supply optimization. We also saw same-store volumes growth of 1.4 percent. This demonstrates the strength of our company-owned network and the positive impacts of our JOURNIE loyalty program and On the Run conversions.

Our business is built to adapt through changing economic conditions. This allows us to evolve our value proposition to meet customers' needs as economic pressures shift. Private label business was up 12 percent compared to prior-year, and we continue to leverage JOURNIE to attract customers into our sites with targeted fuel incentives, in-store convenience offers, and cross-promotions between the forecourt and convenience stores.

During the quarter, we launched alcohol sales at 80 sites in Ontario. We accomplished this efficiently and with minimal capital investment. We plan to offer alcohol in 120 sites by year-end. It is still early days, but initial results are promising, driving increased traffic to the stores.

Our international segment delivered Adjusted EBITDA of $152 million. This is 11 percent below last year, primarily due to lower wholesale volumes. Consistent with the prior quarter, we did not see the required returns to participate in the high volume, but low margin sector.

While the third quarter is traditionally the low season, we see continued growth in our base retail, commercial, and aviation businesses, and we are continuing to progress our organic growth initiatives by rebranding and building new retail sites, which for instance is driving double-digit same-store sales volume growth in Guyana. We remain bullish on the region's growth potential, with one example being the recent investment announcement in offshore oil by TotalEnergies in Suriname, where we are positioned to win.

In the U.S., we delivered $54 million in Adjusted EBITDA, up 4 percent from the prior year. We are seeing the positive effects of renegotiated supply contracts in Florida, as well as tactical improvements aimed at increasing margins, reducing costs, and boosting in-store sales.

Company same-store volumes were negative 4.4 percent during the quarter, which was better than industry in the markets where we operate. This is due to the team's ability to recover market share in Florida, and we expect to achieve an Adjusted EBITDA quarterly run rate of $60 million as we exit 2024.

Our refining segment reported Adjusted EBITDA of $49 million, which was down from $88 million last year. The decrease was driven entirely by lower refining margins, which were well below our mid-cycle planning assumptions. This overshadowed the strong operational performance of the team, who delivered composite utilization of 102 percent.

On a trailing 12 months basis, Parkland generated available cash flow of $627 million, or $3.58 per share. This is down 16 percent from 2023, primarily due to the weaker refining segment results. We continue to follow our disciplined approach to capital allocation and used these funds to return cash to shareholders through our dividends, reduce debt, invest in organic growth initiatives, and repurchase approximately three million shares.

Our leverage ratio increased to 3.4 times as debt repayment was more than offset by lower Adjusted EBITDA over the last 12 months. This increase is temporary, and we will continue to prioritize balance sheet strength as the business generates robust cash flow. I see a clear path to reducing our leverage ratio to the lower end of our 2 times to 3 times target by the end of 2025.

Looking forward to the end of the year, we are lowering our 2024 Adjusted EBITDA guidance by approximately $250 million, to $1.7 billion to $1.75 billion. This is due to the weak refining margin outlook for the rest of the year and our performance year-to-date, which had some pluses and minuses.

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

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Thanks, Marcel.

The Parkland team has delivered excellent operational results during the quarter, which I have no doubt will continue going forward.

Looking ahead, I'm encouraged by the resilience of our business, which is supported by our customer and supply advantage. To strengthen our customer advantage, we continue to evolve our customer value proposition. I am impressed with the growth of our JOURNIE loyalty program in Canada over the last five years. JOURNIE drives traffic across our network and has expanded through strategic partnerships, including CIBC and Aeroplan.

Earlier this month, we officially launched the integration of the M&M Food Market loyalty programming. It's still early days, but initial results are highly encouraging, and I recommend everyone link their accounts to start maximizing their rewards.

We continue to strengthen our supply advantage. We recently consolidated our supply and trading teams across the regions, uncovered structural product cost savings, which will lower our cost to serve. I am confident we can compete going forward, and we will be positioned to win in the long-term.

In a slow economic environment, I define success by outperforming industry, and I see that in every part of the organization. Over the past 12 months, the team has grown Adjusted EBITDA from our retail business by 6 percent, grown our non-fuel gross profit by 5 percent, lowered our indirect costs, which is more than offsetting inflation, and grown market share. We are progressing noncore asset divestments and are on track to close the sale of our Canadian commercial propane business in the fourth quarter. We also announced the intended sale of our Florida business, which reflects our commitment to disciplined capital allocation and redirecting capital towards the highest return opportunities.

In closing, I am grateful for the Parkland team's commitment to servicing our customers and delivering strong operating results in a tough environment. I believe our business is resilient and these headwinds are temporary. We will continue to focus on executing our long-term strategy, and I remain confident in our ability to drive organic growth across the portfolio to deliver our 2028 targets.

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 the star, followed by the one on your touchtone phone. You will hear a prompt to indicate that your hand has been raised. Should you wish to decline from the polling process, please press the star, followed by the two. If you're a using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Kevin Chiang from CIBC, please go ahead.

Kevin Chiang — Analyst, CIBC

Hi, good morning, everybody. Maybe just on the refining segment. Obviously, a tough year this year, I guess, confidence in the ability for that segment EBITDA to return to—what will you view as normal? Do you think there's anything structural that might be impacting, or any concerns that might be impacting how you think that recovery might take place? I guess there's been some concerns that the expansion of the TMX might be a contributing factor; there's also the excess supply in the overall North American market. Just any thoughts there, as you think about the recovery in that refining segment.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Hey, Kevin, it's Bob Espey. Thanks for the question.

Let me just start off—I'll answer the question in two parts. Let me just put into context the results for the quarter. Last year, at $585 million, Q3 was a very tough comp. That was our record quarter. If you look at the delta between last year and this year, it's $154 million; $140 million of that is the refinery, and difference in the crack spreads. The refinery ran well in the quarter, and the biggest impact, if you were to normalize it to mid-cycle refining margin, would put us at $540 million. It would've been a very good year, and it shows that the business is well on-track to hitting the $2 billion run rate, so just to put that into context.

In terms of the dynamics that are causing the crack spreads to come down, you've hit certainly one of them, which is there is a period here where we're seeing lots of supply for the market, sloppy. Generally, what we see in times like that, which we've seen in the past, is the market does work to clean itself up. We've seen people starting to cut runs, so reduce their throughput in their refineries. We've had some announced closures. Then also, we do see global demand continuing to grow next year, which will start to remove some of the over-supply globally. Again, the fundamentals will push the crack spread higher. That being said, we are being conservative in the way that we project to the balance of the year, and we'll also be conservative projecting into next year on crack spread.

I would like to highlight, though, the marketing and supply business, which has done very well in a tough environment. If you compare to others in the marketplace, we continue to show that we're gaining market share in key segments and markets. As well, if you look at a TTM basis, our marketing and supply business grew by 2 percent. A little lower than we would have liked, but ultimately, it's showing that it is growing and that a lot of the initiatives that we're having are offsetting some of the headwinds we're seeing in the broader economy.

Kevin Chiang — Analyst, CIBC

That's helpful. Maybe, my second question, you laid out, obviously, a very credible plan about this time last year at your Investor Day. Obviously, the stock's been under pressure this year. Does that cause you to rethink some of your capital allocation priorities, just given where the share price is, especially as you get closer to the leverage ratio that you're targeting, which seems to still be on track here? Any thoughts there would be helpful.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes. All right, let me pass it over to Marcel.

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Yes, no, hey, good morning, Kevin. Marcel here. In terms of capital allocation, I think it's still in line broadly with how we've laid it out for the periods for now through 2028. That means we keep prioritizing getting the balance sheet, getting that leverage down to the low end, unless we have visibility to that. We've also indicated, of course, that we would opportunistically continue to buy back shares. We have done quite a bit of that this year, and if we see that opportunity rise again, we'll do that. We think buying back the stock is still one of the best places we can allocate capital.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, and as to the 2028 ambitions that we have, we're still on track to achieve those. We see this as a transitory issue, and it really is. If you look at the base performance of the business, it's meeting the targets that we've set, and ultimately, we'll see the crack spreads recover here.

Operator

Thank you. Your next question is from Michael Van Aelst, TD Cowen. Please go ahead.

Michael Van Aelst — Analyst, TD Securities

Yes, good morning, thank you. Can I just follow-up first on your leverage comments? Given the near-term earnings outlook, can you talk more about how you—I know you see your leverage ratios coming down to that lower end of the range by the end of 2025. When I model it out, I can only see that happening if you're not buying back stock between now and then. Can you talk about how active you think you can be on the NCIB? I know you stopped it during the quarter, but do you expect to be active over the next year?

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Yes, it's hard to say, I think, Mike, it's—I think we look into next year, and I think the macro environment, particularly the refinery margin, that's the big unknown. I think that that takes up a bit, as Bob already indicated, that creates some more room. I think our divestments are part of the equation, in terms of putting money back to the balance sheet. I think as soon as we get the right trajectory there and the right glide path, there will be space for those buybacks. But I think we started this year probably with cracks that are much better. We had, of course, our operational issues in Q1. Then Q2, refinery cracks came up mid-cycle, and then in Q3, they really dropped below. We just need to see where the direction there is, in relation to bring leverage down and what we do with the NCIB.

Michael Van Aelst — Analyst, TD Securities

Okay. All right, thank you. Then, on the crack spreads, or on the refinery, the crack spreads, they weren't surprising given we can track that. But what seemed a little more surprising to me was your capture rates being as low as they were, and I believe that some of that has to do with the lack of carbon credit sales. Can you explain the drivers behind the increase in the renewable diesel coming into Canada and how you see that evolving over the next few quarters?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, Mike, that's correct. Our capture rate was lower. Capture rate on a quarter-by-quarter basis will fluctuate, and I think you look on a TTM, trailing 12 compared to the previous TTM, you'll find that it's roughly the same. However, some of the short-term headwinds on capture rate, one was carbon credits, which I'll talk about, but the other is, we had the price of crude falling over the quarter, and there's a trailing effect there in terms of how that comes through into the economics. We get a bit of a temporary squeeze on the way down.

The other side is the carbon credit market. There is an oversupply currently, and it's driven by renewable diesel from the U.S., which is being imported. The U.S. swung into oversupply. We expect that that will start to rectify itself, and part of that is the legislation in the U.S. is expected to switch to a producer tax credit in the new year, with the hope that that keeps that product local, into the local market, as opposed to having it flow out to Canada.

The second thing is, both the Canadian and the U.S. governments are incented to make sure that investment continues in carbon abatement. We expect that hanging onto those credits is the right thing, and they'll be more valuable either late this year or early next year.

Operator

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

Ben Isaacson — Analyst, Scotiabank

Thank you, very much and good morning, everyone. Just a non-operational high-level question. Bob, the stock price has disconnected from any reasonable valuation of $8.50 a share and free cash flow by '28, I'm sure you'll agree. When you consider that in the context of several guidance cuts and balance sheet not going the way you want, at least over the last quarter or so, what gives you the confidence that $2.5 billion in '28 is achievable, that the market doesn't seem to have right now? What is the market missing, if anything? Thank you.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Hey, good morning, Ben, and thanks for the question. I would say the key thing is, if you look at the performance of the business, particularly—well, first start with the refinery. We ran the refinery really well in the quarter. We achieved a composite utilization of over 100 percent, which shows that the team there is focused on reliable and safe operations and maximizing throughput. When you look at our marketing businesses, the three initiatives that we've highlighted in the past, first is common supply organization, looking at opportunities across. We've seen some good wins in our supply business that translate through into a higher integrated margin, and we've certainly seen that in the business.

The second thing is our efforts to standardize our systems and processes, which is our ERP implementation, which we're making good progress and expect to be live with a pilot in our international business this year. Again, we've talked about significant savings from that, and we continue to make process savings, which we have seen in terms of—our cost structure has come down in an inflationary environment.

Then, the third thing is organic growth and our organic growth initiatives. Again, we can see, in the business, across the business, examples of that. In Canada, we continue to gain market share, and as we talked about last quarter, this year we went from third to second, and we continue to hold that position and build on that, in terms of both fuel and convenience.

In our commercial business, in Canada, we've had some good wins, and we continue to hold in a market that's had some headwinds. In our U.S. business, our retail business, we've seen a really good recovery in the Florida business, and in fact are gaining market share. Across our U.S. business in retail, we're on track on the fuel side with market and we're above industry on our same-store sales. Then in international, other than our wholesale business, we've seen gains in our retail, commercial, and aviation business.

I would say the business is meeting the targets that we've set out. As I had commented earlier, we're lapping a tough comp. Last year in Q3, we did $585 million, this year $154 million short of that; $140 million of that is the refinery. If we factored in a mid-cycle crack, we would've been in the $530 million, $540 million range, which would've been a strong quarter and tracks above the $2 billion run rate that we indicated we'd achieve this year.

Ben Isaacson — Analyst, Scotiabank

That's great. Maybe just a quick follow-up. Based on that, is the right way to think about the business in 2025, I know you haven't given guidance yet, but to start with a base of $2 billion in '24 and then you need, I think roughly a 6 percent growth rate each year to get to that $2.5 billion. Is that the right way to think about it?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes. If you look at the marketing business, we'll be a bit more conservative in our projection on cracks.

Ben Isaacson — Analyst, Scotiabank

Got it, okay. Thank you.

Operator

Your next question comes from Adam Wijaya from Goldman Sachs. Please go ahead.

Adam Wijaya — Analyst, Goldman Sachs

Hey, good morning, team, and thank you for taking my questions. Wanted to start on consumer behaviour across various regions, and last quarter you gave some great colour on the state of the consumer. Can you point to any regions where you see some near-term softness, maybe some near-term strength, and how you see that evolving as we head into year-end and then into 2025?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes. Again, if we look across our markets, and each market has a little different dynamics, and I'll start in our international business. We've seen demand hold up well, and we've seen some good year-over-year growth in our retail, commercial, and our aviation businesses, particularly in economies that are tourist-linked, right? We continue to see robust demand in those markets, for leisure travel. That coupled with markets that have natural resource growth, we're seeing tremendous growth in those, and the consumer is benefiting from that, and we're seeing some good same-store sales growth. Some good tailwinds in that market, I'd say across the market.

In our U.S. business, if we look at our Northern business, I would say it's been a bit slower, and mainly again on the natural resource side and some of the infrastructure investments. We've seen some hesitancy, and I think that's driven by the election, which is translated through into some weaker consumer demand in those markets.

Then, Canada, it's held in. I would say what we're feeling there is more the effects of inflationary pressure. While we haven't seen occasions, number of visits come down, what we've seen is transaction size, particularly in-store, has been a bit softer than it would've traditionally been. But overall, our business is hanging in quite nicely. When you look at what the team's been able to do to offset some of these headwinds, we're still seeing positive growth over a trailing 12-month period.

Adam Wijaya — Analyst, Goldman Sachs
Great. Thank you for that, Bob. My follow-up is just on the shareholder returns framework. On the buyback, we saw $14 million reported this quarter, and we understand the priorities around capital allocation are really on leverage reduction, the balance sheet, and also shareholder returns, opportunistically. But can you just remind us, as you think about the returns framework as we head into year-end, '25 and beyond, anything we should be mindful of there? Then, is there anything that we should also be mindful of as it relates to a target cash balance going forward? Thank you.

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Yes, thanks, Adam. I think, as I said earlier, our capital allocation framework remains in line with what we shared last year, over that five-year period. We said we have roughly a quarter of the cash that we have available for allocation goes to our dividends, which continues to be a healthy dividend, so it goes to that. A quarter of that capital goes to organic growth. Then, the remaining half of what we have available, we initially prioritize getting the balance sheet, and getting that leverage down, to getting the balance sheet shored up. Then, with the remaining cash, we have the choice to either invest in our business or to buy back our stock, and we continue to do that. We run that through, what's the best allocation of our capital for the best return to our shareholders in deciding that, so that's how we look at it.

I don't see a change overall in that. I know the cash this quarter is a bit softer, unless the market recovers, that will come in and we will stay in line with this. As I mentioned a bit earlier, with some of the divestment proceeds that we expect over the next 18 months or so, we'll fit that into the overall capital allocation framework.

Operator

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

Luke Hannan — Analyst, Canaccord Genuity

Thanks, good morning, everyone. Marcel, I wanted to follow-up on an earlier line of questioning on the de-leveraging, just a clarifying question. To get to the low end of that 2 times to 3 times target leverage range by the end of next year, does that assume that you will divest, for example, the Florida assets, or are you going to be able to get there without that?

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

No, we'll be able to get far along on that, because I think if you look at just the leverage piece, right, it's the EBITDA at the moment more so than, actually, the debt reduction. We did reduce debt during the quarter. It's just the EBITDA, and when you look on a trailing 12 months basis. Obviously, next year, we have a couple of weaker quarters which will help quite a bit. We do expect that we complete the Florida divestment before the end of next year. Yes, that's part of how we think to getting to that low end of the range.

Luke Hannan — Analyst, Canaccord Genuity

Okay, thanks. Then, Bob, I wanted to follow-up on the international business. You had mentioned that there's that higher volume, but lower margin wholesale business that, I guess, has impacted volume growth year-on-year. But can you share a little bit more about what's going on there? Have there been other players that have come in to capture those volumes? Do you see yourself returning into that channel in the near-term? Maybe, what other levers for organic growth in volumes—specifically, I know you talked about retail and aviation, what other levers can you pull within those two businesses?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, I always think you need to look at the international business in the context of the growth we've achieved over the last five years, and it's been remarkable. As part of that, we grew in the wholesale markets. But look, wholesale, across our business, is a fickle business, right? There are times where we can push product in, and times, particularly when we see a lot of length in the global markets, which is what we're seeing now, where margins will start to come down and we'll choose to step back from that market, because, simply, we can't get the right economics to work, and ultimately the returns, based on the inventory that we have to maintain to service that.

Ultimately, we move in and out of that market across our various jurisdictions, depending on the length in the market and how we want to position ourselves to make sure we're getting the best returns. But again, if you take a step back and look at growth in that market, it's been remarkable. We're winning in the businesses that matter, which are the more asset-intense businesses, our retail, our commercial business, and then our aviation business, where we continue to gain within the market and see good contribution from those businesses. You can see that the margin has grown. Part of it's mix, but the other part is our supply group does an amazing job at making sure that our integrated margin continues to grow.

Operator

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

Steve Hansen — Analyst, Raymond James

Hi, yes, good morning, guys. Thanks for the time. I wanted to ask a little bit more on the U.S. progress and the confidence you have in hitting the $60 million run rate exiting Q4. It sounds like, at least based on your comments, that most of the renegotiations and/or other actions you've planned are largely complete or at least very well advanced at this point?

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, we did benefit from that in Q3, and you'll start to see that manifest itself in Q4 for a full quarter. That coupled with—we will have taken out a lot of the cost that we'd anticipated, so we should start to see a good run rate in that business in Q4 built on some good supply fundamentals. We're getting cautiously optimistic here that we'll see that business track where it needs to be going into next year.

Steve Hansen — Analyst, Raymond James

Okay, that's helpful, thanks. Just circling back to Canada, you described the market share gains already. I'm just curious about the margin profile. Despite volume as being a little bit lacklustre, I think the margin resilience has been the surprise story there. How do you feel about the margin profile in Canada, looking forward here? Are we into a new structural level of support here? It's been quite strong of late. How do you feel about that margin profile? Thanks.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Yes, again, I would say on the market side, or on the consumer side, it's always a competitive market and we ensure that we're competitive and winning on the market share side. Where we're seeing the gains are on the supply side, and again, just leveraging our scale and our asset base and being able to squeeze out that fraction of a penny on the broader system, and we do expect that. Certainly, the supply side is structural. The consumer side bounces around, but over time tends to go up.

Operator

There are no further questions at this time. I'd now like to turn the call over to Bob Espey for final comment.

Bob Espey — President and Chief Executive Officer, Parkland Corporation

Great, thanks for listening in. Have a happy Halloween, and we'll speak to you 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. Thank you.