

EMPIRE  
COMPANY LIMITED



## Q4 F2021 Earnings Call

June 23, 2021

# Fourth Quarter Highlights

- Earnings per share of \$0.64 compared to \$0.66 last year.
  - Prior year included \$0.06 of unusual gain on the surrender of lease – removing this impact, earnings per share increased 6.7%.
  - This quarter includes \$0.04 (2020 - \$0.01) of Voilà dilution – for fiscal 2021, Voilà had a dilutive effect of approximately \$0.18 after tax.
- Same-store sales, excluding fuel, decreased by 6.1% compared to last year's stock-up period.
- Maintained last year's strong gross margin of 25.9%.
- Project Horizon growth plan on track; first year successfully completed – see slide 6 for further details.
- 40 FreshCo locations in Western Canada confirmed; 28 stores open and operating as at June 22, 2021.
- 44 Farm Boy locations in Ontario confirmed; 39 Farm Boy stores open and operating as at June 22, 2021
- Annual dividend per share increased 15.3%.
- Repurchased 4,124,260 Non-Voting Class A shares in fiscal 2021 for a total consideration of \$153.6 million.
- Renewed NCIB; up to 8,468,408 Class A shares representing 5.0% of the Class A shares outstanding as of June 18, 2021.
- Capital investment program for fiscal 2022 expected to be approximately \$765 million.
- Purchase of 51% of Longo's and Grocery Gateway completed subsequent to the end of the quarter. For additional information on the acquisition, click [here](#).

# Fourth Quarter Financial Summary

	Quarter 4		Full Year 2021	
	Actual	Last Year	Actual	Last Year
Sales	\$6,920.0	\$7,012.4	\$28,268.3	\$26,588.2
<i>Same-store sales, excluding fuel</i>	<i>(6.1%)</i>	<i>18.0%</i>	<i>5.6%</i>	<i>5.7%</i>
Gross Profit	\$1,795.7	\$1,819.5	\$7,199.3	\$6,633.3
<i>Gross margin</i>	<i>25.9%</i>	<i>25.9%</i>	<i>25.5%</i>	<i>24.9%</i>
Selling and Administrative Costs	\$1,521.3	\$1,530.2	\$6,004.2	\$5,662.5
<i>Selling and administrative margin</i>	<i>22.0%</i>	<i>21.8%</i>	<i>21.2%</i>	<i>21.3%</i>
EBITDA	\$514.4	\$527.8	\$2,143.8	\$1,892.4
<i>EBITDA margin</i>	<i>7.4%</i>	<i>7.5%</i>	<i>7.6%</i>	<i>7.1%</i>
Earnings per Share	\$0.64	\$0.66	\$2.60	\$2.15
Free Cash Flow	\$208.9	\$594.8	\$744.9	\$1,130.8
Capital Expenditures	\$231.6	\$226.6	\$679.2	\$574.8

**Management expects that fiscal 2022 will continue to be affected by the COVID-19 pandemic in the early part of the fiscal year, with some normalization of business throughout the year as vaccination rates increase and COVID-19 restrictions are relaxed.** Although difficult to predict given the uniqueness of the situation, this is expected to result in increased levels of food consumption outside of the home and related reductions in grocery industry volumes. In addition, consumers are likely to begin shopping more frequently and from a greater number of grocery stores than they have over the past 19 months.

- Empire expects that during fiscal 2022, **same-store sales will reduce**, as industry volumes decrease, compared to the unusually high industry sales in fiscal 2021. **Margins will continue to benefit from Horizon initiatives**, including promotions optimization and private label, **along with the addition of Longo's** which has a higher margin rate than Empire as a whole, **partially offset by effects of sales mix changes between banners**, due to the expected easing of COVID-19 restrictions.
- Empire expects improvements in the profitability of its Toronto based e-commerce site as volumes continue to increase and costs reduce due to improved operational efficiencies. At the same time, Voilà total costs will increase as the Montreal facility begins operations and store pick e-commerce is implemented in up to 90 additional stores. In total, the combination of improving results in Toronto, increasing costs in Montreal and additional store pick e-commerce locations is expected to reduce Empire's fiscal 2022 net earnings by approximately **\$0.25 to \$0.30 per share** (fiscal 2021 – \$0.18).
  - Future earnings will be impacted by the rate of sales growth and operating efficiencies, which are difficult to predict, but management expects that **fiscal 2022 will reflect the highest net earnings dilution for the Voilà program**, as the Toronto site is expected to **begin to reflect positive EBITDA results towards the end of the third year of operations**, partially offsetting the impacts of opening new CFCs.
- The expansion of the Company's discount business in the West began 26 months ago, and there are now 28 discount stores operating in Western Canada. All stores opened in the first year have improved their results since opening and in aggregate are performing better than the full-service store that they replaced. FreshCo stores opened in the second year are performing better than those opened in the first year. Newer stores are improving efficiencies at a faster rate than the early conversion stores as the business gains critical mass.
  - **The net impact of building the discount presence in Western Canada has been relatively immaterial to total earnings, but EBITDA has improved compared to the full-service stores that were converted.**

The novel coronavirus (“COVID-19” or “pandemic”) began to impact the Company in February 2020 and has resulted in restrictions by government authorities and the encouragement for Canadians to practice public health measures. This has led to increased safety protocols in stores and distribution centres, shifts in consumer demand and consumption, and volatile financial markets.

- 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 products and procedures to ensure customers and employees are protected while shopping and working in stores.
- Beginning in the third quarter, certain provincial governments implemented lockdown restrictions. The Company introduced a temporary Lockdown Bonus for frontline employees in stores and distribution centres in the impacted regions. The Lockdown Bonus was introduced in additional geographies as government-mandated lockdowns were put in place.
  - ❑ The cost of these bonuses will be dependent on how long the lockdowns last and how many regions are impacted.
- During **the fourth quarter**, the cost of the Lockdown Bonus and maintaining sanitization and safety measures was approximately **\$24 million**, including **\$9 million for Lockdown Bonuses**.
  - ❑ In the first quarter of fiscal 2022 it is expected the Company will incur approximately \$15 million to \$20 million (first quarter of fiscal 2021 – \$67 million) in selling and administrative expenses related to the increased cost of maintaining sanitization and safety measures, the Lockdown Bonus and other COVID-19 related costs.

## ***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.*

**In fiscal 2021**, Project Horizon benefits were achieved from the expansion and renovation of the Company's store network, improvement in store operations and merchandising from data analytics along with continued efficiencies gained through strategic sourcing initiatives. Benefits were partially offset by the investment in the Company's e-commerce network.

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% over the three years.

# Project Horizon – Discount Expansion West



## 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. The Company expects to have 40 locations open in Western Canada by the end of fiscal 2022 – over half of the original estimate. The Company opened 15 FreshCo stores in fiscal 2021.

Of the 40 confirmed FreshCo locations:

28 stores open and operating at June 22, 2021	12 stores expected to open in fiscal 2022
<ul style="list-style-type: none"><li>• 16 in B.C.</li><li>• 6 in Manitoba</li><li>• 4 in Saskatchewan</li><li>• 2 in Alberta</li></ul>	<ul style="list-style-type: none"><li>• 10 in Alberta</li><li>• 1 in Saskatchewan</li><li>• 1 in Northern Ontario</li></ul>

### STORE CLOSURE AND CONVERSION COSTS

In the fourth quarter, the Company reversed \$1.1 million in accrued store closure and conversion costs primarily related to Farm Boy and FreshCo conversions (2020 – \$4.2 million related to store conversions and labour buyouts).

**As a result of these reversals, the net fiscal 2021 expense was \$29.5 million (2020 – \$7.0 million).**

# Project Horizon – Voilà Timeline

## January 22, 2018:

- Sobeys signs agreement with Ocado to bring world's leading online grocery delivery solution to Canada.
- Central Fulfilment Centre ("CFC") #1 announced in the GTA.



## December 10, 2020:

- Location of CFC #3 announced in Calgary, Alberta; will deliver to customers in the first half of 2023.
- Curbside expansion announced in Alberta.
- Early Voilà operating metrics:
  - Weekly on-time delivery score 98.6%
  - Fulfilment of 99.6%
  - Net Promoter Score of 87 (vs industry best-in-class target of 70)

## February 18, 2021:

Launch of curbside pickup service in Alberta.

# voilà

## June 22, 2020:

- Voilà by Sobeys launches for GTA customers.

## September 15, 2020:

- Launched curbside pickup service in Nova Scotia

## March 10, 2021:

- First CFC #1 spoke<sup>(1)</sup> location open
- Building construction for CFC #2 complete – Ocado is now building the internal grid.

## May 9, 2019:

- Announced name and brand for online grocery delivery service in GTA, Ottawa and Quebec – Voilà by Sobeys and Voilà par IGA
- CFC #2 announced in Montreal; will deliver to customers in early 2022.



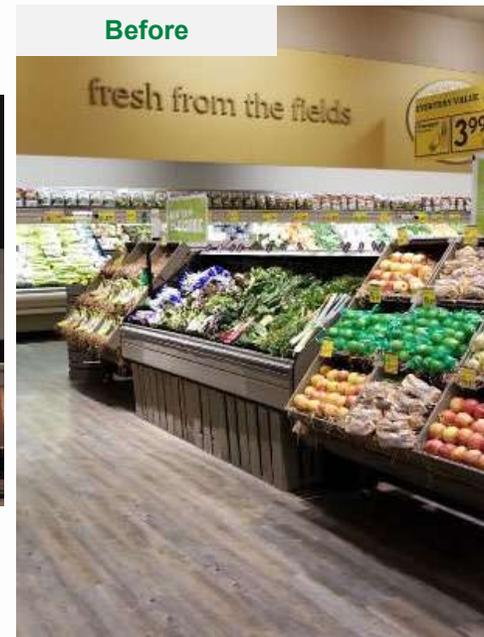
(1) Spokes are cross-dock facilities that allow Voilà to get closer to customers and improve efficiencies at CFCs.

# Project Horizon – Store Network Optimization

- Over the course of Horizon (three years), Empire plans to renovate approximately 30% of its store network.
- In fiscal 2021, the Company invested \$679.2 million in capital expenditures, in line with management’s previously disclosed expectations of between \$650 million and \$675 million.
- In fiscal 2022, capital spending is expected to be approximately \$765 million, with approximately half of this investment allocated to renovations and new stores.

<b>Fiscal 2021</b>	Q1	Q2	Q3	Q4	<b>F21</b>
Locations Renovated	13	17	19	23	<b>72</b>
FreshCo & Farm Boy Conversions	7	4	0	5	<b>16</b>
<b>Total</b>	<b>20</b>	<b>21</b>	<b>19</b>	<b>28</b>	<b>88</b>

## Safeway Crowfoot (Calgary, Alberta)



# CEO's Direct Reports



**Michael Medline**  
President &  
Chief Executive Officer



**Pierre St-Laurent**  
  
Chief Operating Officer, Full Service



**Vivek Sood**  
  
Related Businesses



**Mike Venton**  
  
Discount Format



**Sarah Joyce**  
  
E-commerce



**Michael Vels**  
  
Chief Financial Officer



**Simon Gagné**  
  
Chief Human Resources Officer



**Sandra Sanderson**  
  
Marketing



**Doug Nathanson**  
  
General Counsel & Corporate Secretary



**Danielle Amirault**  
  
Chief of Staff, Office of the CEO & Director, Strategy



**Mohit Grover**  
  
Innovation, Sustainability & Strategy

# Disclaimers

## 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 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, all of which may be impacted by COVID-19, construction schedules and permits, the economic environment and labour relations;
- The Company's plans to purchase for cancellation Class A shares under its NCIB which may be impacted by market and economic conditions, changes in laws and regulations, and the results of operations;
- The Company's expectations that fiscal 2022 will reflect the highest net earnings dilution for the Voilà program, as the Toronto site is expected to begin to reflect positive results towards the end of the third year of operations, which may be impacted by COVID-19, future operating and capital costs, customer response to the service and the performance of its technology provider, Ocado;
- The Company's expectations regarding the implementation of its online grocery home delivery service, its plans to expand its Voilà Curbside Pickup service, and the expected dilutive effect on Empire's earnings per share of approximately \$0.25 – \$0.30 per share in fiscal 2022, which may be impacted by COVID-19, future operating and capital costs, customer response to the service and the performance of its technology provider, 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 shutdowns due to COVID-19, the ability for restaurants and hospitality businesses to re-open and resume operations, and the ongoing demand for restaurants and hospitality services in the near term;
- The Company's expectation that it will incur approximately \$15 million to \$20 million in the first quarter in selling and administrative expenses to respond to COVID-19, which may be impacted by the duration of the shutdown due to COVID-19 and safety precautions required;
- The Company's expectations regarding the timing and amount of expenses relating to the completion of any future CFCs which may be impacted by supply of materials and equipment, construction schedules and capacity of construction contractors;
- 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 and impacts of COVID-19 including changes in customer behaviour;
- The Company's expectations regarding the financial benefits of Project Horizon along with the continued expansion and renovation of the store network, promotional optimization, data analytics and strategic sourcing efficiencies, which could be impacted by several factors, including the time required by the Company to complete initiatives and impacts of COVID-19 including changes in customer behaviour; and
- The Company's estimates regarding future capital expenditures which includes renovations and new stores, spending on advanced analytics technology and other technology systems, acquisitions of property, equipment and investment properties, and additions to intangibles, which may be impacted by operating results, impacts of the pandemic and 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 Management's Discussion and Analysis for the fiscal year ended May 1, 2021.