Q1 F2021
Earnings Call

September 10, 2020

CEO's Direct Reports

Michael Medline
President &
Chief Executive Officer

         

Pierre St-Laurent	**Vivek Sood**	**Mike Venton**	**Sarah Joyce**	**Michael Vels**	**Simon Gagné**	**Sandra Sanderson**	**Doug Nathanson**	**Vittoria Varalli**	**Mohit Grover**
Chief Operating Officer, Full Service	Related Businesses	Discount Format	E-commerce	Chief Financial Officer	Chief Human Resources Officer	Marketing	General Counsel & Corporate Secretary	Sustainability, Chief of Staff, Office of the CEO	Innovation & Strategy

First Quarter Highlights

- Same-store sales excluding fuel increased by 11.0%.
- Earnings per share of $0.71 compared to $0.48 last year.
  - Gain on sale from a significant real estate transaction of $0.08 per share.
  - Collective Bargaining Agreement ratified in Alberta; lump sum payment of $0.04 per share.
  - Store closure and conversion costs of $0.03 per share (last year – $0.06 per share).
- Gross margin increased by 50 basis points.
- Project Horizon growth plan underway.
- Sobeys Inc. debt upgraded to investment grade.
- Additional 2 FreshCo sites announced today in Alberta and Saskatchewan.
  - 22 FreshCo stores are now open in Western Canada with 8 in development.
- 32 Farm Boy stores currently open and operating at September 9, 2020.
  - 10 future locations, net of 1 relocation, confirmed.
- Launched *Voilà by Sobeys* online grocery delivery service in the GTA and started testing curbside pickup services in Nova Scotia.

First Quarter Financial Summary

	Quarter 1	
	Actual	**Last Year**
Sales	$7,354.2	$6,744.1
Same-store sales, excluding fuel	*11.0%*	*2.4%*
Gross Profit	$1,848.6	$1,660.4
Gross margin	*25.1%*	*24.6%*
Selling and Administrative Costs	$1,512.1	$1,423.7
Selling and administrative margin	*20.6%*	*21.1%*
EBITDA	$582.5	$460.0
EBITDA margin	*7.9%*	*6.8%*
Earnings per Share	$0.71	$0.48
Free Cash Flow	$145.1	$224.2
Capital Expenditures	$119.8	$91.4

COVID-19 Update

EMPIRE COMPANY LIMITED Sobeys inc.

The novel coronavirus ("COVID-19" or "pandemic") began to impact the Company in February and resulted in restrictions by government authorities. This led to increased safety protocols in stores and distribution centres, and shifts in consumer demand and consumption.

- Management's top priorities remain the health and safety of employees, customers and communities while maintaining a resilient supply chain to meet the needs of Canadians and supporting charitable organizations.
- The Company continues to invest in increased safety and sanitization to ensure customers and employees are protected while shopping and working in stores.
- COVID-19 and related restrictions materially impacted the Company's operating results and financial performance in the first quarter of fiscal 2021.
  - As Canada and the world adapt and progress in these unprecedented times, it is too early to forecast sales in the medium term. Over the past 14 weeks ended September 5, 2020, the Company's same-store sales growth, excluding fuel, averaged approximately 8 to 10%. Management continues to anticipate that even as Canadians return to work and school, that a percentage of the consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores.
  - The investment in Hero Pay for the first part of the first quarter combined with the cost of maintaining sanitization and safety measures increased selling and administrative expenses by approximately $67 million.
  - It is expected that the Company will continue to incur approximately **$15 million to $20 million in selling and administrative expenses per quarter** related to the increased cost of maintaining sanitization and safety measures and other COVID-19 related costs.
  - In Canada, online grocery sales have continued to grow, although at a slower pace than when COVID-19 began. The Company's e-commerce businesses in Quebec and British Columbia experienced sales growth of approximately 370% in the first quarter.
- **The Company's balance sheet and cash flow remain strong**. As of August 1, 2020, Empire had:
  - $1,077 million in cash and cash equivalents.
  - Access to approximately $770 million in unutilized, aggregate credit facilities that do not expire until fiscal 2023.

Discount Expansion West and Store Closure & Conversion Costs

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OVERVIEW

DISCOUNT EXPANSION TO WESTERN CANADA

Empire expects to convert up to 25% of its 255 Safeway and Sobeys full-service format stores in Western Canada to its FreshCo discount format. During the quarter, the Company announced the next six locations for the expansion of its FreshCo discount banner in Western Canada, including the first FreshCo locations in Alberta. Subsequent to the end of the quarter, another two locations were announced. The Company has now confirmed 30 of approximately 65 locations in Western Canada and is on track to open 10 to 15 FreshCo stores in fiscal 2021.

Of the 30 confirmed FreshCo locations:

- 22 stores are open and operatingat September 9, 2020:
  - 16 in B.C.
  - 4 in Saskatchewan
  - 2 in Manitoba
- 6 stores expected to open in fiscal 2021:
  - 4 in Manitoba
  - 2 in Alberta
- 2 stores are expected to open in fiscal 2022:
  - 1 in Alberta
  - 1 in Saskatchewan

Of the 22 stores operating as at September 9, 2020, two were opened subsequent to the end of the quarter.

Ratification of New Collective Bargaining Agreement ("CBA") in Alberta

- *The five-year CBA is a significant improvement in the Company's competitive position within the Alberta market.*
  - *Places the Company on a level playing field, provides flexibility and stability to better manage operational and labour costs in Alberta.*
  - ***CBA also provides a pathway to advance the Company's plans to expand the FreshCo discount banner in Alberta.***
- *CBA includes a one-time retroactive lump sum payment to Safeway Alberta teammates for hours worked over the past three years.*
  - Cost of the one-time lump sum payment is estimated to be approximately $15.6 million pre-tax ($0.04 per share, after tax) and was charged to operating earnings during the first quarter.

STORE CLOSURE AND CONVERSION COSTS

Approximately $11.4 million ($0.03 per share, after tax) was charged to earnings in the first quarter of fiscal 2021 related to store closures and conversion costs of:

- Safeway and Sobeys stores that will be converted to FreshCo; and
- Sobeys stores that will be converted to Farm Boy.

Approximately $21.0 million ($0.06 per share, after tax) was charged to earnings in the first quarter of the prior year.

Project Horizon

PROJECT HORIZON

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New three-year growth strategy for core business expansion and e-commerce acceleration.

Management targeting an incremental $500 million in annualized EBITDA, driving an improvement in EBITDA margin of 100 basis points by fiscal 2023.

To be achieved through:

1) Growth in market share

- Invest in Empire's Store Network
- Improve Store Space Productivity
- Win Canadian Grocery E-Commerce
- Grow Empire's Private Label Portfolio
- Provide Best in Class Customer Personalization

2) Building on cost and margin discipline

- Drive Non-Merchandising Sourcing Efficiencies
- Continue Merchandising Sourcing Efficiencies
- Invest in Best in Class Analytics to Enable Effective Promotions
- Optimize Supply Chain Productivity
- Improve System and Process

Benefits are expected to ramp up over the three-year period with the largest benefits reflected in year three.

Large portion of benefits are expected to be achieved through initiatives related to store productivity, private label, store renovations, and new stores.

Management believes that the Company can continue to grow faster than its key competitors, improving EBITDA margin by another 100 basis points on a higher sales base.

- Expected to generate a CAGR in EPS of at least 15%.

Capital spend is expected to average approximately $700 million annually over the next three years.

For additional information on the strategy, please click here to view the full news release.

Disclaimers

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Forward-Looking Information
This presentation contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize the Company's financial position and understand management's expectations regarding the Company's strategic priorities, objectives and plans. These forward-looking statements may not be appropriate for other purposes. Forward-looking statements are identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees" and other similar expressions or the negative of these terms.

These forward-looking statements include, but are not limited to, the following items:

- The Company's expectations regarding the financial impact of Project Horizon and its underlying initiatives, including expected growth in market share, cost and margin savings resulting from this strategy, and the expected timing of the realization of incremental benefits, which could be impacted by several factors, including the time required by the Company to complete the initiatives, impacts of COVID-19 including changes in customer behaviour;
- The FreshCo expansion in Western Canada and Farm Boy expansion in Ontario, including the Company's expectations regarding future operating results and profitability, the amount and timing of expenses, the projected number of store openings, and the location, feasibility and timing of construction and conversions, all of which may be impacted by COVID-19, construction schedules and permits, the economic environment and labour relations;
- The Company's expectations regarding the implementation its online grocery home delivery service, and the expected dilutive effect on Empire's earnings per share of approximately $0.20 per share in fiscal 2021, which may be impacted by COVID-19, future operating and capital costs, the customer response to the service and the performance of its business partner, Ocado;
- The Company's anticipation that a percentage of food consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores, which may be impacted by the duration of the shutdown due to COVID-19, the severity of the pandemic on people's health across Canada, the ability for restaurants and hospitality businesses to re-open and resume operations as well as the ongoing demand for restaurants and hospitality services in the near term;
- The Company's expectation that it will continue to incur approximately $15 million to $20 million per quarter in selling and administrative expenses due to additional investments and expenses required to respond to COVID-19, which may be impacted by the duration of the shutdown due to COVID-19, the severity of the pandemic on people's health across Canada, and safety precautions required;
- The Company's expectation that it will refinance its credit facilities before their expiry which may be impacted by availability of debt in the market and the Company's liquidity position; and
- The Company's expectation that its cash and cash equivalents on hand, unutilized credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short and long-term obligations, all of which could be impacted by changes in the economic environment.

Non-GAAP Financial Measures & Financial Metrics
There are measures and metrics included in this earnings call presentation that do not have a standardized meaning under generally accepted accounting principles ("GAAP") and therefore may not be comparable to similarly titled measures and metrics presented by other publicly traded companies. The Company includes these measures and metrics because it believes certain investors use these measures and metrics as a means of assessing financial performance.

For a more complete description of Empire's non-GAAP measures and metrics, please see Empire's MD&A for the first quarter ended August 1, 2020.