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OPERATOR: Good afternoon. My name is Beth, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Empire Company Limited Second Quarter Fiscal 2011 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 would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

Paul Beesley, Chief Financial Officer, you may begin your conference.

PAUL BEESLEY (Executive Vice President and Chief Financial Officer, Empire Company Ltd.): Thank you, Beth. Good afternoon and welcome to Empire Company Limited's Second Quarter conference call. We thank you for joining us today. Our comments will focus primarily on the financial results for the second quarter ended October 30th, 2010, and at the end, we'll we pleased to respond to your questions. This call is being recorded in live audio on our website at www.empireco.ca.

Today's discussion includes forward-looking statements. We want to caution you that such statements are based on management's assumptions and beliefs. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements.

With me today on the call are, from Empire, Paul Sobey, President and Chief Executive Officer, and Stewart Mahoney, Vice President, Investor Relations and Treasury. And from Sobeys, we have Bill McEwan, President and Chief Executive Officer; François Vimard, Chief Financial Officer; and Paul Jewer, Senior Vice President, Finance and Treasurer.

This morning, we released Empire's financial results for the second quarter ended October 30th, 2010. Revenue for the second quarter was $3.91 billion compared to $3.87 billion the previous year, a 1 percent increase. Second quarter operating earnings, that is, earnings before net capital gains and other items, amounted to $73.9 million, or $1.08 per share, compared to $72.1 million, or $1.06 per share, in the second quarter last year.

There were capital gains and other items net of tax of $58.9 million during the second quarter compared to capital losses and other items of $1.7 million in the second quarter last year. Capital gains in the second quarter consisted largely of an $80.1 million net capital gain on the sale of Wajax units. During the second quarter, on October 5th, the Company sold its 27.5 percent interest in Wajax Income Fund for net proceeds of

$121.3 million. The proceeds were used—largely used to reduce Empire's direct bank indebtedness and to purchase for cancellation 513,579 non-voting Class A shares. Offsetting this gain were $15.7 million in after-tax costs related to Price Chopper store closures in Ontario and other costs related to the closure of a distribution centre.

Net earnings during the second quarter were $132.8 million, or $1.94 per share, compared to $70.4 million, or $1.03 per share last year. Also, during the second quarter, subsidiaries of Empire sold 10 properties to Crombie REIT for net proceeds of 95.5 million, which was the market value. These transactions further strengthened Empire's overall liquidity, with cash and cash equivalents of $538 million at the end of the second quarter, up from $401 million at the beginning of the fiscal year.

Our GAAP ratio continued to improve, with net debt to total capital at the end of the second quarter equal to 17.3 percent versus 21.8 percent at the prior fiscal year end and 27.5 percent at the end of the second quarter last year. Authorized consolidated bank credit facilities exceed—exceeded borrowings at the end of the quarter by $788 million.

I'll now turn the call over to Paul Sobey.

PAUL SOBEY: (President and Chief Executive Officer, Empire Company Ltd.): Thanks very much, Paul, and good afternoon, everyone.

We are pleased with our second quarter and fiscal year-to-date financial results, particularly given the challenging experience in—with the continued retail price deflation driven by intensive competitive activity. Bill will provide his comments on Sobeys and the related food environment a little later.

With respect to our real estate division, during the second quarter, Empire's real estate division reported operating earnings of 6.6 million versus 8.8 million last year. Operating earnings from commercial operations grew by 0.4 million, while operating earnings from residential operations declined by 2.6 million. The decrease in Genstar's income contribution was due to lower residential lot sales activities. In terms of occupancy rates, property occupancy remained strong at 95.5 percent at the end of September 30th, unchanged from the previous quarter.

During Empire's second quarter, Crombie completed its previously announced $50 million equity issue, with Empire participating for 20.5 million, illustrating Empire's continued support for Crombie's growth strategy. At the end of the second quarter, we had a 46.9 interested in Crombie REIT. The close collaborative effort between Crombie and Sobeys continues. We are pleased with the quality and the scope of the property pipeline, which is, again, squarely focused on food-anchored shopping plazas anchored by Sobeys or IGA banners.

With respect to investments and other operations, operating income in the second quarter net of corporate expenses improved by 2.6 million over last year, largely due to the Wajax Income Fund's recording higher earnings. Equity-counted earnings for Wajax in the second quarter were 5.3 million versus 1.9 million last year. For detailed information of both Wajax and Crombie's performance, please see their quarterly releases dated November 4th and November 8th, respectively.

Bill will now comment on the performance of Empire's food division.

BILL MCEWAN (President and Chief Executive Officer, Sobeys Inc.): Thank you, Paul. Sobeys' Q2 sales increased $46 million, or 1.2 percent, to $3.85 billion, up from $3.81 billion last year. Same-store sales were flat compared to last year. Through the second quarter, deflation persisted. Deflation in the quarter totaled 1 percent in aggregate for Sobeys. A significant contributing deflationary factor in the quarter is attributed to the intense promotional activity in many regions of the country, and particularly in Ontario.

Underpinning the competitive market situation and deflationary factors, it is important that we share our perspective on the general mindset and shifting behaviour of consumers in the near term and the potentially, beyond the near term, the impact on their retail shopping practices, in food in our case. The implication of consequences in our sector include, number one, a significant increase in the percentage of goods sold on promotion. Number two, the reasonably consistent high-low strategies and tactics of years gone by must now be described as less high and much lower, with dozens of items being promoted at unprecedentedly low feature pricing.

Number three, increasingly the market is and will dictate the retail price that those that choose to remain competitive, like ourselves, versus the actual cost of goods setting the retail price. And number four, accordingly, to—according to syndicated market research, an additional $90 million was saved by the consumer in the third quarter this year due to increased promotional activities. So, while our comparable store sales on an adjusted for deflation and a real same-store sales growth basis continue to lead the industry, I thought it appropriate to put our results in the context of the environment we're in.

Sobeys' Q2 gross margin percentage was up 97 basis points from last year, with approximately 55 basis points of this improvement from mix improvements, shrink, and vendor management, and foreign currency changes. Forty-two basis points results from a shift of some items between cost of goods sold and SG&A. Sobeys' SG&A percentage was up approximately 135 basis points, with 42 basis points resulting from the shift I just mentioned, 67 basis points from one-time costs I will discuss in a moment, and the remaining 28 basis points reflecting the cost increases experienced net of the savings realized from our cost and productivity initiatives. Sobeys' Q2 EBIT contribution to Empire increased $3 million to 109.5 million, up 3 percent from last year. Sobeys Q2 operating earnings contribution to Empire increased 1.4 million to 66.3 million from 64.9 million last year, up 2.2 percent.

Included in the operating earnings were costs of approximately 4.5 million related to the rollout of FreshCo discount store conversions, consistent with the costs associated with prior waves of conversion. Included in Empire's capital gains and other items are 15.7 million in after-tax store closure costs and severance costs related to the Brantford, Ontario DC and the costs associated with the closure of several Price Chopper stores that we have chosen not to convert to FreshCo.

We continue to be pleased with customer response to FreshCo, and we now have 34 stores converted and reopened, with more to follow in the coming months. Competition continues to respond very aggressively. We remain committed to sustaining as low or lower pricing with those that choose to compete with FreshCo and, consequently, promotional feature pricing, staple pricing, and lower base pricing overall impacted gross margins in the format and, therefore, to a certain extent, the Company overall.

As I have stated before, irrespective of the ebb and flow of competitive response to our activities, we remain confident and committed to sustaining our solid, competitive pricing and promotional posture. While individual quarterly aggregate results may rise or dip somewhat, we know that we have the disciplines, tools, processes, and systems to see our way through to longer term and sustainable sales and earnings growth.

Additionally, we continue to invest elsewhere across the Company in our store network and infrastructure. During the second quarter, Sobeys' CAPEX totaled $142 million, covering store network and infrastructure projects. Seven corporate and franchise stores were opened, acquired or relocated. Two stores were expanded and 19 stores were re-bannered or redeveloped. At the end of the second quarter, on October 30th, Sobeys' square footage totaled 28.3 million square feet, a 1.8 percent increase over the same quarter last year.

As I have mentioned in past quarters, our momentum and progress continue on the strength of a series of strategic and operational improvements and investments we have made over the past several years and continue to make, including leveraging our scale and sales performance and procurement, and we do so without compromising the clear advantages of regional and local management teams executing with authority and agility to capture individual market opportunities. Our activities in this area contributed to our increased margins in the quarter. Our final large-scale regional SAP implementation in Quebec is right on track.

Our distribution network has been continually upgraded and expanded and rationalized, where necessary, and as you know, we have announced the construction of a new distribution facility on Vancouver Island to support our aggressive growth plans in the B.C. market. Our fresh head of (phon) management and workforce management processes continue to fuel our ability to sustain our competitive retail price and promotional position. We have successfully deployed our computer-automated ordering initiative in Atlantic Canada and the rollout to Ontario and Western Canada is underway. We continue to see significant improvement in our in-stock position, shrink, assortment, and inventory reduction as a result of this initiative. Our Club Sobeys, Club Thrifty Foods, and Air Miles programs all continue to attract new customers each month, all built on the same platform and inclusive of the strategic and comprehensive customer insight capabilities that we have in-house, and finally, our product and service innovation initiatives continue.

Bottom line, as a team, we remain committed to being widely recognized as the best food retailer in the country. We remained focused on improving our offering, our service, and our productivity. We intend to lower our costs and execute well and consistently store by store, and as I have said before, we know that we have the disciplines, the tools, the processes, and the systems to see our way through to longer term sustainable sales and earnings growth.

I'll now turn it back to Paul for closing comments.

PAUL SOBEY: Thanks, Bill. As noted, the focus on our core business is unwavering as we continue to work together to build long-term sustainable value. Sobeys continues to grow its sales and operating earnings in a competitive market. We remain supportive of Sobeys as it innovates and executes on its strategy and grows its business. Our real estate group continues to work in close collaboration with Sobeys to identify attractive locations and then to proceed with timely development.

We are pleased with our progress to date. The management, employees, franchisees, and affiliates of both our food, retailing and real estate divisions remain committed to working in close collaboration to extend our record of long-term value creation.

We'll—excuse me—we are now happy to respond to your questions.

PAUL BEESLEY: Beth, we'll take the questions now. Thank you.

OPERATOR: At this time, I would like to remind everyone, in order to ask a question, press star, then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Perry Caicco, CIBC World Markets. Your line is open.

PERRY CAICCO: Good afternoon.

PAUL SOBEY: Hi, Perry.

PERRY CAICCO: Bill, you—I guess you mentioned that deflation over the course of the quarter was 1 percent. How did it trend coming out of the quarter, and how do you see that number over the Christmas quarter and possibly into the first half of next year?

BILL MCEWAN: Well, we, Perry, forecasted the inflation and deflationary trends pretty accurately a year or two ago. We certainly didn't do so in the first half of this year, but you can see that it's come off from the 2.5 in the first quarter to the 1 percent in the second quarter. It's going to be difficult to say until we get through this Christmas period, but we are anticipating something closer to no deflation and no inflation in the third quarter, so an upwards trend towards inflation, but we shall see.

PERRY CAICCO: Right. And, Bill, you went over the gross margin increase fairly quickly. I wonder if you could just go over that again? That was a pretty sizeable increase compared to the last two quarters.

BILL MCEWAN: Yes, we felt it necessary to explain that in greater detail because it's a little odd the way it appears, but it's simply this. I'll repeat it as I did on the call, on the—of the script. Our margin percentage is at 97 basis points, okay? Fifty-five basis points of this improvement were from mix improvement, shrink, vendor management initiatives, and foreign currency changes; 42 points results from the shift of some items between classification of cost of goods sold and SG&A, so that's on the margin side.

But on the flip side, the 42 points that—in SG&A are as a result of the shift that I just described. Of the 135 basis point increase in SG&A, 67 basis points were from the one-time costs associated with the Brantford closure and the Price Chopper closings that we talked about, and 28 basis points were as a result of increasing costs, or affecting cost increases experienced net of savings realized from our cost and productivity initiatives. So if you take the reclassification or the shifting 42 basis points out of margin and the SG&A, it's really 55 points of margin improvement, 28 points of SG&A increase, for a 27-point net margin gain.

PERRY CAICCO: And what was the purpose of the shift between cost of goods and SG&A?

FRANÇOIS VIMARD (Chief Financial Officer, Sobeys Inc.): Perry, I would say it's really because of our wholesale business with this franchisee and the way we treat some expenses and margins, so with a VIA (phon) consolidation, it has a different classification.

PERRY CAICCO: Okay. And just to get regional for a minute, you've had skirmishes in Atlantic Canada with, I guess, some programs from Real Atlantic Superstore and the arrival of No Frills. Now that you've experienced the No Frills market, how do you think it impacts your business, and how do you see the Atlantic market playing out?

BILL MCEWAN: I would say the same as I had said before. I think the team is well prepared to deal with any additional conversions that our competitor goes through. It hasn't had a material impact on our business. We continue to perform at satisfactory rates in Atlantic Canada, and it's a site-by-site, you know, some of the conversions have had greater impact than others. Some are weak, some are stronger but, as I stated, when it first began to occur, we anticipated and were prepared for it and continue to be not overly concerned with it. We'll deal with it as it goes.

PERRY CAICCO: Okay. And just my last question; you've made some pretty remarkable changes in your cost base in Ontario, particularly with—you know, on the distribution side and business process side. Do you have the costs in Ontario where you want them?

BILL MCEWAN: No, and I don't know when I'll be able to say that we do. We believe there's still significant cost side—cost improvement opportunity, first and foremost, within each one of our business operating units, but increasingly, as we look at efficiencies across the entire network. So to the extent that there are still efficiencies associated in Ontario, we will continue to pursue those and we will secure those, but we will optimize the total network together without compromising our business model.

PERRY CAICCO: Okay. That's good for now. Thank you.

OPERATOR: Next, we have Chris Li (phon), Bank of America. Your line is open.

CHRIS LI: Hi, good afternoon. Thanks for taking my questions. First one is, just, are your suppliers starting to ask for price increases, and if so, have you been able to pass through most of them to the consumers?

BILL MCEWAN: Well, as I did go out of my way to say one thing, that we are in a very different marketplace across the country. There are different opportunities in different regions to reflect—to have retail prices reflect cost increases. We have begun to see some commodity price increases, but clearly, we anticipate considerably more. We have stated in the past that we look for balanced inflation; as cost of goods go up, so should retail. But I didn’t (phon) go out of my way to say that, irrespective of whether cost of goods go up, in the short term, we will do what’s necessary to sustain our competitive position. What I said was market dictates retail. We will not remove ourselves from our competitive pricing cost irrespective of the short-term potential impact of not securing retail price increases on top of cost increases.

However, I think that the stated condition of the industry is such that there may likely be an appetite to do that which is too logical to ignore, and that is to pass on the retail price increases associated with the cost of goods increases. So we shall see. We’re not in absolute control of that in the marketplace, but number one, we won’t give up our competitive position; and number two, we are optimistic that the marketplace will be in a position to reflect in retail the cost of goods increases as they come.

CHRIS LI: Okay, that's helpful. And my second question, just on your tonnage growth. It seems you have slowed down during the quarter given you have 1 percent deflation and flat same-store sales growth. Can you maybe elaborate a bit on what more was driving that?

BILL MCEWAN: Well, I don't know that I would really agree with that. I think that we've always had a real store same—we've always had positive real store same-store sales growth and, clearly, I think leading the industry. While there may be a modest decrease in the gap between inflation-adjusted and non-inflation adjusted, which comes down to 1 percent in this case, what I did say is the intense promotional activity, we're hitting new lows in retail pricing in some markets specifically, so I think we're seeing some incredible tonnage associated with that that's not reflected in the same-store sales increases because of the deflationary effect.

So we've had some modest tonnage drop-off, and I did also say, I put it in the context of the marketplace; you know, there's some shift in consumer behaviours, there's some shift in consumer confidence. But you know what? I don't want that to sound like it's (inaudible). We're in the business of satisfying customer demand, and we'll find a way to work our way through it in a way that satisfies the customers' needs as they (inaudible) today. But the marketplace is a little cloudy out there and the consumer's a little foggy from a confidence perspective, and we just thought we'd share that environment with you.

CHRIS LI: Okay, that's great. And my third question, just on your FreshCo store conversion, can you give us an update of how many stores were converted during the quarter and how many more you expect to go?

BILL MCEWAN: Well, we've never given the total that we will expect to end up with and here's why. We had a series of stores that we had not yet decided what we were going to do with them. What you hear in this quarter is we have put that to rest. We have determined, for the remaining stores that we had not yet decided what we were going to do with, which ones we would convert and which ones we would close. So the $15.1 million cost associated with the closers are now behind us. We know exactly what our new network's going to look like, but I won't give you the exact cost, but it approximates about 80 percent, or 85 percent of the total network that we started out with, which was Price Chopper stores.

In the quarter, I think we had 12 stores but we're up to 34. So it really approximates a third, a third, a third over the past three quarters, up to where we are today at 34 stores. You can expect the same rate of number of stores in the coming quarters, probably a few more in this quarter than we've had in the last two, but until we complete the conversions of the balance that we intend to convert from Price Chopper now, not including the ones that we intend to close.

CHRIS LI: Great. Sorry, and this is my last question, just with respect to Wal-Mart. You know, when you do you expect them to roll out the Supercentre in Quebec, and how well positioned do you think your stores are against them once they actually roll them out?

BILL MCEWAN: I'll say the same thing I said four years ago in the West and Ontario, don't know exactly. We anticipate—we're paid to anticipate. Anybody would be foolish not to anticipate that they're coming into markets where they don't have a presence today with supercentres. But we're very well prepared to deal with whatever rate of change there is in the marketplace, particularly in Quebec.

CHRIS LI: Okay. Thank you.

OPERATOR: Your next question comes from the line of Peter Sklar, BMO Capital Markets. Your line is open.

PETER SKLAR: Thank you. Bill, if you could just clarify, when you say that same-store sales growth was flat, do you mean zero or the same growth rate you had in the equivalent quarter last year?

BILL MCEWAN: No, it's 0.0 when you compare this second quarter to last second quarter last year, is 0.0 exactly.

PETER SKLAR: Okay. So you had 1 percent…?

BILL MCEWAN: Real…

PETER SKLAR: (Inaudible) deflation, meaning you had…?

BILL MCEWAN: Yes, real—see, what we would call, in quotation marks, "real" same-store sales growth adjusted for deflation of 1 percent.

PETER SKLAR: Okay, you just lost me. I thought I had it. So, your nominal same-store sales growth is zero. Your deflation is 1 percent, so your real is positive 1 percent, is…?

BILL MCEWAN: Correct.

PETER SKLAR: That correct?

BILL MCEWAN: That's correct.

PETER SKLAR: Okay, I'm with you. I guess a question for Empire. The tax rate has been trending lower. I think it was 26.5 percent during the quarter before unusual items. Is that kind of the new level or…?

PAUL BEESLEY: No. We—you know, the balance of the year, it would probably be closer to what you've seen in the past, say, around 30 percent. The reason it was low in the quarter is, in part, related to the capital gains and the fact that capital gains tax had a lower rate.

PETER SKLAR: Okay.

PAUL BEESLEY: And some of it is declining tax rates in some of the jurisdictions. But (inaudible).

PETER SKLAR: Okay. And my last question, again, on your property development business, your last update, which I believe was in the AIF, was that there was 1.7 million square feet under development. Can you give us an update on that number?

PAUL SOBEY: Well, yes. In the pipeline right now, we've got about 21 projects and about 1.8 million square feet of space under development.

PETER SKLAR: Okay. That's all I have. Thank you.

PAUL SOBEY: Thanks.

OPERATOR: Next, we have Jim Durran, National Bank Finance. Your line is open.

JIM DURRAN: Yes, just, Bill, on the price, the pricing environment, did it intensify as the quarter progressed, and how would you classify it as we sit here right today?

BILL MCEWAN: Yes, it did intensify as the quarter progressed and I would call it as intense as it's been in several years, particularly in Central Canada, in Ontario.

JIM DURRAN: And you talked about the consumer and the fact there has been some behavioural change. I know it's sort of been evolving, but are you sort of sensing that the consumer at this point is about as hunkered down as you've seen them in the last two years, that there's just no real volume growth, no item count growth, maybe even a resuscitated shift back to private label again?

BILL MCEWAN: Well, first of all, I wouldn't say that we'd be able to discriminate why our private label sales are up. We think it's up as a result of the work we've done, and the repositioning and the merchandising, but it is clearly up, but—and some of it may be to do with the consumer shift. But, interestingly enough, it's the Balance lines and the organic lines and the Sensation lines and the upper tiers that are up more than the price tier, frankly. But I would say that our—and you talked about transaction size and traffic; of the 1.2 percent total sales increase we had for the quarter, it's split 50-50; traffic increased and transaction size increased.

So, there's a relative softness to the same-store sales increases that we have experienced for a very significant period of time. I think that's a reflection of what's happening in the environment from a competitive perspective and a square foot perspective, and there's some compression associated with that. How much I can attribute to the competitive pressures and the square footage and the consumer confidence is tough to be precise on, but there is—it's foggy out there with consumer confidence, just generally speaking.

JIM DURRAN: And, I mean, you've often used the word, well, "selectively" is the word, you know, irrational pricing behaviour. Would you classify the environment we're now in as having a component of irrational pricing or it's just very tough out there?

BILL MCEWAN: I would say this. We are very pleased in Ontario with the work our team has done. To launch a fresh new concept that has not just a great fresh presence and good execution and a good cleanup environment, but as lower and lower pricing than anybody in the marketplace. And make no mistake, we're not moving off that posture at all.

JIM DURRAN: And are you—on the FreshCo launch, are you able to sustain the level of skew towards produce that you had in your first openings?

BILL MCEWAN: Absolutely. You bet. It's not as skewed towards produce as much as it is the more balanced, less compromised shopping environment compared to ordinary discount. So there's a considerable (inaudible) more meat and more produce and more bakery and a different deli assortment; you know, we took the full-service bakery out. So it's a more balanced offering, where fresh is so incredibly important in the discount segment and, in Ontario, we think we've got the best fresh food execution and discount in the region.

But also, back to your irrational point, let's make no mistake about it; we've launched a fresh new concept that has been very well received by the consumer. We have no intention of backing out from our competitive price position, no matter how long it takes. And so, would I call it irrational? Not to the same extent. I'd just call it increased competition as a result of a fresh new player showing up with a great execution, and I mean that.

JIM DURRAN: Okay. And last question, just, back when you started the business initiative project in Ontario and then subsequently in Western Canada, you had provided some of the expense disclosure within each quarter. We're now doing Quebec; I assume it's not free of charge. Can you give us some idea as to how much you're investing on the expense line, not the CAPEX side but on the expense line, in that initiative that might be impacting each quarter?

FRANÇOIS VIMARD: Yes, actually, I will (phon) – and it's François – and we don't disclose that over here because it's not—that's the same message that you have before we take a different approach; it's more a longer (phon) approach. But, for example, in Q2, we had around 2 million of costs that we had specifically (unintelligible) Quebec.

JIM DURRAN: And in that process, like how far along are you in terms of getting to the finish line?

FRANÇOIS VIMARD: The finish line should be around in the next 18 months.

JIM DURRAN: Okay, great. Thank you.

OPERATOR: Next, we have Philip Bassil, Beacon Securities. Your line is open.

PHILIP BASSIL: Good afternoon, guys.

UNIDENTIFIED SPEAKER: Hi.

PHILIP BASSIL: We talked about inflation. I just want to shift it up a bit. I wanted to find out a little bit about the key drivers behind the decision to open a new distribution centre in Vancouver as opposed to a market like Quebec, where, you know, you might have bigger opportunities, especially with new players potentially coming into that market?

BILL MCEWAN: Well, it's pretty hard to service the growing business in British Columbia from Quebec so we had that capacity issue in Vancouver Island. With our growing business base there, we've opened another three stores recently. We've opened several stores on the Mainland, and from a geocentric perspective, we determined that the best place to locate an updated facility was on Vancouver Island.

I will say this. When we acquired Thrifty Foods – I don't think there's any secret – Alex Campbell and his family and his team had developed a very strong retail proposition, great customer service and fresh food offering, and the stores were, you know, very, very strong performers; still are. But there were deficiencies and one of them, clearly, was in the distribution network. The distribution network was not in particularly good shape and we've done what we could to optimize the current facilities, including the opening of a Surrey fresh food facility on the Mainland as the supplement to the Butler Warehouse that was way under capacity on Vancouver Island.

And I think our $31 million investment at the Vancouver Airport Authority on Vancouver Island should be a pretty clear demonstration; A, we intend to service our business on Vancouver Island more effectively than we were able to do; B, we should be able to accommodate more direct store delivery product to that warehouse as a result; and C, our expansion plans require us to have a new facility for the future.

PHILIP BASSIL: Great. Will that be based on the Vitron solution as well?

BILL MCEWAN: It's not—no, it's not an automated facility.

PHILIP BASSIL: It's not. What geography across the country do you see as your next potential, you know, target, for an automated type distribution centre?

BILL MCEWAN: I'm going to have to ask you to stay tuned on that.

PHILIP BASSIL: Yes?

BILL MCEWAN: Yes.

PHILIP BASSIL: Okay. Okay, great. My last question is more on the cash, you know, 538 plus 788 in available—or facilities. Any thoughts or any colour you can give us on what you plan to do with the cash?

PAUL SOBEY: I think one thing you should keep in mind is that, at Sobeys, there is a—because of a hedge in place, they have $200 million of bank debt that we've decided not to repay. And as for the balance of the cash, you know, we'll continue to support Sobeys' business and its growth and then other investments in real estate, as appropriate, again, very tightly linked to supporting Sobeys.

PHILIP BASSIL: Okay. Thanks very much, guys.

BILL MCEWAN: Thank you.

PHILIP BASSIL: Bye.

OPERATOR: Your next question comes from the line of Keith Howlett, Desjardins Securities. Your line is open.

KEITH HOWLETT: Yes, just, a question on the 1 percent deflation. Is that predominantly promotionally driven deflation or is there some product cost deflation in there?

BILL MCEWAN: Like (inaudible)—it's predominantly, I won't say exclusively, but predominantly promotionally given to deflation, Keith.

KEITH HOWLETT: And have you seen any areas of price increase yet, I mean, on bread or any areas that have already—for prices from your suppliers gone up or not really?

BILL MCEWAN: Well, not really. Notification of cost increases and the, you know, the way they're building, and there's no secret that the commodity prices will most certainly be moving up. But we haven't seen them hit yet, but they're on the horizon.

KEITH HOWLETT: And then on the—excuse me, on the FreshCo, will you be doing FreshCo in the Maritimes or not?

BILL MCEWAN: I'm going to have to ask you to stay tuned on that but we have no plans for FreshCo outside of Ontario at this time.

KEITH HOWLETT: And then on the—on your loyalty programs and your data, when you notice that people are—you know, there's more things sold on promotion, are you able to identify whether people are actually, more people are switching supermarket based on the flyer or are they just making better, or more use of the flyer when they go to the store or can you sort of segregate that out?

BILL MCEWAN: Well, I wouldn't relate it specifically to the loyalty cards that we have collecting information, although that's one piece of information where we can cobble together what consumer behaviour shifts look like. There are other pieces, though, in terms of syndicated data on the amount of cross-shopping that's going on in the marketplace. You know, cross-shopping is going on in the marketplace. People are seeking value and specials across a greater number of stores than they would have visited two or three years ago. So we know that component of it.

But we also know the value of the customer insights, the real value of the customer insights is looking at the segmented data, looking at market baskets, and see how consumers' purchasing is shifting over time. So we know, in individual basket cases – and we can go down to the granular individual basket case – how are the consumers' purchase behaviour shifting, and we have the ability to market to them respectfully, to either ask them why or encourage them to consider additional offerings on a one-to-one basis as opposed to this incredible dependency this industry has had on flyers for decades. So the flyers are, I would call them brute force, and the marketing capabilities associated with customer insights are more like a scalpel.

KEITH HOWLETT: And how far along are you on a—on utilizing the customer insights in terms of that one-on-one? Is that sort of rolling out as we speak or is it…?

BILL MCEWAN: No. We have full capabilities across the entire network. We have the information systems inside our stores to collect the information, and we have a customer insights platforms centrally managed with good in-house capabilities building stronger and stronger every quarter. So we have applications, and we're going on across the country to exploit the database and in an appropriate way. It's deeper where we've had it longer. We've had the Air Miles program in Quebec and Atlantic Canada longer than we've had the Club Sobeys program in Ontario and the West, and Thrifty on Vancouver Island. But we are underway everywhere.

It's not a matter of having the base fundamental tools. We're done. We have the base fundamental tools and the data collected. We're just building capabilities that aren't separate from our merchandising and category management effort, but we're working to integrate them for better decision-making.

KEITH HOWLETT: And then just lastly on, I guess—well, this is really I guess a national question. On the multicultural customer base in Canada, how are you thinking about that now? I know you target that in the FreshCo and in your other banners, but are you looking at any banner specific for specific communities or not?

BILL MCEWAN: Well, clearly, we're aware of the multicultural complexion of the changing marketplace and the composition of it and where that's happening more acutely than others. FreshCo is a component of our multicultural strategy but we have not been in a position to communicate externally what our intentions are with respect to ethnic merchandising or ethnic banners or ethnic formats at this time. As we make those final determinations, and understand we are working on it appropriately and diligently, we'll bring it to the market.

KEITH HOWLETT: Great. Thanks very much.

BILL MCEWAN: You bet.

OPERATOR: Next, we have a follow-up question from Chris Li, Bank of America. Your line is open.

CHRIS LI: Hi. Can you tell us what you're targeting for CAPEX for Sobeys for this year?

BILL MCEWAN: Yes.

FRANÇOIS VIMARD: Yes, I would say that we should be north of 500 million for this year.

BILL MCEWAN: Yes.

CHRIS LI: Sorry, for Sobeys alone or for the Empire consolidated?

UNIDENTIFIED SPEAKER: It's overall.

CHRIS LI: For Empire? Okay.

UNIDENTIFIED SPEAKER: Yes.

CHRIS LI: Overall. And just, on the cost—expected cost savings from the closure of the Brantford DC, can you share with us roughly how much you expect to incur?

FRANÇOIS VIMARD: Not directly, not specifically, but we—it's a quick payout, quick payback.

BILL MCEWAN: We would tell you this. It's not a separate decision from our total integrated supply chain plan that François has—and the team have orchestrated. It's all part of the planned transition involving the automated facility (inaudible).

CHRIS LI: Okay, great. Thank you.

OPERATOR: Again, if you would like to ask a question, press star, then the number one on your telephone keypad.

There are no further questions at this time. I'll turn the call back to our presenters.

PAUL BEESLEY: Thank you, Beth. Ladies and gentlemen, thanks so much for your continued interest in Empire, and we look forward to having you join our next quarter call scheduled for March the 8th. Thank you.

UNIDENTIFIED SPEAKER: Thank you.

OPERATOR: This concludes today's conference call. You may now disconnect. Thank you.

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