Parkland Corporation

2022 Q2 Results Analyst Conference Call

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PRESENTATION

Operator

Good morning. My name is Pam, and I will be your conference Operator today. At this time, I'd like to welcome everyone to Parkland's 2022 Q2 results 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'd 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 call over to Miss Valerie Roberts, Director of 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 from the investment community. Please limit yourself to one question and a follow-up, if 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 modelling questions.

During our call today, we may make forward-looking statements regarding 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 revised 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

Great. Thank you, Val, and good morning, everyone. We appreciate you taking the time to join us.

I'm delighted to lead off by acknowledging our announcement to exchange 20 million Parkland shares for the remaining 25 percent of Sol held by the Simpson family. This will consolidate our ownership of Sol to 100 percent.

We appreciate the opportunity to continue to work and grow our relationship with the Simpsons. They are highly supportive shareholders who share our conviction in the Parkland strategy and long-term vision. We are excited to continue our long-standing relationship with the Simpsons who, upon completion, will own approximately 19.5 percent of Parkland.

I believe now is the right time to consolidate our ownership. We are doing this on a leverage-neutral basis and can see significant future growth opportunity.

The Simpson family has and will continue to play an integral part in our growth. We greatly value their continued support and appreciate the confidence they are showing in the Parkland team's ability to build long-term value.

Turning now to the photo on today's cover, which features one of our recently rebranded retail locations in Miami. You recall that in December last year, we seized an opportunity to leverage our existing commercial and supply business in Florida by adding a retail network. Our purchase of Urbieta provides us with immediate retail scale and density.

After we closed the Urbieta transaction, we began the integration process. We have tied these sites into our existing supply platform and applied our ON the RUN brand to several locations, which are being well received. The result is visually strong, and it helps differentiate us in the market.

Our integration of this retail network reflects our broader integration activity, which plays a key role in our growth and success.

With that, let's dive into the quarter.

Quarter after quarter, we continue to demonstrate the resilience of a diversified and integrated business model and our ability to grow through economic cycles.

In Q2, we delivered adjusted EBITDA of $450 million. This brings us to $837 million year to date; both records for our company.

Through 2022, we have focused on integrating and capturing synergies from the great companies we have acquired. We are trending well ahead of schedule on our synergy capture. Marcel will speak about this later on the call.

We have also focused on reducing our leverage ratio. We are making strong progress in lowering our leverage by 0.3 turns in the quarter to 3.2. We expect to return to below 3 times early next year.

Our consistent performance is underpinned by many structural advantages. Our trading logistics and refining expertise helps us reliably source and make competitively priced product. Our supply infrastructure enables us to transport, store, and deliver our products across 25 countries. We serve diversified customers spanning retail, commercial, wholesale, shipping, and aviation. Each have diverse product needs.

Our integrated business model is unique among our peers, and it positions us to optimize margins through each part of the value chain while remaining competitive in our markets.

Through COVID, higher unit margins offset volume declines in our retail business. And again this year, while commodity prices are dampening COVID volume recovery, unit margins are offsetting volume and inflationary pressures.

In our commercial business, we sell diesel, propane, aviation, and marine fuels. We continue to see strength in volumes, with 6 percent year-over-year growth as we integrate acquisitions, win national accounts, and expand these businesses across our footprint. We are confident in our integrated model and our growth trajectory.

We are pleased to announce an increase in our 2022 adjusted EBITDA guidance of $1.6 billion to $1.7 billion. A combination of consistent operational performance, an increase in our guidance, and our consolidation of Sol gives us confidence to meet our $2 billion of adjusted EBITDA by mid-decade.

Our exceptional results are underpinned by hard work and dedication of our talented Parkland team, some of whom you can see on this slide. I would like to extend my sincere thanks for their ongoing commitment to Parkland.

I'll now turn the call over to Marcel to speak in more detail about the financial results on Slide 4.

Marcel Teunissen — Chief Financial Officer, Parkland Corporation

Thanks, Bob. Good morning, everyone.

The team delivered record second quarter results of $450 million of adjusted EBITDA.

Net earnings for the quarter were $81 million or $0.52 per share, up from a loss of $64 million or $0.42 per share in quarter two of 2021. These great results demonstrate the strength of our business model.

I will start with the Canadian Segment, which generated an adjusted EBITDA of $174 million. This is up 38 percent from the prior year. Canada benefitted from higher volumes from ongoing COVID recovery, our Crevier and M&M acquisitions, and organic growth. We also benefitted from solid unit margins, in part offsetting some cost inflation.

Across our company retail network, we delivered same-store fuel growth of 2.1 percent, with our Ontario sites leading the way at 8.5 percent growth year over year. More broadly, the Canadian retail fuel volume returned to within 10 percent of the 2019 levels.

We continued to see some changes to customer behaviour in response to high commodity and fuel prices. Last quarter, we highlighted that some customers are buying less fuel each visit but are coming to see us more often. This trend has continued. This quarter, we also saw a slight decrease in premium-grade fuel volumes, as some consumers switched to regular grades.

Moving to the backcourt. We continue to see the positive impact of our centre-of-store merchandising strategy. On a same-store basis, packaged beverages, salty snacks, and candy were up 6 percent, 11 percent, and 12 percent respectively.

Conversely, customers have dialled back on car washes, lottery tickets, prepaid cards, vape, and cigarettes. These categories lowered our overall same-store sales growth to negative 8.2 percent year over year and a negative 0.6 percent, excluding cigarettes.

Note that the previous two years were exceptional in terms of same-store sales due to COVID-related lockdowns, making the current quarter a difficult one to compare.

We expanded our merchandise margins from 29 percent to 35 percent year over year. And this was done through proactive margin optimization and the contribution from food, including from M&M Food Market.

Our International segment generated an adjusted EBITDA of $87 million, up 24 percent from the prior year. And as you know, we usually refer to three distinct market types in International.

First, the diversified economies such as Puerto Rico and Dominican Republic are seeing steady recovery from COVID.

Second, the tourist-dominated economies where COVID impacted tourism and rising energy prices have impacted local demand, there are clear indications that tourism is returning, which will improve local demand.

Finally, the resource-driven economy, such as Suriname and Guyana, which are experiencing significant economic growth, and Parkland is playing a leading role in meeting the growing energy needs in these markets for both commercial and retail customers.

You will see that across International, we're moving more volume, but with a lower average unit margin. And this is driven by changing sales mix that includes increased wholesale volumes, aviation fuel, LPG, and diesel for electricity generation. This adds to the diversification and resilience of our business.

Looking to the end of the year, we are optimistic that an earlier-than-usual start of the travel season and our acquisitions will continue to drive growth in our International segment.

Our USA segment generated $51 million of adjusted EBITDA during the quarter, and this is up 70 percent from prior year.

Our fuel volumes are up 16 percent year over year, driven by the great businesses we acquired and continued organic growth in our commercial and wholesale businesses. For example, our teams were able to capitalize on the extended spring planting season, and we delivered additional agricultural volumes during quarter two.

We continue to offset inflation and capture incremental unit margins through a volatile market driven by our end-to-end business model. Our fuel unit margins in the US increased from around $0.04 per litre to $0.07 a litre year over year, and this also reflects the benefits from our retail acquisitions last year.

We entered the second half of the year with tailwinds in the form of a full cruise ship season and a positive start to the summer driving season.

Lastly, our Refining segment generated $164 million of adjusted EBITDA, which is up 33 percent from the prior year. And this was underpinned by record crack spreads, which resulted in a net refining margin of approximately $53 per barrel.

The refinery co-processed 2,100 barrels per day of bio-feedstocks and delivered a composite utilization of 88.4 percent. This is slightly lower than anticipated, due to a power outage which caused a temporary unplanned shutdown. Our team in the refinery managed this really well and safely restarted within a few days without interruption of deliveries to our customers.

As you know, we hedge a portion of our volumes to manage commodity price risk. And in the quarter, we also took the opportunity to lock in the above-average cracks during a time of historical highs. And this provides downside protection to our cash flows and more certainty on our deleveraging profile.

These programs will continue through the back half of the year and will affect the margin capture relative to the market.

From an enterprise perspective, combined operating and marketing, general and administrative costs were $479 million, up 34 percent from 2021. And this is mainly due to the inclusion of the acquired businesses, which is responsible for about half the increase. And to a lesser extent, the increase was also driven by variable costs to support higher volumes and prices, such as credit card fees and staff costs returning to normal.

Inflation is impacting a number of areas of our business, and we continue to proactively manage costs. Most of these cost increases are industry-wide, and we have the opportunity to pass this on to the market.

During the quarter, we generated a cash flow from operations of $341 million, which funded our second quarter working capital needs, dividends, and capital expenditures.

Now moving to Slide 5. Parkland has a proven track record of acquiring high-quality companies, successfully integrating them, and capturing synergies. We've previously outlined the contributions from our acquisitions between quarter three of 2020 and quarter one of 2022.

The now 19 acquisitions, including 2 in quarter one this year, were expected to contribute about $225 million this year, growing to $315 million by 2024. We now expect these acquisitions to contribute about $250 million this year, which reflects an accelerated synergy capture and growth in the base businesses that we acquired.

To integrate these great businesses, we capture synergies in three broad categories: supply, operations, and the back office.

On the supply side, we bring acquisitions onto our existing platform, and we get synergies through enhanced purchasing power, sourcing flexibility, and logistics optimization. We have a track record of success here, and particularly our Crevier, Urbieta, Lynch, and Isla acquisitions are ahead of plan.

Operationally, our integrated business provides significant scale and attracts more customers. Our International segment has won three major airline contracts in Puerto Rico, Barbados, and Jamaica. And our increased scale and track record gives major national accounts in the US confidence that we can meet their needs.

In the back office, we are aligning our processes and systems to create greater efficiency and scalability. Integration and synergy capture are among Parkland's core strengths. And as the graph shows, we believe we are well on track to deliver the $315 million of adjusted EBITDA from the recently acquired businesses by 2024.

Moving to Slide 6. When it comes to capital allocation, we balance three key priorities: shareholder distributions, deleveraging, and asset development and acquisitions. For 2022, we are primarily focused on deleveraging, but we have not ignored the other two.

For shareholder distributions, we've increased our dividend every year for over a decade and, most recently, we've increased our dividend by over 5 percent. And we currently have a dividend yield of 3.6 percent. Our dividend payments are consistent and dependable and are underpinned by our resilient business model.

Integration of acquisitions and delivering synergies continue to be a focus of this year and it also supports our broader deleveraging strategy. In quarter two, this has helped us lower our leverage ratio from 3.5 to 3.2 times.

At the end of June, we had $1.4 billion of liquidity through a combination of cash on hand and credit facilities. Last year, we fixed about 75 percent of our interest rate exposure as we extended $3.2 billion of bond maturities to 2026 and later in the decade, and this has provided considerable interest savings and additional financial flexibility.

We expect Q3 leverage to be impacted by the close of our previously announced Husky and Jamaica acquisitions. After that, our material cash flow will drive our leverage ratio down further, and we expect to be below 3 times by early 2023.

Moving to Slide 7. As Bob mentioned, we announced last night that we have reached an agreement to exchange 20 million Parkland shares for the remaining 25 percent of Sol, and this consolidates our International segment and increases Parkland's ownership of that business to 100 percent.

We believe now is the right time to complete this share exchange for several reasons.

First, it's immediately accretive to all shareholders on an earnings per share and cash flow basis; it is neutral to our leverage ratio; and it also provides funding clarity to our rating agencies and lowers their leverage calculation where debt financing was assumed.

Second, it's a simple exchange of 20 million shares, and these will be issued at the prevailing market price.

Third, the valuation is consistent with the arm's length put-call agreement from our initial 2019 Sol transaction, which has been previously disclosed.

Fourth, the shares are being issued to the Simpson family, who are supportive long-term shareholders with an investment horizon through the next decade and beyond. And this demonstrates their confidence in Parkland, our management, and growth strategy.

And finally, it simplifies our corporate structure and reporting. Once completed, we will eliminate the minority interest in our results and the existing put-call liability from our balance sheet.

Following close of the share exchange, Parkland will have about 175 million common shares outstanding, and our largest shareholder, the Simpson family, will own approximately 19.5 percent.

On a trailing 12-month basis, this share exchange adds about $110 million of adjusted EBITDA. And this represents another step towards our $2 billion ambition by mid-decade.

I will now pass it back to Bob for his closing remarks on Slide 8.

Bob Espey

Great. Thanks, Marcel, and thanks for your insights on the quarter.

Before we open the line for questions, I would like to take a moment to update you on some of our strategic initiatives.

You'll recognize the slide on the screen from our Investor Day back in November. It showcases our strategy and provides clarity on our focus.

In our Develop pillar, let's discuss organic growth. Despite the great quarterly results, we saw some softness in select convenience categories, such as cigarettes, vapes, and car wash. To address this, we are executing a growth plan that includes targeted promotional and pricing strategies.

Centre of store remains a strength within our c-stores. We have several promotions planned for the summer and fall, including a national retailers sales contest that focuses on basket size and upselling.

To continuously enhance the customer experience, we are investing in a national food program which will refresh and strengthen our coffee and food offer. It will provide our customers with a better product, increase consistency among locations for enhanced marketing and promotions, and provide a platform for future food expansion. We will also expand our M&M Express offer in Quebec for the first time.

In our Diversify pillar, we are strengthening our digital connection to our customers. We added over 300,000 new JOURNIE members in Q2, bringing total members to 3.5 million. Our JOURNIE members have an 18 percent higher fill rate and a 9 percent bigger basket compared to non-JOURNIE customers, compared to last quarter.

Consistent with our integrated business model, we have begun cross-promoting our M&M Food Market business with our JOURNIE members, and our Spin to Win contest is currently underway.

In the Decarbonize pillar, we are progressing our ultra-fast EV charging network in BC. Customer experience is critical here. In a recent research trip to Norway and London, I saw firsthand the need for reliable charging, quick food and convenience, and clean washrooms.

We are being thoughtful in planning our BC network to include unrivalled amenities positioned in strategic enroute locations. Supply chain and permitting bottlenecks mean we now anticipate completion of our network in the second half of 2022.

I am very proud of Parkland's performance year to date. We are firmly on track to achieve our $2 billion ambition by mid-decade. This would not be possible without the hard work and dedication of the entire Parkland team. I have complete confidence in their ability to take Parkland forward and deliver our strategy.

With that, I will now ask the Operator to open the line to 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 *, followed by 1 on your touch-tone 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 2. And if you're using a speakerphone, please lift your handset before pressing any keys. One moment for your first question.

Your first question comes from Kevin Chiang with CIBC. Please go ahead.

Kevin Chiang — CIBC

Hi. Good morning and thank you for taking my question. Thanks for the slide on the deleveraging waterfall there. Maybe if I could just ask the longer-term deleveraging plans? I think at your Investor Day you talked about being investment-grade. And as I sit here today, if I look at your guidance of $1.7 billion of EBITDA at the upper end, if I add the Sol minority interest, that's $110 million. You've got some synergy capture. You have the Husky transaction closing later this year. You have these organic growth opportunities. It does show you can get to $2 billion without further at least major acquisitions.

And does that suggest maybe a re-prioritization of free cash flow towards deleveraging?

And does that change the path towards when you want to be investment-grade in terms of that timeline?

Bob Espey

Good morning, Kevin. Let me kick it off here, and I'll turn over to Marcel. Look, I'm really pleased with the deleveraging we were able to demonstrate in the quarter. And it does point to the strong cash flow that we do generate as a business consistently and reliably.

That, coupled with the consolidation of the minority position in Sol into Parkland, will have a significant benefit on our—particularly our rating agency debt metrics. And we certainly want to—we'll certainly benefit from that strong deleveraging here going into next year, which will help us on that path.

But I'll turn it over to Marcel to provide some additional colour.

Marcel Teunissen

Yeah. No. In terms of—so, Kevin, good morning—in terms of our capital allocation priorities, that hasn't really changed. But as I think we told you before, we've been very busy on growth and allocating capital to growth. In the last year, leverage had run up, so that's a priority. And throughout that period we have continued to increase shareholder distributions as well.

In terms of our overall leverage guidance, that hasn't changed. We've said 2 to 3 turns; that's our normal range. We are willing to go up to 3.5, if we see the right acquisitions, as we did last year. And now we are kind of sliding back, gliding back towards that normal range of 2 to 3 turns, which we expect to be in in the early part of next year.

I think in terms of our aspirations to be at investment-grade, our ambition to be investment-grade, we are a highly cash flow-generative business. And if we continue just on the path to $2 billion Adjusted EBITDA, I expect that leverage will come down, which was one part of that question to investment-grade.

The other part has been clearly around the relative rate of the refinery within that, which has been one of the rating agency's concerns. And we continue to kind of, of course, grow our marketing businesses to get there.

So there's been no change in that, and we just continue to deliver the results and bring that leverage down to the normal range.

Kevin Chiang

That's helpful. And maybe just a second one for me. You talked about some of the changes in consumer behaviour in the second quarter, just given what's going on with the pump prices.

Now that those have started to come down a little bit, have you seen a, I guess, maybe a normalization? Or at least a return to maybe previous consumer spending habits, whether it's people spending on premium gas again, more car washes, maybe more foot traffic? Do you see stores buying more volume? Just wonder what you're seeing here in the third quarter.

Bob Espey

Yeah. So it is great to see prices come down for consumers. It's always good and beneficial to our business, and we do expect certainly as we're in sort of the last half of summer here in Canada and the US that we'll see demand continue to grow and be strong. The lower prices should help that and that's consistent with what we've seen in other periods where we've had inflation in pump prices, when they do come off consumers do tend to resort to their previous buying habits.

Kevin Chiang

That's very helpful. Thanks for taking my questions. Congrats on getting Sol across the line there.

Operator

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

Ben Isaacson — Scotiabank

Thank you very much, and good morning. Congrats on the quarter and getting that Sol deal done. Two questions.

First one, your fuel margin has been trending higher for the last few years in Canada. It's been a little bit more choppy in the US and somewhat flattish in international. The increase in Canada, how much of that is in your control?

In the Q2 MD&A, you called out your digital and analytical capabilities as to helping your Canadian margin. Is that something that we can quantify in basis points or cents per litre that uplift? And is it sustainable? As you roll out your digital and analytics into the US and international, should we expect to see trending higher fuel margins there as well? Or is this all really more market driven and the trend is much more coincidental? Thank you.

Bob Espey

Good morning, Ben, and thanks for the question. I would say we definitely have invested in our digital capability, which has helped us with our pricing. Always difficult to parse out exactly what the benefit of that is versus where the market's at.

I would say, in the first half of the year in the US, we did roll out a platform, so expect that to help that business going forward and we should see a long-term benefit of that in that market so. But again, always difficult to parse out what's market and what's due to changes in our operating protocols.

Ben Isaacson

And just secondly, can you remind us the game plan for rolling out the stand-alone convenience stores? Or is it still too early to kind of map that out?

Bob Espey

Yeah. No, so we are progressing that, and as you can expect, there are sort of two key things that need to happen. One is with the purchase with of M&M, we're looking at how we integrate that offer both from a frozen and fresh perspective into our stand-alone concept, so we're doing some consumer work and some work in the concept of the store.

And then the second thing is finding locations. We have secured locations, particularly in Vancouver. I think we're up to three locations that will launch late this year, early next year, and be in market and start to prove out the concept.

So quite excited about that as a growth opportunity for the business.

Ben Isaacson

Great. Thanks so much.

Operator

Your next question comes from Steven Hansen with Raymond James. Please go ahead.

Steve Hansen — Raymond James

Oh, yes. Good morning. Thanks for the time. Just looking at the International results in combination with the Sol transaction, I'm just curious if anything changes from a strategy standpoint on your side? Or if it's just be continued status quo? The division's, of course, performing very well, but just trying to understand if there'd be any sort of capital allocation priorities that change, if at all?

Bob Espey

Look, again, we're really pleased to bring that 25 percent back to Parkland. And in terms of the business, the business has performed exceptionally well. When you look at the original EBITDA we purchased and where the business is running at, it's significantly higher.

It's been a combination of some growth capital, some M&A, some synergies, and then the business has been very successful at leveraging its supply platform for organic growth. We do continue to expect and see strong organic growth in the region. And as we find good value and leverage permitting, we'll continue to invest both on the organic side and in M&A as we find good value in the market.

Steve Hansen

That's helpful. Thank you. And just curious if you could perhaps just spend a brief moment on the renewal diesel opportunity that you've highlighted in Vancouver here going forward.

Bob Espey

Yeah. Our renewable diesel, so we're looking at sort of two compliance pathways. One is our co-processing, which I'm really proud of what the team's been able to achieve there and we continue to push our production rates. And that's highly beneficial to our business and our economics in that market.

And I think in the quarter we hit a record of 3,500 barrels a day so, again, and the team has been able to experiment with different feedstocks and lower-cost and higher CI—carbon intensity—feedstocks, or lower carbon intensity feedstocks, so which is great.

Coupled with that, we also announced an RD plant, which would be a new facility within the refinery, which would add another 6,500 barrels a day. That coupled with our growth in our co-processing would take our total capacity to 12,000 barrels a day and make us the largest manufacturer of renewables in the Province of BC.

Now the other thing is we're really, really pleased and appreciate the support we get from the BC government to make sure that we can invest in the facility and keep it economic as the energy mix changes here.

Steve Hansen

Thank you for the time.

Operator

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

Derek Dley — Canaccord

Yeah. Hi. When we think about your International business, I appreciate the three buckets that you outlined there. Can you just help us with the exposure with the splits between tourism, commercial activity, and aviation within that business line?

Bob Espey

I don't have the exact splits top of mind.

Marcel Teunissen

Yeah. They're about the same size. That's why we split it that way, Derek. So they're about a third each.

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Derek Dley

Okay. That's helpful. And then just in terms of your in-store business, I'm assuming given the inflationary pressure that everyone's been facing, you were able to pass through some price increases on that side. Can you just comment on the magnitude of the average price increase on the in-store?

Bob Espey

Yeah. Look, we do have pricing power. The in-store we did push price that would be consistent with, I would say, the average inflation. We've seen a spike here in the recent quarters.

We have to also be cognizant of what the consumer can absorb but, again, the channel has demonstrated enormous resiliency independent of the market conditions, and we expect that to continue over the longer term.

Derek Dley

So would that be like a 5 percent-ish number?

Bob Espey

Yeah. Roughly.

Derek Dley

Yeah. Okay. Okay. Thank you very much.

Operator

Your next question comes from Neil Mehta with Goldman Sachs. Please go ahead.

Neil Mehta — Goldman Sachs

Good morning, team, and thanks for taking the time, and congrats on strong results. I just wanted to build on the Simpson family and it sounds like they are long-term investors based on the indications that you're giving on the call.

So can you just talk about how the market should think about their involvement in the business, both strategically and then financially? And are there lock-ups that are associated with this transaction? Thank you.

Bob Espey

Yeah. I mean, let me lead off here with their commitment to the business. Again, the Simpsons have been shareholders since 2017. They are very supportive of our strategy and our growth that we've been able to achieve and of the management team. They are supportive of our long-term vision for the business and have conviction around our base business over the long term in the regions that we operate.

So we were really pleased to expand their ownership in Parkland. They are a long-term, patient shareholder that understands and can see the value that we can drive within the business.

Neil Mehta

Is there any additional corporate governance that will be involved here, whether it's board representation or involvement in the day to day of the business?

Bob Espey

No. Look, the way they currently interact with the business will continue, which basically as a large shareholder, but they are not involved in the governance or the day-to-day management.

The Simpsons have been very helpful for us in our international business because of their experiences in those markets, and they've offered and certainly take them up on continued assistance as we need it in those markets. But from a day-to-day operational or strategic perspective, I mean, there's no direct involvement.

Neil Mehta

Thank you. And then the follow-up is just on how you're thinking about the refining business out in Vancouver. Obviously, unbelievably strong crack spreads in the first half of the year. We've seen gasoline come off a little bit here. How are you thinking about the margin outlook and your ability to profit from them?

And then can you also talk about your hedging strategy around cracks as well?

Bob Espey

Yeah. So let me lead off, and I'll turn it over to Marcel here. Again, the fundamentals for that facility remain strong over the long term, and we certainly look at the long term in that facility when we look and value that asset within Parkland. So very confident about that.

We're confident about our ability to transition a portion of that facility into renewables to meet our compliance obligations, and the structural benefit, or the structural advantage of that facility remains in terms of both pricing and discounts from a crude perspective.

And I'll turn it over to Marcel. He can provide some more colour on that.

Marcel Teunissen

Yeah. Listen, our outlook on refinery margins for the rest of the year continue to be constructive. Whether they will be at record levels we saw so far this year, a bit hard to guess, I guess, but I think they continue to be constructive as well.

And as Bob said, our refinery is a bit unique in that it captures the upside and it has that protection on the downside. And if you look historically, you see it doesn't go down below a certain level as well.

Our approach to risk management or commodity price hedging in general is that we take a risk-neutral position on the big volumes that we have, but that we typically are exposed to the crack spread, so we typically don't hedge that.

What has changed this year as we were early in the year and crack spreads ran up, we thought it was an opportunity—it was very volatile. So two things. One, it was an opportunity just to get a bit more predictability in the pricing, which helps in optimization of how you run the refinery, but also to lock in some of that margin and it would give us cash flow certainty that will help in the current profile of deleveraging that we're trying to achieve.

If we continue that for the rest of the year, it's a small portion of it, but it's roughly about 10 percent of the production at the refinery and we'll continue that for the rest of the year.

Neil Mehta

Okay.

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 question. Just looking at the business and how the BC low-carbon fuel standard is positive for your low-carbon developments and opportunities at the Burnaby refinery, looking at the implementation of a federal clean fuel standard, I was just wondering if you had any kind of initial thoughts on how you see this impacting the business, the kind of opportunities you think it could bring to help decarbonize for your customers across the country going forward? Thanks.

Bob Espey

Yeah. Good morning, Matthew, and thanks for the question. Look, Parkland's well set up in terms of the new standard that is going to be slowly rolled out. And again, I would speak to our strength not only in manufacturing, but on the supply and trading side when it comes to renewables and also our carbon offset trading business all stand to benefit from these changes in a positive way.

Matthew Weekes

Okay. Thanks for the commentary. I'll turn it back. Congrats on the good quarter. Thanks.

Bob Espey

Thanks.

Operator

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

Michael Van Aelst — TD Securities

Hi. Good morning. I just want to ask you more on the operational side because your execution has been very solid in what many have described as a difficult environment. So I was hoping you could discuss any operational challenges that you're managing through and what your outlook for them is, whether it be labour availability or supply chain, or whatnot.

Bob Espey

Yeah. Look—and thanks for the question and also the recognition for our team and their ability to operate our business through the volatility that we're seeing. Again, let me start off with first and foremost the advantage of our integrated model and our diversified platform. And while we may have seen some headwinds specifically in our convenience business, that was more than offset with growth, for example, in our diesel business, which was very strong across all three regions throughout the first half of the year.

The other area where we're seeing is gasoline demand has not yet returned to 2019 in Canada and we've seen it come off a little bit in the US because of some of the inflationary pressures. But again, the strength of the business, both on the commercial and on the supply side, was able to offset that quite handily.

So again, that platform really does shine in a volatile period. And also our shareholders benefit just because of the reliability of the cash flow that we can produce quarter over quarter.

Specifically, look, we've had some inflationary headwinds in our business. Specifically we did see in the US business it's hit us more. We have seen inflation in our driver wages, both in Canada and the US, more in the US, but those have been offset by being able to push some of those—well, all of the inflationary pressures back into the market in our margins. And again, the structure of the industry is very similar among competitors, so everybody's incented to make sure that they recover those inflationary costs.

In terms of labour availability, we have seen some tightness in the market in the US. I would say in Canada, our retailer model has been a benefit through this period. Our retail partners have been able to absorb some of the shortfall in labour and also some of the inflationary pressures in the short term here. And again, we're not seeing any impediments on our ability to operate or our hours of operation across all jurisdictions.

Michael Van Aelst

That's very helpful. Thank you.

Operator

Ladies and gentlemen, as a reminder if you do have any questions, please press *, 1.

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

Peter Sklar — BMO Capital Markets

Good morning. Marcel, when you went through the in-store business in Canada, kind of the same-store sales numbers kind of came fast and furious. And I'm just wondering if you can go through all those numbers again?

And also, if you can just elaborate a little bit on what initiatives the Company's taking to get the comp back into positive territory? And kind of what your outlook is for the remaining quarters of the year in terms of in-store sales?

Bob Espey

Let me kick off, and then I'll turn it over to Marcel here. Again, on the promotional side, particularly on the tobacco or the nicotine side there are some opportunities where we can get a bit more precise in the way that we priced the market and take it and drive a bit more volume.

The second thing is on the car wash side, our team there is rolling out a series of promotions to connect car wash with further fuel discounts. We've seen that and used that in the past to incent folks back in. And again, car wash has been soft across the industry, particularly due to inflationary pressures but, again, we want to help the consumer a bit here and incent them back into the car wash. But those are two examples that we'll be doing within those categories.

I'll turn it over to Marcel to talk specifically about—

Marcel Teunissen

Yeah. So, Peter, the numbers I mentioned, sort of central store merchandising, so the stuff that you see when you come straight into the store, packaged beverage, they were up 6 percent; salty snacks, up 11 percent; and candy up 12 percent. So that's where we saw good increases.

And the areas where we saw decreases was car washes, lottery tickets, prepaid cards, vape, and cigarettes. Those happen to be lower-margin products in general, right? And so—but particularly cigarettes, as Bob mentioned, is a big portion of it.

So if you look at the overall same-store sales growth for Q2, that was a negative 8.2 percent. You take the cigarettes out, it was negative 0.6 percent. But I really also encourage you to look at what the same-store sales numbers were Q2 of last year because that's then the comp with 2020 over a two-year period.

And the way I would describe it is just actually as we saw during COVID when consumer behaviour changes rapidly, and we see that again, inflationary pressure, higher gas prices as people come in, that you see the buying behaviour of the consumer in the back are changing.

And what's, of course, unique with the c-store model is we can change the offering quite rapidly. We can put promotions in place. We can put different-sized packaging. We can promote our own 59th Street brand in that mix. And so we have lots of tools within the c-store, which is a small box, of course, to change to a quickly changing demand profile as well. So hopefully that helped.

Peter Sklar

Yeah. Can you or Bob just elaborate a little bit on what the issues were with tobacco and the significant negative sales result? It sounded like, Bob, that you weren't satisfied with your price position; you kind of missed on your price position. Can you maybe talk a little bit? It just seems going you have a long way to go it sounds like from the numbers to get that back into positive growth territory.

Bob Espey

Yeah. Again, in Canada, we did see a decline in cigarette sales across the board, and certainly our suppliers are telling us that. I'd say a chunk of the decline, the majority of the decline is industry related and what's driving that.

We did see—we continued to see more migration of cigarette sales into the illicit market and so their share is growing of the tobacco sales. And then I guess good news for Canadians, fewer Canadians are smoking, and that seems to have accelerated here beyond sort of traditional people not smoking.

So those are two things that are affecting the industry as a whole. I would say on the pricing side our team got a bit aggressive on the margin side in a few markets, and they need to reverse that here and align the pricing with where we've traditionally been in the marketplace.

But look, cigarette aside, as Marcel says, they're low margin. Our team is doing the right thing. I mean, they want to make sure they are positioned properly within that segment, but more importantly, the team is focusing on our new categories, more aggressively rolling out food.

I talked earlier about bringing M&Ms more prominently into the business, which is not something we'll see in the short term, but certainly our fresh offer in our sites is something that we started to roll out earlier in the year—it's called the Bistro offer— and it's focusing on coffee and baked items. And it's an area that we basically have refreshed and will continue to roll out here through the balance of the year. We expect that, which is a high-margin category, to offset some of the decline.

As I talked about some targeted promotion and, again, focusing on targeted promotion on centre store but also, again, the conversion backcourt to forecourt; continued penetration of our JOURNIE program, which again we had astounding growth within the quarter.

One of the things that we've started to do is cross-promote between M&Ms and our fuel our JOURNIE program, and again early days, but seeing very positive results there. And so all of these things we expect to recover our position here and get back into positive territory over the next couple of quarters.

Peter Sklar

Okay. And just one last question. What would be a good timing assumption for when you'll close on taking out the minority interest of the International, the Caribbean business?

Bob Espey

Yeah. By the end of the year, for sure. Obviously, our team always pushes to get things done quicker, but we do have a number of regulatory hurdles to overcome. None that we see as high risk, but they do take time.

Peter Sklar

Okay. Thank you.

Operator

Your next question comes from Luke Davis with RBC. Please go ahead.

Luke Davis — RBC

Hey. Good morning, everyone. Apologies if this was addressed already. I dialled in a few minutes late here, but I'm wondering if you can speak a bit to just the timing on Sol, just some of the background on how that came together and why that was sort of done outside the option dates?

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And then just more broadly, I mean, Sol was obviously sort of unique, but what are your expectations for M&A in other geographies for the balance of this year and then going forward?

Bob Espey

Look, on the Sol side I would say a couple things. Again, we really like the business and are pleased to bring it 100 percent into Parkland. I mean, we're basically running that business right now, but not getting the direct economic benefit through to our balance sheet.

In terms of timing, look, like with any opportunity we were able to find deal space. I mean, again, really pleased to have the Simpsons increase their position in Parkland. They've been a great partner. We see them as a strategic partner in Parkland and a long term one, and always good to have long-term committed shareholders in the story that recognize value over the long term. So we saw that as very positive.

We saw it as positive to reduce our rating agency leverage and get the benefits of the cash flow into Parkland. And the deal is accretive. It's accretive from a cash flow and an EPS perspective. So it does help us on an overall metrics basis. It also cleans up a lot of the noise that we've been having in our results that our IR team has to spend a lot of time explaining to people.

On the M&A side, again, consistent with what we've said previously, I mean, we're not active in the market and don't expect to be still until we get our leverage back within target. We're very comfortable with our ability to meet our $2 billion growth objective by mid-decade and can certainly do that with the cash flow that the business can generate.

Marcel Teunissen

And specifically, Luke, Jamaica acquisition has closed in July, so that's already in—and you will see that in quarter three. And then the Husky acquisition we're getting to the last bit here for regulatory approval, so we expect it to kind of close over the next little bit. It could be the end of quarter three, maybe early quarter four, but of course we'll update you as we go in. There's nothing else in the pipeline from that perspective.

Maybe the one comment I would make on timing of the Sol acquisition and the comments we made before. As you know, the BCA or the business combination agreement which we had previously gave us that call option and that put option window, that's a three-month window, kind of from the beginning of March to the beginning of June. And as we then communicated, we ran out of that particular time to do that transaction, which was an all-cash transaction, which we didn't think from our perspective was attractive. We couldn't do that and vice versa. Whereas in line with the spirit of this transaction or this combination that we have done was more doable. There was more space there to do that and more alignment to get that deal done.

Luke Davis

Yeah. No, good to see that get done. That's helpful colour. Just on capital spending as well. Low end this year, but where do you guys see that going next year just in the context of a larger business, inflation, supply chain dynamics, all that sort of stuff?

Bob Espey

Next year, we'll start to invest in the R&D plant, so we will see capital come up marginally. I would say, in terms of our ongoing capital that's affiliated with our marketing business, we intend to continue to invest in our organic growth initiatives.

I would also say that, from an inflationary perspective, we have seen that impact. I would say the bigger impact, though, is availability of both material and labour has slowed our spending down, but hasn't eliminated any opportunities that we're pursuing.

Marcel Teunissen

Yeah. The other thing to think about, Luke, next year we have a turnaround, so that adds some maintenance capital, so you can look at past turnarounds where that sits typically. So I expect that we're going to be higher. We haven't guided specifically yet as we still are finalizing the plans.

And I think as Bob already alluded to as well, particularly on other growth activities, we clearly want to time that so that we don't spend into an inflationary environment where contracting, cost of materials are just higher, if we can do exactly the same thing cheaper in a different period. So the timing of that we're clearly thinking through as well.

Luke Davis

That's helpful. Appreciate it. Thanks, guys.

Bob Espey

Great. Thank you.

Operator

Your next question comes from Steven Hansen with Raymond James. Please go ahead.

Steve Hansen

Oh, yeah. Thanks, guys, for the follow-up. Just a quick one on JOURNIE's continued growth. I think you added another 300,000 members in the quarter. You're pushing 3.5 million now. I think that's above 10 percent of the Canadian adult-age population.

Just curious if you have a sense for how this program benchmarks now at this stage relative to some of the more established programs in the country, like Petro-Points for example, in membership? And just, ultimately, where you think that membership can grow to over the next couple years? Thanks.

Bob Espey

Yeah. I would say we're certainly in a top 10 position within the market. We continue to have opportunity with that program, and I would say the biggest opportunity beyond the organic growth and the promotional is to bring other partners into the program, similar to the way we have CIBC.

The other would be, again, continuing to integrate it with the M&M platform which, again, we did some cross-promotion which was fairly basic. I mean, we basically ran a promotion to M&M customers with a code they could enter into JOURNIE to get a benefit.

So there's a lot of friction in that but, ultimately, we'd like to run the M&M loyalty program through the JOURNIE program, which would have a direct connection into the business.

So look, there's certainly growing this to 5 million to 6 million participants is something that we believe is achievable and is something that we should expect to see here over the next two, three years.

Steve Hansen

Appreciate the time. And I did take advantage of the cross-promotion. It was great. Thanks.

Operator

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

Bob Espey

Great. Well, thank you. Thanks for listening in. Look forward to chatting with folks at the 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. Have a great day.

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