

Q1 2021

ALIMENTATION COUCHE-TARD INC.
MANAGEMENT DISCUSSION & ANALYSIS
12-week period ended July 19, 2020



Management Discussion and Analysis

The purpose of this Management Discussion and Analysis (“MD&A”) is, as required by regulators, to explain management’s point of view on the financial condition and results of the operations of Alimentation Couche-Tard Inc. (“Couche-Tard”) as well as its performance during the first quarter of the fiscal year ending April 25, 2021. More specifically, it aims to let the reader better understand our development strategy, performance in relation to objectives, future expectations, and how we address risk and manage our financial resources. This MD&A also provides information to improve the reader’s understanding of Couche-Tard’s unaudited interim condensed consolidated financial statements and related notes. It should therefore be read in conjunction with those documents. By “we”, “our”, “us” and “the Corporation”, we refer collectively to Couche-Tard and its subsidiaries.

Except where otherwise indicated, all financial information reflected herein is expressed in United States dollars (“US dollars”) and determined on the basis of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). We also use measures in this MD&A that do not comply with IFRS. Where such measures are presented, they are defined, and the reader is informed. This MD&A should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in our 2020 Annual Report, which, along with additional information relating to Couche-Tard, including the most recent Annual Information Form, is available on SEDAR at <https://www.sedar.com/> and on our website at <https://corpo.couche-tard.com/>.

Forward-Looking Statements

This MD&A includes certain statements that are “forward-looking statements” within the meaning of the securities laws of Canada. Any statement in this MD&A that is not a statement of historical fact may be deemed to be a forward-looking statement. When used in this MD&A, the words “believe”, “could”, “should”, “intend”, “expect”, “estimate”, “assume” and other similar expressions are generally intended to identify forward-looking statements. It is important to know that the forward-looking statements in this MD&A describe our expectations as at September 1, 2020, which are not guarantees of the future performance of Couche-Tard or its industry, and involve known and unknown risks and uncertainties that may cause Couche-Tard’s or the industry’s outlook, actual results or performance to be materially different from any future results or performance expressed or implied by such statements. Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. A change affecting an assumption can also have an impact on other interrelated assumptions, which could increase or diminish the effect of the change. As a result, we cannot guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements do not take into account the effect that transactions or special items announced or occurring after the statements are made may have on our business. For example, they do not include the effect of sales of assets, monetization, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made. Additionally, we are uncertain of the duration and impacts of the current COVID-19 pandemic on our business. We are actively monitoring the effect of the COVID-19 pandemic on all aspects of our business and geographies, including how it will impact our people, our customers, our suppliers, our business partners and distribution channels.

Unless otherwise required by applicable securities laws, we disclaim any intention or obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

The foregoing risks and uncertainties include the risks set forth under “Business Risks” in our 2020 Annual Report as well as other risks detailed from time to time in reports filed by Couche-Tard with securities regulators in Canada.

Our Business

We are the leader in the Canadian convenience store industry. In the United States, we are the largest independent convenience store operator in terms of the number of company-operated stores. In Europe, we are a leader in convenience store and road transportation fuel retail in the Scandinavian countries (Norway, Sweden and Denmark), in the Baltic countries (Estonia, Latvia and Lithuania), as well as in Ireland, and have an important presence in Poland.

As of July 19, 2020, our network comprised 9,274 convenience stores throughout North America, including 8,088 stores with road transportation fuel dispensing. Our North American network consists of 18 business units, including 14 in the United States covering 47 states and 4 in Canada covering all 10 provinces. Approximately 109,000 people are employed throughout our network and at our service offices in North America.

In Europe, we operate a broad retail network across Scandinavia, Ireland, Poland, the Baltics and Russia through 10 business units. As of July 19, 2020, our network comprised 2,714 stores, the majority of which offer road transportation fuel and convenience products while the others are unmanned automated fuel stations which only offer road transportation fuel. We also offer other products, including aviation fuel and energy for stationary engines. Including employees at branded franchise stores, approximately 22,000 people work in our retail network, terminals and service offices across Europe.

In addition, under licensing agreements, close to 2,350 stores are operated under the Circle K banner in 15 other countries and territories (Cambodia, Egypt, Guam, Guatemala, Honduras, Hong Kong, Indonesia, Jamaica, Macau, Mexico, Mongolia, New Zealand, Saudi Arabia, the United Arab Emirates and Vietnam), which brings the worldwide total network to close to 14,350 stores.

Our mission is to make our customers' lives a little easier every day. To this end, we strive to meet the demands and needs of people on the go. We offer fast and friendly service, providing food, hot and cold beverages, car wash services, and other high-quality products and services including road transportation fuel, designed to meet or exceed our customers' demands in a clean, welcoming and efficient environment. Our business model is our key to success. We are a customer-centric, financially disciplined organization that routinely compares best practices, and uses our global experience to enhance our operational expertise and continually invests in our people and our stores.

Value Creation

In the United States, the convenience store sector is fragmented and in a consolidation phase. We are participating in this process through our acquisitions, the market shares we gain when competitors close sites, and by improving our offering. In Europe and Canada, the convenience store sector is often dominated by a few major players, including integrated oil companies. Some of these integrated oil companies are in the process of selling, or are expected to sell, their retail assets. We intend to study investment opportunities that might come to us through this process.

No matter the context, to create value for our Corporation and its shareholders, acquisitions have to be concluded at reasonable conditions. Therefore, we do not necessarily favor store count growth to the detriment of profitability. In addition to acquisitions, the contribution from organic growth has played an important role in the recent growth of our net earnings. Highlights have included the ongoing improvements we have made to our offer, including fresh products, to our supply terms and to our efficiency. All these elements, in addition to our strong balance sheet, have contributed to the growth in our net earnings and to value creation for our shareholders and other stakeholders. We intend to continue in this direction.

Exchange Rate Data

We use the US dollar as our reporting currency, which provides more relevant information given the predominance of our operations in the United States.

The following tables set forth information about exchange rates based upon closing rates expressed as US dollars per comparative currency unit:

	12-week periods ended	
	July 19, 2020	July 21, 2019
Average for period⁽¹⁾		
Canadian dollar	0.7289	0.7517
Norwegian krone	0.1027	0.1155
Swedish krone	0.1057	0.1055
Danish krone	0.1492	0.1505
Zloty	0.2481	0.2629
Euro	1.1124	1.1239
Ruble	0.0141	0.0156

(1) Calculated by taking the average of the closing exchange rates of each day in the applicable period.

	As at July 19, 2020	As at April 26, 2020
Period end		
Canadian dollar	0.7368	0.7118
Norwegian krone	0.1078	0.0941
Swedish krone	0.1106	0.0993
Danish krone	0.1535	0.1448
Zloty	0.2549	0.2385
Euro	1.1428	1.0800
Ruble	0.0140	0.0134

As we use the US dollar as our reporting currency in our consolidated financial statements and in this document, unless indicated otherwise, results from our Canadian, European and corporate operations are translated into US dollars using the average rate for the period. Unless otherwise indicated, variances and explanations regarding changes in the foreign exchange rate and the volatility of the Canadian dollar and European currencies which we discuss in the present document are therefore related to the translation into US dollars of our Canadian, European and corporate operations' results.

Overview of the First Quarter of Fiscal 2021

Financial Results

Net earnings attributable to shareholders of the Corporation (“net earnings”) amounted to \$777.1 million for the first quarter of fiscal 2021, compared with \$538.8 million for the first quarter of fiscal 2020. Diluted net earnings per share stood at \$0.70, compared with \$0.48 for the corresponding quarter of the previous fiscal year.

The results for the first quarter of fiscal 2021 were affected by a pre-tax net foreign exchange loss of \$18.4 million, as well as by pre-tax acquisition costs of \$3.9 million.

The results for the first quarter of fiscal 2020 were affected by a pre-tax net foreign exchange loss of \$6.5 million, an income tax expense of \$4.5 million (of which \$3.5 million was attributable to shareholders of the Corporation) following the first tranche of the December 2018 asset exchange agreement with CAPL, as well as pre-tax acquisition costs of \$0.2 million.

Excluding these items, the adjusted net earnings were approximately \$795.0 million¹ (\$0.71¹ per share on a diluted basis) for the first quarter of fiscal 2021, compared with \$548.0 million¹ (\$0.48¹ per share on a diluted basis) for the first quarter of fiscal 2020, an increase of \$247.0 million or 45.1%, driven by strong growth in merchandise and service and in road transportation fuel gross profit, as well as by good cost control.

Changes in our Network

Asset Exchange Agreement with CrossAmerica Partners LP (“CAPL”)

On December 17, 2018, we entered into an asset exchange agreement with CAPL which aimed at exchanging 192 Circle K U.S. stores against the real estate property held by CAPL for 56 U.S. company-operated stores leased and operated by Couche-Tard pursuant to a master lease that CAPL had previously purchased jointly with or from CST Brands Inc., and 17 company-operated stores owned and operated by CAPL in the U.S. Upper Midwest (“December 2018 asset exchange agreement”). The aggregate value of this agreement will total approximately \$185.0 million.

During the first quarter of fiscal 2021, we closed the fifth transaction of the December 2018 asset exchange agreement with CAPL. In this fifth transaction, we transferred 29 Circle K U.S. stores for a total value of approximately \$32.0 million. In exchange, CAPL transferred the real estate for 13 properties of an equivalent value. The fifth transaction resulted in a gain of \$8.6 million. The remaining assets of this agreement are expected to be exchanged in the second half of calendar 2020.

Single-site acquisitions

During the first quarter of fiscal 2021, we acquired one company-operated store.

Store construction

During the first quarter of fiscal 2021, we completed the construction of 16 stores and the relocation or reconstruction of 8 stores. As of July 19, 2020, another 23 stores were under construction and should open in the upcoming quarters.

¹ Please refer to the section “Net earnings attributable to shareholders of the Corporation (“net earnings”) and adjusted net earnings attributable to shareholders of the Corporation (“adjusted net earnings”)” of this MD&A for additional information on this performance measure not defined by IFRS.

Summary of changes in our store network during the first quarter of fiscal 2021

The following table presents certain information regarding changes in our store network over the 12-week period ended July 19, 2020⁽¹⁾:

Type of site	12-week period ended July 19, 2020				Total
	Company-operated ⁽²⁾	CODO ⁽³⁾	DODO ⁽⁴⁾	Franchised and other affiliated ⁽⁵⁾	
Number of sites, beginning of period	9,691	453	689	1,291	12,124
Acquisitions	1	—	—	1	2
Openings / constructions / additions	16	—	7	13	36
Closures / disposals / withdrawals	(56)	(30)	(26)	(62)	(174)
Store conversion	(5)	12	(8)	1	—
Number of sites, end of period	9,647	435	662	1,244	11,988
Circle K branded sites under licensing agreements					2,335
Total network					14,323
Number of automated fuel stations included in the period-end figures ⁽⁶⁾	983	—	10	—	993

(1) These figures include 50% of the stores operated through RDK, a joint venture.

(2) Sites for which the real estate is controlled by Couche-Tard (through ownership or lease agreements) and for which the stores (and/or the service stations) are operated by Couche-Tard or one of its commission agents.

(3) Sites for which the real estate is controlled by Couche-Tard (through ownership or lease agreements) and for which the stores (and/or the service stations) are operated by an independent operator in exchange for rent and to which Couche-Tard sometimes provides road transportation fuel through supply contracts. Some of these sites are subject to a franchise agreement, licensing or other similar agreement under one of our main or secondary banners.

(4) Sites controlled and operated by independent operators to which Couche-Tard supplies road transportation fuel through supply contracts. Some of these sites are subject to a franchise agreement, licensing or other similar agreement under one of our main or secondary banners.

(5) Stores operated by an independent operator through a franchising, licensing or another similar agreement under one of our main or secondary banners.

(6) These sites sell road transportation fuel only.

Transaction subsequent to quarter end

On August 24, 2020, subsequent to the end of the first quarter of fiscal 2021, we acquired 10 company-operated stores from Wadsworth Oil Company of Clanton, Inc., all located in Alabama, within the United States. We settled this transaction using our available cash and existing credit facilities.

COVID-19 Pandemic

Due to the ongoing restrictive social measures across the various geographies in which we operate, the COVID-19 pandemic has had a meaningful impact on our financial results, mostly driven by declining traffic throughout our network. The impact of lower traffic on the merchandise sales was however more than offset by an increase in the average basket size as consumers consolidated their purchases. From a fuel perspective, volumes generally improved throughout the quarter following the gradual pickup in overall economic activity and fuel margins remained healthy. Lastly, from an operating expense perspective, we have continued to invest in the health and safety of our employees and customers and have successfully gained the trust of our communities which recognize us as a safe shopping destination. These additional costs were fully offset by initiatives implemented across our network to reduce our controllable expenses.

Debt Repayments

During the first quarter of fiscal 2021, we fully repaid the outstanding balance of \$1.5 billion borrowed on our operating credit D with available cash.

On August 21, 2020, subsequent to the end of the first quarter of fiscal 2021, we fully repaid, at maturity, our CA \$300.0 million (\$227.1 million) Canadian-dollar-denominated senior unsecured notes issued on August 21, 2013.

Fire & Flower

On April 28, 2020, we invested an additional amount of CA \$2.5 million (\$1.8 million) in Fire & Flower Holdings Corp. (“Fire & Flower”), a leading independent cannabis retailer listed on the Toronto Stock Exchange and based in Alberta, Canada. This investment is composed of secured convertible debentures (“April 2020 debentures”) as well as additional common share purchase warrants. This additional investment does not significantly impact, on a fully diluted basis, our potential interests in Fire & Flower.

On July 23, 2020, subsequent to the end of the first quarter of fiscal 2021, amendments to the unsecured convertible debentures issued on August 7, 2019, April 2020 debentures and common share purchase warrants were announced. As at September 1, 2020, these amendments are still subject to customary conditions precedent and regulatory approvals. The amendments mainly aim at modifying the maturity and expiry dates of the financial instruments, as well as their respective conversion and exercise price to a lower strike price or to a market-based price. A commitment to exercise a portion of the common share purchase warrants, for an amount of CA \$19.0 million, no later than December 31, 2020, would take effect on the same date as the amendments become effective. This exercise would increase our ownership interest in Fire & Flower to approximately 15.0%. For more information on the additional investment and the announced amendments, please refer to Note 5 of our unaudited interim condensed consolidated financial statements.

Dividends

During its September 1, 2020 meeting, the Board of Directors declared a quarterly dividend of CA 7.0¢ per share, for the first quarter of fiscal 2021 to shareholders on record as at September 11, 2020, and approved its payment for September 25, 2020. This is an eligible dividend within the meaning of the *Income Tax Act* (Canada).

Outstanding Shares and Stock Options

As at August 28, 2020, Couche-Tard had 253,803,700 Class A multiple-voting shares and 859,144,568 Class B subordinate voting shares issued and outstanding. In addition, as at the same date, Couche-Tard had 3,263,092 outstanding stock options for the purchase of Class B subordinate voting shares.

Summary Analysis of Consolidated Results for the First Quarter of Fiscal 2021

The following table highlights certain information regarding our operations for the 12-week periods ended July 19, 2020, and July 21, 2019. CAPL refers to CrossAmerica Partners LP.

	12-week periods ended		
	July 19, 2020	July 21, 2019	Variation %
<i>(in millions of US dollars, unless otherwise stated)</i>			
Statement of Operations Data:			
Merchandise and service revenues ⁽¹⁾ :			
United States	2,851.4	2,657.8	7.3
Europe	343.2	353.1	(2.8)
Canada	663.2	575.6	15.2
CAPL	—	19.8	(100.0)
<i>Elimination of intercompany transactions with CAPL</i>	—	(0.5)	(100.0)
Total merchandise and service revenues	3,857.8	3,605.8	7.0
Road transportation fuel revenues:			
United States	3,906.0	6,801.5	(42.6)
Europe	1,182.4	1,919.8	(38.4)
Canada	677.0	1,201.4	(43.6)
CAPL	—	567.4	(100.0)
<i>Elimination of intercompany transactions with CAPL</i>	—	(121.4)	(100.0)
Total road transportation fuel revenues	5,765.4	10,368.7	(44.4)
Other revenues ⁽²⁾ :			
United States	7.5	6.9	8.7
Europe	75.2	155.1	(51.5)
Canada	3.9	4.8	(18.8)
CAPL	—	25.8	(100.0)
<i>Elimination of intercompany transactions with CAPL</i>	—	(4.1)	(100.0)
Total other revenues	86.6	188.5	(54.1)
Total revenues	9,709.8	14,163.0	(31.4)
Merchandise and service gross profit ⁽¹⁾ :			
United States	988.3	904.9	9.2
Europe	139.2	146.5	(5.0)
Canada	210.5	189.5	11.1
CAPL	—	4.6	(100.0)
<i>Elimination of intercompany transactions with CAPL</i>	—	(0.5)	(100.0)
Total merchandise and service gross profit	1,338.0	1,245.0	7.5
Road transportation fuel gross profit:			
United States	812.5	672.5	20.8
Europe	236.5	222.2	6.4
Canada	81.7	81.5	0.2
CAPL	—	23.1	(100.0)
Total road transportation fuel gross profit	1,130.7	999.3	13.1
Other revenues gross profit ⁽²⁾ :			
United States	7.5	6.9	8.7
Europe	30.9	31.3	(1.3)
Canada	3.9	4.8	(18.8)
CAPL	—	25.8	(100.0)
<i>Elimination of intercompany transactions with CAPL</i>	—	(4.1)	(100.0)
Total other revenues gross profit	42.3	64.7	(34.6)
Total gross profit	2,511.0	2,309.0	8.7
Operating, selling, administrative and general expenses			
Excluding CAPL	1,171.0	1,224.3	(4.4)
CAPL	—	20.2	(100.0)
<i>Elimination of intercompany transactions with CAPL</i>	—	(4.4)	(100.0)
Total Operating, selling, administrative and general expenses	1,171.0	1,240.1	(5.6)
(Gain) loss on disposal of property and equipment and other assets	(8.8)	10.1	(187.1)
Depreciation, amortization and impairment			
Excluding CAPL	289.5	284.2	1.9
CAPL	—	22.9	(100.0)
Total depreciation, amortization and impairment	289.5	307.1	(5.7)
Operating income			
Excluding CAPL	1,059.3	743.0	42.6
CAPL	—	8.9	(100.0)
<i>Elimination of intercompany transactions with CAPL</i>	—	(0.2)	(100.0)
Total operating income	1,059.3	751.7	40.9
Net financial expenses	88.0	87.0	1.1
Net earnings including non-controlling interests	777.1	536.0	45.0
Net loss attributable to non-controlling interests	—	2.8	(100.0)
Net earnings attributable to shareholders of the Corporation	777.1	538.8	44.2
Per Share Data:			
Basic net earnings per share (dollars per share)	0.70	0.48	45.8
Diluted net earnings per share (dollars per share)	0.70	0.48	45.8
Adjusted diluted net earnings per share (dollars per share)	0.71	0.48	47.9

	12-week periods ended		
	July 19, 2020	July 21, 2019	Variation %
<i>(in millions of US dollars, unless otherwise stated)</i>			
Other Operating Data – excluding CAPL:			
Merchandise and service gross margin ⁽¹⁾ :			
Consolidated	34.7%	34.6%	0.1
United States	34.7%	34.0%	0.7
Europe	40.6%	41.5%	(0.9)
Canada	31.7%	32.9%	(1.2)
Growth of same-store merchandise revenues ⁽³⁾ :			
United States ⁽⁴⁾	7.7%	2.5%	
Europe	3.4%	0.7%	
Canada ⁽⁴⁾	19.9%	0.3%	
Road transportation fuel gross margin:			
United States (cents per gallon) ⁽⁴⁾	42.99	26.86	60.1
Europe (cents per liter)	10.51	8.44	24.5
Canada (CA cents per liter) ⁽⁴⁾	10.29	7.40	39.1
Total volume of road transportation fuel sold:			
United States (millions of gallons)	1,950.9	2,590.6	(24.7)
Europe (millions of liters)	2,250.5	2,633.6	(14.5)
Canada (millions of liters)	1,092.3	1,472.6	(25.8)
Growth of (decrease in) same-store road transportation fuel volume:			
United States ⁽⁴⁾	(21.2%)	0.6%	
Europe ⁽⁴⁾	(12.4%)	(1.6%)	
Canada ⁽⁴⁾	(25.6%)	0.4%	

(in millions of US dollars, unless otherwise stated)

Balance Sheet Data:

	July 19, 2020	April 26, 2020	Variation \$
Total assets	26,275.7	25,679.5	596.2
Interest-bearing debt ⁽⁵⁾	9,178.0	10,379.3	(1,201.3)
Equity	11,101.6	10,066.6	1,035.0

Indebtedness Ratios⁽⁶⁾:

Net interest-bearing debt/total capitalization ⁽⁵⁾⁽⁷⁾	0.35 : 1	0.40 : 1
Leverage ratio ⁽⁸⁾	1.26 : 1	1.54 : 1

Returns⁽⁶⁾:

Return on equity ⁽⁹⁾	25.3%	24.8%
Return on capital employed ⁽¹⁰⁾	16.4%	15.0%

(1) Includes revenues derived from franchise fees, royalties, suppliers' rebates on some purchases made by franchisees and licensees, as well as from wholesale of merchandise.

(2) Includes revenues from the rental of assets and from the sale of aviation fuel and energy for stationary engines.

(3) Does not include services and other revenues (as described in footnotes 1 and 2 above). Growth in Canada and in Europe is calculated based on local currencies.

(4) For company-operated stores only.

(5) This measure is presented including the following balance sheet accounts: Current portion of long-term debt, Long-term debt, Current portion of lease liabilities, and Lease liabilities.

(6) Until November 2019, these measures are presented as if our investment in CAPL was reported using the equity method as we believe it allows a more relevant presentation of the underlying performance of the Corporation.

(7) This measure is presented for information purposes only and represents a measure of financial condition used especially in financial circles. It represents the following calculation: interest-bearing debt, net of cash and cash equivalents and temporary investments divided by the addition of shareholders' equity and interest-bearing debt, net of cash and cash equivalents and temporary investments. It does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other public corporations. We believe this measure is useful to investors and analysts.

(8) This measure is presented for information purposes only and represents a measure of financial condition used especially in financial circles. It represents the following calculation: interest-bearing debt, net of cash and cash equivalents and temporary investments divided by EBITDA for the last 52 weeks (Earnings before Interest, Tax, Depreciation, Amortization and Impairment) adjusted for specific items. It does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other public corporations. We believe this measure is useful to investors and analysts.

(9) This measure is presented for information purposes only and represents a measure of performance used especially in financial circles. It represents the following calculation: net earnings for the last 52 weeks divided by average equity for the corresponding period. It does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other public corporations. We believe this measure is useful to investors and analysts.

(10) This measure is presented for information purposes only and represents a measure of performance used especially in financial circles. It represents the following calculation: earnings before income taxes and interests for the last 52 weeks divided by average capital employed for the corresponding period. Capital employed represents total assets less short-term liabilities not bearing interests. It does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other public corporations. We believe this measure is useful to investors and analysts.

Revenues

Our revenues were \$9.7 billion for the first quarter of fiscal 2021, down by \$4.5 billion, a decrease of 31.4% compared with the corresponding quarter of fiscal 2020. This performance is mainly attributable to the negative impact of COVID-19 on fuel demand, to a lower average road transportation fuel selling price and to the disposal of our interests in CAPL which had an impact of approximately \$487.0 million, as well as to the net negative impact from the translation of revenues of our Canadian and European operations into US dollars, which had an impact of approximately \$165.0 million.

Merchandise and service revenues

Total merchandise and service revenues for the first quarter of fiscal 2021 were \$3.9 billion, an increase of \$252.0 million compared with the corresponding quarter of fiscal 2020. Excluding CAPL's revenues, as well as the net negative impact from the translation of our Canadian and European operations into US dollars, merchandise and service revenues increased by approximately \$304.0 million or 8.5%. This increase is primarily attributable to growth in basket size, which more than offset continued softness in traffic. We saw strength across many categories, especially tobacco products, alcohol, packaged beverages and various grocery items. Same-store merchandise revenues increased by 7.7% in the United States, by 3.4% in Europe, and by 19.9% in Canada.

Road transportation fuel revenues

Total road transportation fuel revenues for the first quarter of fiscal 2021 were \$5.8 billion, a decrease of \$4.6 billion compared with the corresponding quarter of fiscal 2020. Excluding CAPL's revenues, as well as the net negative impact from the translation of revenues of our Canadian and European operations into US dollars, road transportation fuel revenues decreased by approximately \$4.0 billion or 40.6%. This decrease is mostly attributable to the decrease on fuel demand in relation with the stay-at-home measures implemented due to the COVID-19 pandemic, as well as to a lower average road transportation fuel selling price which had a negative impact of approximately \$1.8 billion. Same-store road transportation fuel volume decreased in the United States by 21.2%, in Europe by 12.4%, and in Canada by 25.6%.

The following table shows the average selling price of road transportation fuel of our company-operated stores in our various markets for the last eight quarters, starting with the second quarter of the fiscal year ended April 28, 2019:

Quarter	2 nd	3 rd	4 th	1 st	Weighted average
<u>52-week period ended July 19, 2020</u>					
United States (US dollars per gallon) – excluding CAPL	2.55	2.51	2.21	2.04	2.36
Europe (US cents per liter)	70.86	73.92	60.95	56.89	66.83
Canada (CA cents per liter)	105.14	103.47	88.78	86.89	97.79
<u>52-week period ended July 21, 2019</u>					
United States (US dollars per gallon) – excluding CAPL	2.72	2.42	2.51	2.66	2.57
Europe (US cents per liter)	80.56	75.28	74.59	77.35	76.86
Canada (CA cents per liter)	115.22	97.59	103.45	111.16	106.23

Other revenues

Total other revenues for the first quarter of fiscal 2021 were \$86.6 million, a decrease of \$101.9 million compared with the corresponding quarter of fiscal 2020. Excluding CAPL's revenues, as well as the net negative impact from the translation of our Canadian and European operations into US dollars, other revenues decreased by approximately \$75.0 million in the first quarter of fiscal 2021, mainly driven by lower aviation fuel revenues, which had a minimal impact on gross profit.

Gross profit

Our gross profit was \$2.5 billion for the first quarter of fiscal 2021, up by \$202.0 million, or 8.7% compared with the corresponding quarter of fiscal 2020, mainly attributable to higher road transportation fuel gross margins and organic growth, partly offset by the negative impact of COVID-19 on fuel demand, by the disposal of our interests in CAPL, which had an impact of approximately \$49.0 million, and by the net negative impact from the translation of our Canadian and European operations into US dollars, which had an impact of approximately \$27.0 million.

Merchandise and service gross profit

In the first quarter of fiscal 2021, our merchandise and service gross profit was \$1.3 billion, an increase of \$93.0 million compared with the corresponding quarter of fiscal 2020. Excluding CAPL's gross profit, as well as the net negative impact from the translation of our Canadian and European operations into US dollars, merchandise and service gross profit increased by approximately \$109.0 million or 8.8%, mainly attributable to strong organic growth, despite lower traffic in our network due to COVID-19. Our gross margin increased by 0.7% in the United States to 34.7%, mainly due to strong service revenues, and to an accelerated recognition of deferred credits. Excluding this accelerated recognition, our gross margin would have been stable compared to the corresponding quarter of last year. In Europe and in Canada, the gross margin decreased by 0.9% to 40.6%, and by 1.2% to 31.7%, respectively, both negatively impacted by a shift in product mix towards lower margin categories.

Road transportation fuel gross profit

In the first quarter of fiscal 2021, our road transportation fuel gross profit was \$1.1 billion, an increase of \$131.4 million compared with the corresponding quarter of fiscal 2020. Excluding CAPL's gross profit, as well as the net negative impact from the translation of our Canadian and European operations into US dollars, our first quarter road transportation fuel gross profit increased by approximately \$168.0 million or 17.2%. Our road transportation fuel gross margin was strong at 42.99¢ per gallon in the United States, an increase of 16.13¢ per gallon, mainly driven by a decline in fuel products costs. In Europe, road transportation fuel margin was US 10.51¢ per liter, an increase of US 2.07¢ per liter, and in Canada, it was CA 10.29¢ per liter, an increase of CA 2.89¢ per liter, driven by changes in the competitive landscape and improved supply conditions.

The road transportation fuel gross margin of our company-operated stores in the United States and the impact of expenses related to electronic payment modes for the last eight quarters, starting with the second quarter of the fiscal year ended April 28, 2019, were as follows:

(US cents per gallon)

Quarter	2 nd	3 rd	4 th	1 st	Weighted average
52-week period ended July 19, 2020					
Before deduction of expenses related to electronic payment modes	28.29	27.04	46.88	42.99	34.72
Expenses related to electronic payment modes	4.63	4.54	4.97	4.88	4.72
After deduction of expenses related to electronic payment modes	23.66	22.50	41.91	38.11	30.00
52-week period ended July 21, 2019					
Before deduction of expenses related to electronic payment modes	21.88	29.42	18.51	26.86	24.53
Expenses related to electronic payment modes	4.55	4.31	4.40	4.70	4.48
After deduction of expenses related to electronic payment modes	17.33	25.11	14.11	22.16	20.05

Generally, during normal economic cycles, road transportation fuel margins in the United States can be volatile from one quarter to another but have historically trended higher over longer periods. The historical trends for Europe and Canada are similar, while the margin volatility and expenses related to electronic payment modes are not as significant.

Other revenues gross profit

In the first quarter of fiscal 2021, other revenues gross profit was \$42.3 million, a decrease of \$22.4 million compared with the corresponding quarter of fiscal 2020. Excluding CAPL's gross profit, as well as the net negative impact from the translation of our Canadian and European operations into US dollars, other revenues gross profit increased by approximately \$1.0 million in the first quarter of fiscal 2021.

Operating, selling, administrative and general expenses (“expenses”)

For the first quarter of fiscal 2021, expenses decreased by 5.6%, compared with the corresponding quarter of fiscal 2020. If we exclude certain items that are not considered indicative of future trends, expenses decreased by 0.3%.

	12-week period ended July 19, 2020
Total variance, as reported	(5.6%)
Adjusted for:	
Decrease from lower electronic payment fees, excluding acquisitions	2.4%
Decrease from the disposal of our interests in CAPL	1.6%
Decrease from the net impact of foreign exchange translation	1.2%
Impact from the December 2018 asset exchange agreement with CAPL, net of electronic payment fees	0.6%
Acquisition costs recognized to earnings of fiscal 2021	(0.3%)
Increase from incremental expenses related to acquisitions	(0.2%)
Remaining variance	(0.3%)

Decrease in expenses was driven by, amongst other items, cost and labor efficiencies, as well as by various measures enacted to streamline and minimize our controllable expenses. These items were partly offset by COVID-19 related expenses, normal inflation, higher labor costs from minimum wage increases in certain regions and incremental investments in our stores to support our strategic initiatives. COVID-19 related expenses include, but are not limited to, an emergency appreciation pay premium of \$2.50 per hour in North America for hourly store employees and distribution center employees, *Thank you* bonuses in North America following the end of the appreciation pay premium, additional cleaning and sanitizing supplies, as well as masks and gloves for our employees. We continue to rigorously focus on controlling costs throughout our organization, while ensuring we maintain the quality of service we offer to our customers.

Earnings before interest, taxes, depreciation, amortization and impairment (EBITDA) and adjusted EBITDA

During the first quarter of fiscal 2021, EBITDA increased from \$1.1 billion to \$1.4 billion, an increase of 27.4% compared with the same quarter last year. Excluding the specific items shown in the table below, the adjusted EBITDA for the first quarter of fiscal 2021 increased by \$320.4 million or 30.8% compared with the corresponding period of the previous fiscal year, mainly from higher road transportation fuel gross margins and organic growth, partly offset by the negative impact of COVID-19 on our traffic, as well as from the net negative impact from the translation of our Canadian and European operations into US dollars. The variation in exchange rates had a net negative impact of approximately \$12.0 million.

It should be noted that EBITDA and adjusted EBITDA are not performance measures defined by IFRS, but we, as well as investors and analysts, consider that those performance measures facilitate the evaluation of our ongoing operations and our ability to generate cash flows to fund our cash requirements, including our capital expenditures program and payment of dividends. Note that our definition of these measures may differ from the one used by other public corporations.

(in millions of US dollars)	12-week periods ended	
	July 19, 2020	July 21, 2019
Net earnings including non-controlling interests, as reported	777.1	536.0
Add:		
Income taxes	202.7	135.3
Net financial expenses	88.0	87.0
Depreciation, amortization and impairment	289.5	307.1
EBITDA	1,357.3	1,065.4
Adjusted for:		
Acquisition costs	3.9	0.2
EBITDA attributable to non-controlling interests	—	(24.8)
Adjusted EBITDA	1,361.2	1,040.8

Depreciation, amortization and impairment (“depreciation”)

For the first quarter of fiscal 2021, our depreciation expense decreased by \$17.6 million. Excluding CAPL’s results, as well as the net positive impact from the translation of our Canadian and European operations into US dollars, the depreciation expense increased by approximately \$10.0 million for the first quarter of fiscal 2021. This increase is mainly driven by the replacement of equipment and the ongoing improvement of our network.

Net financial expenses

Net financial expenses for the first quarter of fiscal 2021 were \$88.0 million, an increase of \$1.0 million compared with the first quarter of fiscal 2020. Excluding the items shown in the table below, net financial expenses increased by \$0.4 million.

(in millions of US dollars)	12-week periods ended	
	July 19, 2020	July 21, 2019
Net financial expenses, as reported	88.0	87.0
Adjusted for:		
Net foreign exchange loss	(18.4)	(6.5)
CAPL’s financial expenses	—	(11.3)
Net financial expenses excluding items above	69.6	69.2

Income taxes

The income tax rate for the first quarter of fiscal 2021 was 20.7% compared with 20.2% for the corresponding quarter of fiscal 2020. The income tax rate for the first quarter of fiscal 2020 includes an income tax expense of \$4.5 million from the re-evaluation of the deferred tax assets and liabilities following the first tranche of the December 2018 asset exchange agreement with CAPL. The increase in the income tax rate, excluding the item shown in the table below, is stemming from the impact of a different mix in our earnings across the various jurisdictions in which we operate.

	12-week periods ended	
	July 19, 2020	July 21, 2019
Income tax rate, as reported	20.7%	20.2%
Adjusted for:		
Income tax expense following the first tranche of the December 2018 asset exchange agreement with CAPL	—	(0.7%)
Income tax rate excluding the item above	20.7%	19.5%

Net earnings attributable to shareholders of the Corporation (“net earnings”) and adjusted net earnings attributable to shareholders of the Corporation (“adjusted net earnings”)

Net earnings for the first quarter of fiscal 2021 were \$777.1 million, compared with \$538.8 million for the first quarter of the previous fiscal year, an increase of \$238.3 million or 44.2%. Diluted net earnings per share stood at \$0.70, compared with \$0.48 for the corresponding quarter of the previous fiscal year. The translation of revenues and expenses from our Canadian and European operations into US dollars had a net negative impact of approximately \$8.0 million on net earnings of the first quarter of fiscal 2021.

Excluding the items shown in the table below from net earnings of the first quarter of fiscal 2021 and fiscal 2020, adjusted net earnings for the first quarter of fiscal 2021 were approximately \$795.0 million, compared with \$548.0 million for the first quarter of fiscal 2020, an increase of \$247.0 million or 45.1%. Adjusted diluted net earnings per share were \$0.71 for the first quarter of fiscal 2021 compared with \$0.48 for the corresponding period of fiscal 2020, an increase of 47.9%.

The table below reconciles reported net earnings to adjusted net earnings:

(in millions of US dollars)	12-week periods ended	
	July 19, 2020	July 21, 2019
Net earnings attributable to shareholders of the Corporation, as reported	777.1	538.8
Adjusted for:		
Net foreign exchange loss	18.4	6.5
Acquisition costs	3.9	0.2
Income tax expense following the first tranche of the December 2018 asset exchange agreement with CAPL	—	3.5
Tax impact of the items above and rounding	(4.4)	(1.0)
Adjusted net earnings attributable to shareholders of the Corporation	795.0	548.0

It should be noted that adjusted net earnings and adjusted diluted net earnings are not performance measures defined by IFRS, but we, as well as investors and analysts, consider these measures useful for evaluating the underlying performance of our operations on a comparable basis. Note that our definition of these measures may differ from the one used by other public corporations.

Financial Position as at July 19, 2020

As shown by our indebtedness ratios included in the “Summary Analysis of Consolidated Results for the First Quarter of Fiscal 2021” section and our net cash provided by operating activities, our financial position is solid.

Our total consolidated assets amounted to \$26.3 billion as at July 19, 2020, an increase of \$596.2 million over the balance as at April 26, 2020, primarily due to the net positive impact of the variation in exchange rates at the balance sheet date.

During the 52-week periods ended July 19, 2020 and April 26, 2020, we recorded a return on capital employed¹ of 16.4% and 15.0%, respectively.

Significant balance sheet variations are explained as follows:

Accounts receivable

Accounts receivable increased by \$358.4 million, from \$1.3 billion as at April 26, 2020, to \$1.6 billion as at July 19, 2020. The increase stems mainly from a higher selling price for road transportation fuel and organic growth, as well as the net positive impact of approximately \$69.0 million from the variation in exchange rates at the balance sheet date.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased by \$740.3 million, from \$2.8 billion as at April 26, 2020, to \$3.5 billion as at July 19, 2020. The increase stems mainly from higher cost for road transportation fuel purchases, the higher level of fuel purchases in response to increase in fuel demand during the first quarter of fiscal 2021, as well as by the net impact of the strengthening of the Canadian and European currencies against the US dollar, which was approximately \$104.0 million.

Long-term debt and current portion of long-term debt

Long-term debt and current portion of long-term debt decreased by \$1.4 billion, from \$7.7 billion as at April 26, 2020, to \$6.3 billion as at July 19, 2020, mainly as a result of the repayment of our term revolving unsecured operating credit, partly offset by the net impact of the strengthening of the Canadian dollar, the Euro and the Norwegian krone against the US dollar, which was approximately \$105.0 million.

Equity

Equity amounted to \$11.1 billion as at July 19, 2020, up \$1.0 billion compared with April 26, 2020, mainly reflecting net earnings and other comprehensive income for the first quarter of fiscal 2021, partly offset by the dividends declared during the same period. For the 52-week period ended July 19, 2020, we recorded a return on equity¹ of 25.3%.

Liquidity and Capital Resources

Our principal sources of liquidity are our net cash provided by operating activities and borrowings available under our revolving unsecured credit facility. Our principal uses of cash are to repay our debt, finance our acquisitions and capital expenditures, pay dividends, as well as to provide for working capital. We expect that cash generated from operations and borrowings available under our revolving unsecured credit facility will be adequate to meet our liquidity needs in the foreseeable future.

Our credit facility is detailed as follows:

Term revolving unsecured operating credit, maturing in December 2024 (“operating credit D”)

Credit agreement consisting of a revolving unsecured facility of a maximum amount of \$2.5 billion. As at July 19, 2020, our operating credit D was not used and standby letters of credit in the amount of \$7.2 million were outstanding.

During the first quarter of fiscal 2021, we fully repaid the outstanding balance of \$1.5 billion borrowed on our operating credit D.

Available liquidities

As at July 19, 2020, a total of approximately \$2.5 billion was available under our operating credit D and we were in compliance with the restrictive covenants and ratios imposed by the credit agreement at that date. Thus, as at the same date, we had access to approximately \$5.8 billion through our available cash and our operating credit D.

¹ Please refer to the section “Summary Analysis of Consolidated Results for the First Quarter of Fiscal 2021” of this MD&A for additional information on these performance measures not defined by IFRS.

Selected Consolidated Cash Flow Information

(in millions of US dollars)	12-week periods ended		
	July 19, 2020	July 21, 2019	Variation
Operating activities			
Net cash provided by operating activities	1,347.7	865.8	481.9
Investing activities			
Purchase of property and equipment, intangible assets and other assets	(212.8)	(246.8)	34.0
Proceeds from disposal of property and equipment and other assets	28.3	8.9	19.4
Business acquisitions	(0.3)	(7.0)	6.7
Other investing activities	(5.3)	5.6	(10.9)
Net cash used in investing activities	(190.1)	(239.3)	49.2
Financing activities			
Net decrease in term revolving unsecured operating credit D	(1,500.0)	(40.0)	(1,460.0)
Principal elements of lease payments and net decrease in other debts	(87.0)	(79.0)	(8.0)
Repayment of senior unsecured notes	—	(150.0)	150.0
Share repurchases	—	(14.4)	14.4
Other financing activities	0.1	(23.5)	23.6
Net cash used in financing activities	(1,586.9)	(306.9)	(1,280.0)
Credit ratings			
S&P Global Ratings – Corporate credit rating	BBB	BBB	
Moody's - Senior unsecured notes credit rating	Baa2	Baa2	

Operating activities

During the first quarter of fiscal 2021, net cash from our operations reached \$1.3 billion, up \$481.9 million compared with the first quarter of fiscal 2020, mainly due to higher net earnings as well as changes in working capital.

Investing activities

During the first quarter of fiscal 2021, net investments in property and equipment, intangible assets and other assets amounted to \$184.5 million.

The investments were primarily for the replacement of equipment in some of our stores in order to enhance our offering of products and services, for the addition of new stores, for the ongoing improvement of our network, as well as for information technology.

Financing activities

During the first quarter of fiscal 2021, we repaid a net amount of \$1.5 billion on our operating credit D and \$87.0 million on the principal elements of our lease liabilities and other debts.

Contractual Obligations and Commercial Commitments

There were no major changes to our contractual obligations and commercial commitments during the 12-week period ended July 19, 2020. For more information, please refer to our 2020 Annual Report.

Internal Controls over Financial Reporting

We maintain a system of internal controls over financial reporting designed to safeguard assets and ensure that financial information is reliable. We also maintain a system of disclosure controls and procedures designed to ensure, in all material respects, the reliability, completeness and timeliness of the information we disclose in this MD&A and other public disclosure documents. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports filed with securities regulatory agencies is recorded and/or disclosed on a timely basis, as required by law, and is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As at July 19, 2020, our management, following its assessment, certifies the design and operating effectiveness of the Corporation's disclosure controls and procedures.

We undertake ongoing evaluations of the effectiveness of our internal controls over financial reporting and implement control enhancements, when appropriate. As at April 26, 2020, our management and our external auditors reported that these internal controls were effective.

Selected Quarterly Financial Information

Our 52-week reporting cycle is divided into quarters of 12 weeks each except for the third quarter, which comprises 16 weeks. When a fiscal year, such as fiscal 2023, contains 53 weeks, the fourth quarter comprises 13 weeks. The following is a summary of selected consolidated financial information derived from our interim consolidated financial statements for each of the eight most recently completed quarters.

We have adopted IFRS 16 retrospectively from April 29, 2019, but have not restated comparatives for fiscal year 2019, as permitted under the specific transition provisions in the standard. Therefore, the cumulative effect of initially applying the new standard was recognized in the opening balance sheet on April 29, 2019 and comparatives for the 2019 fiscal year continue to be reported under IAS 17.

(in millions of US dollars, except per share data)	12-week period ended	52-week period ended				Extract from 52-week period ended		
	July 19, 2020	April 26, 2020				April 28, 2019		
Quarter	1 st	4 th	3 rd	2 nd	1 st	4 th	3 rd	2 nd
Weeks	12 weeks	12 weeks	16 weeks	12 weeks	12 weeks	12 weeks	16 weeks	12 weeks
Revenues	9,709.8	9,687.2	16,604.2	13,678.0	14,163.0	13,113.3	16,515.0	14,702.8
Operating income before depreciation, amortization and impairment	1,348.8	1,077.0	1,274.6	1,088.9	1,058.8	651.7	1,140.2	864.8
Depreciation, amortization and impairment	289.5	307.4	406.1	316.2	307.1	241.5	305.2	222.5
Operating income	1,059.3	769.6	868.5	772.7	751.7	410.2	835.0	642.3
Share of earnings of joint ventures and associated companies	8.5	7.3	5.1	6.5	6.6	3.6	7.3	5.4
Net financial expenses	88.0	53.2	84.2	60.1	87.0	78.6	90.1	73.7
Net earnings including non-controlling interests	777.1	578.3	663.9	579.4	536.0	289.9	611.8	477.0
Net (earnings) loss attributable to non-controlling interests	—	(2.0)	(4.0)	(0.8)	2.8	3.2	0.3	(3.9)
Net earnings attributable to shareholders of the Corporation	777.1	576.3	659.9	578.6	538.8	293.1	612.1	473.1
Net earnings per share								
Basic	\$0.70	\$0.52	\$0.59	\$0.51	\$0.48	\$0.26	\$0.54	\$0.42
Diluted	\$0.70	\$0.52	\$0.59	\$0.51	\$0.48	\$0.26	\$0.54	\$0.42

The volatility of road transportation fuel gross margins, mostly in the United States, seasonality and changes in the exchange rates have an impact on the variability of our quarterly net earnings.

Outlook

For the remaining portion of fiscal 2021, we are adapting to the impact of the pandemic to better serve our customers and make their lives a little easier every day. At the same time, we are progressing with our strategic vision by developing a differentiated customer experience both inside our stores and at our fuel courts, adapting and innovating our offering to meet changing customer needs, driving operational excellence and scale, growing the network, enhancing our people's talent base, and putting sustainability at the forefront of our priorities. These actions bring us closer to reaching our five-year ambition of doubling the business.

It is because of our solid foundation that we are in a robust position to face the headwinds of the pandemic. We will continue, as always, to look for and seize opportunities to grow the business, always focusing on creating value for our employees, partners and shareholders.

September 1, 2020