



Empire to Acquire Longo's and Grocery Gateway

March 16, 2021



FORWARD-LOOKING INFORMATION

This document 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 statements include those relating to: (i) timing and completion of the acquisition which may be impacted by regulatory approval and closing conditions; (ii) timing and magnitude of synergies and growth which may be impacted by COVID-19, customer demand, increased competition, the real estate opportunities available, the pace of new store openings, and the amount of time it will take recently opened stores and new stores to ramp up; (iii) expectations regarding the potential benefits to Empire and Longo's business objectives, returns, accretion, and free cash flow generation expected from the acquisition which may be impacted by the points noted in (ii) above and the ability of the Company to predict and adapt to changing consumer tastes, preferences and spending patterns, future general economic and market conditions, legislative and regulatory environment in which the Company operates, and the effectiveness of integration efforts; (iv) the timing and extent of any increase in ownership percentage of Longo's which may be impacted by future results, intentions of the vendors and the achievement of certain business results; and (v) the Company's plans to purchase for cancellation non-voting Class A shares under, and to renew, its normal course issuer bid which may be impacted by market and economic conditions, changes in laws and regulations, and the results of operations.

Additional risks are described in detail from time to time in documents filed by the Company with securities regulatory authorities in Canada. By its nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made.

By its nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made, including, without limitation: the events noted in the preceding paragraph; completion of the transaction, at all or on terms or within the timeline described in this press release; diversion of management time on the transaction; unanticipated difficulties or expenditures relating to the transaction; ability of Empire to effectively integrate the business of Longo's and Grocery Gateway; and, relationships with employees, customers, business partners, suppliers and competitors. Additional risks are described in detail from time to time in documents filed by the Company with securities regulatory authorities in Canada.

For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of the fiscal 2020 annual Management's Discussion and Analysis ("MD&A").

NON-GAAP FINANCIAL MEASURES & FINANCIAL METRICS

There are measures and metrics included in this 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.

- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as net earnings before finance costs, income tax expense, and depreciation and amortization.
- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less acquisitions of property, equipment, investment property and intangibles.

All references herein are to Canadian dollars.

Participants at Today's Presentation



Michael Medline

**President & Chief
Executive Officer of
Empire and Sobeys**



Michael Vels

**Chief Financial
Officer of
Empire and Sobeys**



Anthony Longo

**President & Chief
Executive Officer of
Longo's**

Overview of Longo's

- Founded in 1956 by three brothers, **Longo's** is a specialty grocery retailer, **focused on providing customers with high quality fresh products**, and offers a range of **locally sourced meats and produce**.
- Longo's operates in the **Greater Toronto Area ("GTA")**, **Canada's largest grocery market**.
- Longo's is led by **Anthony Longo** (President and CEO) and a talented team of food retail executives.
- In 2004, **Longo's became a leader in online grocery delivery** in the GTA through their acquisition of Grocery Gateway, a strong e-commerce delivery platform which has grown to over **70,000 loyal customers today**.
- With a **unique loyalty program**, **strong premium private label offering** and **highly-differentiated retail formats**, the admired Longo's brand resonates strongly with customers.
- Over the **last 5 years**, Longo's has **invested over \$130 million** to position their omni-channel platform for further growth and expansion.
- Longo's has a long-standing footprint in the GTA with **36 store locations**.



Transaction Overview

Purchase Price

- Empire has agreed to purchase 51% of Longo's, for \$357 million.
- The acquisition is based on a total enterprise value of \$700 million.
- Longo's shareholders can receive up to \$125 million of the initial consideration in Empire non-voting Class A shares.
- Following the completion of the current normal course issuer bid ("NCIB"), Empire intends to renew its NCIB with the TSX, for a number of shares higher than those issued through this transaction.
- The remainder of the transaction will be financed by cash of approximately \$197 million and acquired debt of approximately \$35 million.
- Longo's and Grocery Gateway will continue to be operated by the successful leadership team, led by President and CEO, Anthony Longo.

Longo's Financial Profile

- Annual sales of approximately \$1.1 billion for the year ended February 28, 2021.
- Expected to be accretive to earnings per share in the first full fiscal year after closing.
- Opened 10 new stores since 2016 with plans to open several more stores over the next 5 years.
- Strong free cash flow generation will self-fund growth, including future capital investment.
- Empire and Longo's together will unlock non-customer facing synergies and other benefits, in areas such as Sourcing, Logistics, and Real Estate.
- Voilà and Grocery Gateway will both provide a wide range of products and services to the growing online grocery channel in Ontario, while working together to generate ideas and opportunities.

Put/Call Option Structure

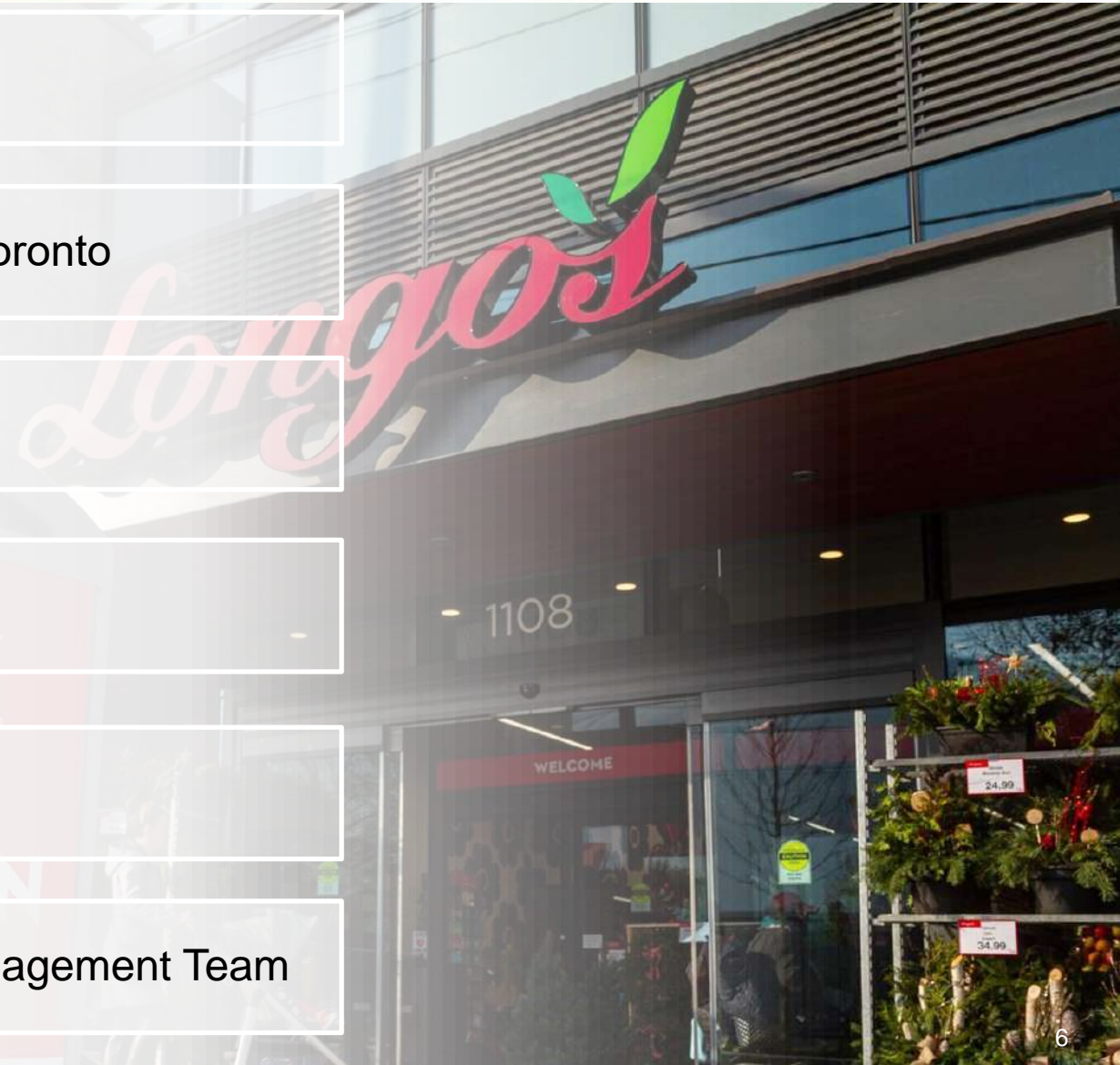
- After the fifth anniversary of the transaction, Longo's shareholders have an option to sell up to a 12.25% interest to Empire per annum, at a multiple applied to the last twelve months EBITDA, that will vary depending on achievement of certain business results.
- If Longo's shareholders exercise an option to sell, Empire will have a corresponding call option for the same percentage in the following year.
- After the tenth anniversary of the transaction, both Empire and Longo's have mutual put and call options for any remaining minority shares outstanding.
- The Longo's family have expressed their intentions to remain as long-term shareholders of Longo's.

Timing & Approvals

- The transaction is subject to customary closing conditions.
- Expected to close in the first quarter of Empire's fiscal 2022.

Key Investment Highlights

- 1 Aligned with Project Horizon Strategic Priorities
- 2 Enhances Empire's Presence in Urban Markets in Toronto
- 3 Differentiated Specialty Grocery Retailer
- 4 Strong Online Grocery Offering in the GTA
- 5 Unique Private Label Offering
- 6 Retention of Strong and Successful Family-Led Management Team



Aligned with Strategic Priorities



Project Horizon Strategic Focus Areas

Growth in Market Share

Invest further in the store network, improving store productivity, scaling up grocery e-commerce, and growing the private label portfolio.

Building on Cost and Margin Discipline

Remove non-value added costs, contain costs as the top line grows and optimize margins.

Strategic Fit

- ✓ Further accelerates growth in Ontario, Canada's largest and fastest growing grocery market, specifically in the urban and suburban markets.
- ✓ 36 stores with differentiated formats, adding to Empire's growing footprint in GTA. Plans to continue with store expansion program.
- ✓ Addition of 70,000 long-standing online customers.
- ✓ Premium private label offering with 1,300+ unique proprietary SKUs that resonates with urban and suburban demographics.
- ✓ Unique loyalty program, with 420,000 households representing approximately 1 million shoppers.
- ✓ A well respected brand with exceptional customer loyalty.

- ✓ Adds scale to Empire's omni-channel capabilities in the GTA generating opportunities to capture synergies and efficiencies.
- ✓ Leverage Empire's national infrastructure and capabilities to unlock non-customer facing synergies and other benefits such as:
 - ✓ Procurement – leverage Empire's purchasing power.
 - ✓ Logistics – introducing Longo's warehouse and logistics capabilities into Empire's network will improve the customer experience and net delivery costs for both businesses.
 - ✓ Real Estate – leverage Empire's expertise to deliver store expansion plan. Longo's free cash flow expected to self-fund annual capital investment of up to \$40 million per year in the final two years of Horizon.

Enhances Empire's Presence in Urban Markets in Toronto

Successful Omnichannel Platform

Retail Stores



Large Store Format

- >40,000 sq. ft. located in suburban markets.
- 19 stores.



Mid Store Format

- 11,000 – 40,000 sq. ft. located in suburban markets.
- 12 stores.

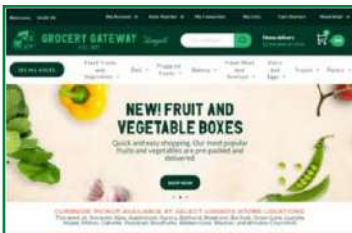


Small Store Format

- <11,000 sq. ft. located in downtown Toronto.
- 5 stores.



Online

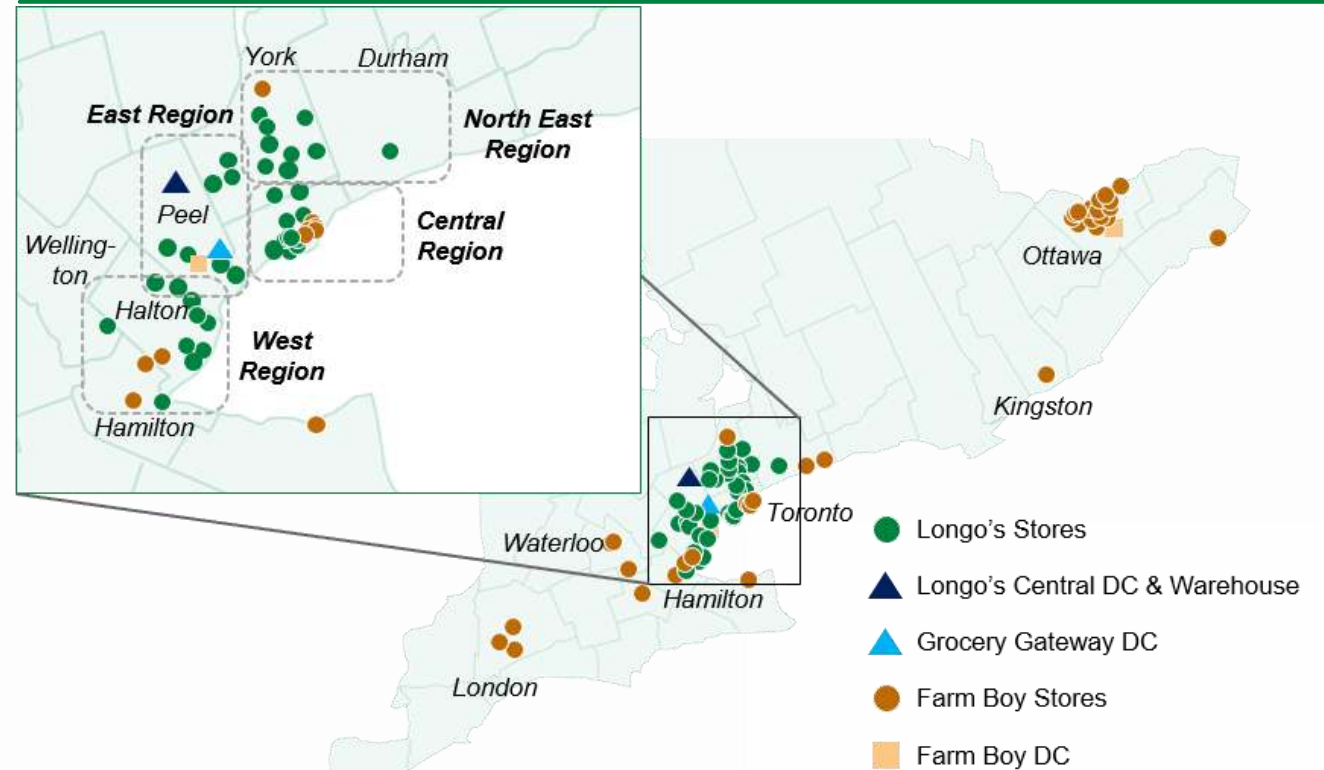


Full Service Online Platform

- One of Canada's largest online grocery delivery services.



Advances Ontario Strategy, Accelerating GTA Presence and Growth



- Over the **last 5 years**, Longo's opened **10 new stores** that further expanded its presence in the GTA; plans to **open several more stores** over the **next 5 years**.
 - With the acquisitions of Farm Boy and Longo's, Empire's store network in Ontario, Canada's largest grocery market, will increase by **72 stores** and **2.2 million square feet**.
- Opportunity for **further geographic reach** and **awareness** of the **Longo's** and **Grocery Gateway** brands.

Differentiated Specialty Grocery Retailer

Strong brand loyalty supported by differentiated value proposition with exceptional private label and fresh prepared food offering

Unique Grocery Retail Concept

- Significant Portion of the Store is Fresh, High Margin ✓
- Premium Quality Private Label Brands ✓
- Broad Selection of Prepared Food Offerings ✓
- Unique Assortment Featuring Local & International, Organic, On-Trend Products, and an acknowledged supporter of Ontario growers ✓
- Healthy, On-Trend Food ✓

Wide Selection of High Quality, Fresh Foods



Premium Private Label Offering

Longo's Essentials



Longo's



Longo's Curato



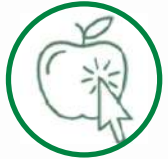
Central Kitchen Supplies Unique & Exclusive Products



Strong Online Grocery Offering in the GTA



- Voilà and Grocery Gateway will initially be operated separately as they both focus on capturing market share in the rapidly increasing Ontario online grocery segment.
- Synergies and efficiencies between the two businesses will be identified in the short-term.



- 70,000** long-standing Grocery Gateway customers choose from over **14,000** items, with a strong and growing proportion of Longo's private label products.



- Significant investments made in order fulfilment capabilities that have laid the foundation for further volume expansion.



- Strong reputation of product quality, safety and consistency.
- Promise to deliver fresh food items to customers.



- Products delivered from Grocery Gateway distribution centre.
- Curbside pickup at Longo's retail stores was introduced in 2020.
- Achieved significant scale within GTA and surrounding areas of Barrie, Hamilton, Guelph, Kitchener and Waterloo.



Together, Voilà and Grocery Gateway will provide a wide range of products and services to the growing online grocery segment in Ontario.



Empire will now own two large central fulfillment online businesses in Ontario.

Unique Private Label Offering

1 Comprehensive Product Offering

Premium private label program spanning multiple categories that resonates with urban and suburban demographics.

1,300+
Unique SKUs



2 Tiered Program, Complementary Brands

Recently repositioned to focus on functional cooking ingredients, value-oriented products and premium imported products.

3-Tiered Program
Launched in 2020



3 Central Kitchen Commissary Enables Innovation

Produces and supplies omnichannel network with unique and exclusive products.

175+
Unique, premium SKUs



Retention of Strong and Successful Family-Led Management Team

- Longo's and Grocery Gateway will be **managed separately** from the existing Empire business and will continue to be run by the Longo family under Anthony Longo's leadership as President and Chief Executive Officer.
- The separate Longo's management team will allow Empire's management to continue to focus on executing Project Horizon.
- **Empire and Longo's are culturally aligned**; both have strong family values and manage relationships with employees, customers and supplier partners in a similar manner.



Anthony Longo

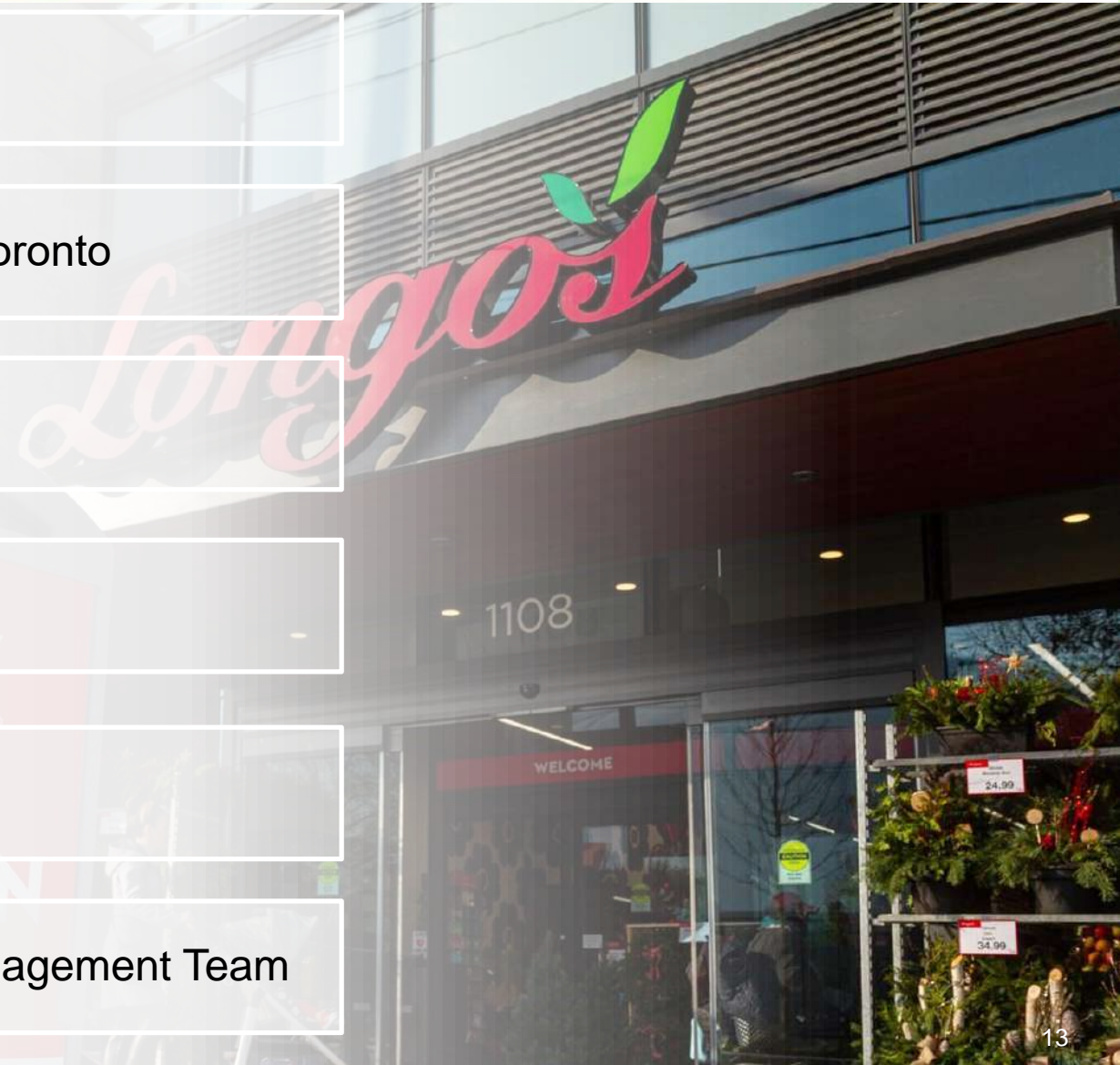
President & Chief Executive Officer

- 45 years with Longo's
- Appointed as President and Chief Executive Officer in 1998

Empire and Longo's management teams are strongly aligned to drive the long-term growth of the Longo's business.

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Thank You

