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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Empire Fourth Quarter 2022 Conference Call.

At this time, all phone lines are in a listen-only mode, but following the presentation, we will conduct a question-and-answer session. And if at any time during this call you require immediate assistance, please press *, 0 for the Operator.

Also note that the call is being recorded on Wednesday, June 22, 2022.

And I would like to turn the conference over to Katie Brine, Vice President, Treasury, Investor Relations, ESG Finance. Please go ahead.

Katie Brine

Thank you, Sylvie. Good afternoon and thank you all for joining us for our fourth quarter and fiscal year-end conference call. Today, we will provide summary comments on our results and then open the call for questions. This call is being recorded, and the audio recording will be available on the Company's website at empireco.ca. There is a short summary document outlining the points of our quarter available on our website.

Joining me on the call this afternoon are Michael Medline, President and Chief Executive Officer; Matt Reindel, Chief Financial Officer; Michael Vels, Chief Development Officer; and Pierre St-Laurent, Chief Operating Officer.

Today's discussion includes forward-looking statements. We caution that such statements are based on management's assumptions and beliefs and are subject to uncertainties and other factors that could cause actual results to differ materially. I'll refer you to our news release and MD&A for more information on these assumptions and factors.

I will now turn the call over to Michael Medline.

Michael Medline

Thanks, Katie, and good afternoon, everyone. A lot has happened since we last spoke in March, and I'm really proud of our ability to consistently perform. Despite another volatile quarter, including a multitude of external pressures, including inflation and supply chain challenges, our teams have been busy executing with excellence to ensure we posted another quarter of strong results.

At the same time, we've been busy preparing for fiscal 2023 and beyond, including unveiling our exciting new loyalty strategy. With that in mind, today we'll focus on three topics: one, our Q4 results and key market trends; two, progress on Project Horizon, including our recently unveiled loyalty strategy; and three, commentary on capital allocation.

First, our results and market trends we're watching. This quarter had many unusual events with both puts and takes on our results. These included global supply chain disruptions, labour shortages, early redemption of outstanding notes, a 13-week strike in our Quebec distribution centre, and as you know, extremely elevated inflation. Despite these trends and a multitude of other challenges faced, the quarter was well executed by our team, delivering EPS of \$0.68. Sales grew 5.2 percent this quarter, excluding the 53rd week that falls in Q4.

Now, two years into the pandemic, two-year stats are no longer meaningful, so we will focus on comparisons to the prior year.

While same-store sales were down 2.5 percent, it's important to remember that we are comparing to a period of significant COVID lockdowns, which we especially benefitted from last year.

Inflation, along with the resulting customer impacts, is something that we are watching extremely closely. We neither like nor profit from when inflation is at these high levels. There is sentiment in the market that it may be moderating, and it's at its peak. That is difficult to predict, but we certainly hope so.

We've gone through another intense period with copious cost increases being brought forward in a short time and have managed through it well with our supplier partners. But with May's food CPI at 9.7 percent, it's natural and logical that customers are very focused on what they are buying.

We are seeing double-digit rates of inflation on basic commodities like eggs, flour, and meat. We're cognizant that customers simply won't and often cannot accept cost increases at some of the extreme levels we're seeing while also paying more at the pump and for other essentials.

With these dynamics at play, we are seeing customers shopping more stores, increased transaction counts with fewer impulse purchases. We're seeing product trade-downs such as from beef to pork, trading down on size, and stocking up more on major promotions. And we're seeing our Own Brand's growth outpacing the rest of our store and the market in general, both for the quarter and the fiscal year.

Now these changes in customer behaviour appear now to be stabilizing. As a grocer, there are levers we can pull to keep delivering great value to our customers and maintaining high foot traffic in our stores, including leveraging our Own Brand's portfolio and promotional strategy. And we're doing that in both our full service and discount stores.

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While the inflationary environment requires a careful balancing act across pricing, promotions and product mix, our team has done an excellent job managing through this period. However, the reality is that a lot of Canadians are struggling under the weight of inflation, and we hope this period of high inflation is short-lived.

We are proud of how we managed through these ongoing headwinds to deliver the bottom line. This took some time. Our quarter ended better than it started, and our teams quickly pivoted to respond to the rapidly changing market conditions. Our margins were solid, and they are a direct result of good execution of the right strategy, not because of inflation.

We are very pleased with our investment in FreshCo, which has expanded our discount presence. The improved products and strong focus on value in our Own Brand's portfolio are meeting the needs of customers, and we are finding ways to continue to offer value to customers across our entire network.

Our consistently solid results in these challenging times demonstrate the positive impact of the improvements we've made, the consistent execution from our team, and the strengthening earnings power of our business.

Project Horizon has been critical in driving these improvements, which I would like to turn to next. Year two of Horizon is in the books, and we are laser focused on execution going into our third year.

We are now five years into our transformation strategy at Empire. When we started this journey, we had four priorities: addressing our organizational structure, taking significant costs out of the business, strengthening our brands, and fixing the West. To accomplish these goals required more than doing things differently; it required infrastructure investments that we were, frankly, behind on. The five major infrastructure investments we focused in on were: one, expand discount to the West; two, develop a scalable, profitable e-commerce solution; three, enhance our Own Brand's offering; four, win in key urban markets like the GTA where our market share was too low; and five, evolve our loyalty program.

In only five years, we've made major strides against all of these priorities. And the recent announcement of our co-ownership of Scene+ and plans to transition to the Scene+ program marked a final infrastructure step we needed to make to transform our company and to continue to drive results.

We've been eager to talk about our loyalty strategy for quite some time, but when we started our transformation, there were so many foundational investments we needed to make in personalization, data, technology, and marketing to even consider an evolution in loyalty. We have been steadily making these investments, and today, we are well positioned to introduce such an exciting and meaningful new program to our customers.

In partnership with our fellow co-owners, Scotiabank and Cineplex, we are transforming Scene+ to become a preeminent loyalty program in Canada. Scene+ is already one of Canada's leading loyalty programs, with more than 10 million members, touching approximately 50 percent of Canadian households.

As the CEO of Scene+ said recently, Scene+ members and extensive customer research told us that grocery is a very important piece of any loyalty offer. Scene+ offers customers a superb assortment of opportunities to earn and redeem points across a broad spectrum of partners like banking with Scotiabank, escaping to Cineplex theatres and entertainment venues, RECIPE restaurants across Canada like Swiss Chalet, Harvey's, and Montana's, and travel through Expedia.

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Redemption partners also include great retail brands like Best Buy, Apple, and Sephora. Grocery will be a key pillar of this program. Scene+ members will be able to earn and redeem their points for food and we simply cannot wait for our customers to access these benefits through our stores.

For Empire, Scene+ will allow us to thrill our customers and unlock the true power of personalization. It will deepen our relationships with our customers and reward them for their loyalty across many of our businesses. There is a mountain of opportunity here to thrill our customers, build our strength in data and personalization, and take our marketing and merchandising to the next level.

We have robust transition plans in place that start with introducing the Scene+ program to customers in Atlantic Canada in August 2022 and then rolling out to the rest of the country, culminating in early 2023. Through these plans, we will mitigate any disruption to our customers throughout this change.

I also want to touch on two of those other major investments we needed to make in our transformation journey: fixing the West and developing the e-commerce solution.

An important part of our Fix-the-West strategy was to introduce FreshCo, our discount banner, to Western Canadians, and we are very pleased that we decided to do this four years ago. Today, in partnership with our dedicated franchisee operators, we are running 40 FreshCo stores in Western Canada.

In the back half of fiscal 2022, we increased our discount store footprint in the West by 40 percent and now have a presence in all Western provinces. Our discount network is thriving and soon FreshCo will have a completely new weapon to add to their arsenal—a competitive loyalty program. They previously had no loyalty program.

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Turning to e-commerce. As you know, we have been investing in the only profitable and scalable solution for grocery e-commerce in Canada. Voilà now has 2 CFCs operational in Canada, with 2 more in development, and 98 locations with curbside pickup.

Grocery e-commerce, coupled with a strong bricks-and-mortar offering and a strong loyalty engine like Scene+, give us a competitive advantage over the other models currently in market.

Our e-commerce business has come a long way since we opened our first CFC in Toronto two years ago. With the opening of the Ottawa spoke, we can now reach approximately 90 percent of online spend in Ontario through Voilà. We completed the launch of Voilà par IGA in Montreal, which now covers approximately 95 percent of Quebec's online spend, and the transition has been operationally seamless.

Net promoter scores for Voilà par IGA are higher than the IGA.net, and the service is attracting net new customers to Empire. Quebec dealers are happy to have all of their teammates focused on the in-store experience, and we are now setting our sites on the West and our future launches in Alberta and BC. We are proud to see these large infrastructure investments that have been key to our transformation journey come together. And while we are still clicking some of the final pieces in place, we're also delivering strong bottom-line quarterly results.

Today, Empire is focused on consistent day-to-day operations, while also strategically investing in the future.

Finally, before I hand this over to Matt, I want to talk about capital allocation. We announced a 10 percent increase in Empire's quarterly dividend per share, which brings our 5-year dividend CAGR to 9.5 percent.

As well, we announced that we renewed our NCIB to repurchase up to 10.5 million shares, representing 7 percent of our public float. In fiscal 2023, we plan to repurchase \$350 million of shares. For fiscal 2023, our capital spend will be approximately \$800 million. About 50 percent will be used to continue renovating and refreshing our store network, expanding our Farm Boy and Longo's footprints in Ontario, and our discount network in Western Canada. By the end of fiscal 2023, we will have touched almost 50 percent of our network over the 6-year time frame.

Additionally, we will continue to advance our e-commerce expansion and invest in advanced technology.

Now Matt will walk you through this in more detail. I'll hand it over to Matt.

Matt Reindel

Thanks, Michael. Good afternoon, everyone.

I'll provide some additional colour on our results as well as setting some expectations for Voilà, Scene+, and our capital allocation strategy for fiscal 2023.

We're really pleased with our Q4 results. We're making sure that we manage the various puts and takes that happen each quarter while still ensuring that we deliver consistently strong results and, at the same time, be well prepared to take advantage of opportunities as and when they arise. The early redemption of one of our notes in June was a good example of this.

So let me comment on our results. Same-store sales were minus 2.5 percent, which was in line with our expectations and was driven by two main factors.

Firstly, our comparables in Q4 of last year were highly elevated due to COVID lockdowns in Ontario and Quebec, particularly in February and March of 2021. We only started to see the impact of easing restrictions midway through our first quarter. Secondly, when we look at the current highly inflationary environment, as expected, we've seen some change in consumer behaviour in our stores with an increased focus on value. As Michael noted, we're satisfying the needs of these value-seeking customers through a combination of promotions, assortment that enables product trade-downs, value-sized SKUs, and our Own Brands portfolio. We also saw a slight shift to discount.

Our customer numbers are still strong in both full-service and discount, but the net impact of the value-seeking customer is a lower basket size. Overall, Canadians' food budgets are not increasing at the same pace as inflation and so customers are logically making value decisions in our stores.

We improved our gross margin rate by 17 basis points, excluding the impact of fuel. This growth is largely due to the addition of Longo's and our continued progress against Project Horizon, partially offset by higher supply chain costs, including the costs from the strike at our distribution centre in Quebec.

Our SG&A rate was 21.8 percent, which was 16 basis points lower than last year. This is largely due to the additional week of operations, the so-called 53rd week, plus lower COVID-19 costs. It's partially offset by Longo's' higher SG&A rate, which we will start comping in Q1, and higher depreciation due to right-of-use depreciation.

Other income increased over the prior year, primarily from the gain over the surrender of a lease in Western Canada. The net impact of all of these puts and takes was an increase in our EBITDA rate of 10 basis points. Our effective income tax rate was 23.1 percent in Q4. The income tax rate for the quarter was lower than the statutory rate, primarily due to benefits related to tax investment credits and capital items taxed at lower rates. The effective income tax rate for the year was 25.0 percent. For fiscal 2023, excluding the effects of any unusual transactions or differential tax rates on property sales, we're estimating that the effective income tax rate will be between 25 percent and 27 percent.

Earnings per share was \$0.68, which included \$0.07 of Voilà dilution for the quarter and \$0.28 for the year, which was within our estimated range of \$0.25 to \$0.30.

We believe that the fiscal 2023 earnings dilution from Voilà will be marginally lower than fiscal 2022. The dilution will be higher in the first half of next year as we ramp up operations in the Montreal facility and then improve in the second. Ultimately, future earnings from Voilà will be primarily impacted by the rate of sales growth, but we believe that fiscal 2022 was the peak year of dilution on Empire's earnings per share.

Based on where we finished fiscal 2022 and our plans for fiscal 2023, we expect to deliver at least a 15 percent earnings per share CAGR versus fiscal 2020, which, as a reminder, we defined at the Q3 fiscal 2020 trailing 12 months, i.e., the year before COVID.

With strong results and a strong balance sheet, we will maintain a very positive capital allocation strategy in fiscal 2023. We have announced a 10 percent increase in our quarterly dividend per share. This is the 27th consecutive year of dividend increases. We also renewed our share buyback program and intend to repurchase \$350 million of shares in fiscal 2023. We continue to increase our NCIB program, aligned with our expectations when we announced Horizon. We anticipate investing approximately \$800 million back into the business via CapEx, slightly more than the \$767 million we spent in fiscal 2022. About 50 percent of this investment will be allocated again to improving our store network through renovations and new and converted stores, with four FreshCo stores in Western Canada, four Farm Boy stores in Ontario, and two Longo's stores in Ontario.

We will continue to invest in our advanced analytics technology and other technology systems, which will be approximately 25 percent of our total CapEx.

We've been preparing for the revamping of our loyalty strategy for some time. The investments you've seen in advanced analytics and other technology systems in fiscal 2021 and 2022 included work that positioned us for becoming a co-owner of Scene+. As a result, you will not see a large spike in CapEx in fiscal 2023 related to Scene+ as we are already well prepared.

As Michael noted, we're excited about the opportunity that the Scene+ program provides. With the addition of Empire, Scene+ will transform from an entertainment loyalty program into a preeminent loyalty program.

Since Scene's inception, this program has evolved to be much more than just movies. In addition to the various other redemption opportunities provided, Scene+ members will be able to earn and redeem points for groceries. And with a meaningful number of points already in the market, we are expecting to welcome a significant number of new customers to Empire. We simply can't wait for our customers to begin to use it in Atlantic Canada in August.

And with that, Katie, I will hand it back to you for questions.

Katie Brine

Great. Thank you, Matt. Sylvie, you may open the line for questions at this time.

Q&A

Operator

Your first question will be from Vishal Shreedhar at National Bank. Please go ahead.

Vishal Shreedhar — National Bank

Hi. Thanks for taking my questions. I just want to get your perspective on what you saw intraquarter as the trends improved and how they improved and for what reasons? I know you mentioned that in your script, so if you can provide some additional colour.

Michael Medline

Yeah. It's Michael. I'll start, then I'll see if anyone wants to add anything on.

I mean, I think what we saw throughout the quarter, and so different in terms of periods or in rank order, our comparison to last year, right? Whatever was going on last year, when we did pretty well, had a big effect on whatever period we were talking about. And then we saw customer behaviour change early in the quarter and in the middle of the quarter but then start to stabilize. And these are all in rank order. So comparison to last year of customer behaviour and then the third was we saw a slight move to discount. But again, we saw, in the quarter, some stabilization throughout that.

But I think all of it, if you look at the pandemic and you look at the inflation, it's pretty logical and predictable and not out of the ordinary. So that's what we saw.

Operator

Any further questions?

Vishal Shreedhar

Oh, yeah. I just want to follow up on management's comments about expectations for positive same-store sales growth in fiscal 2023 and what underpins that assumption and to what degree will Scene+ play a role in that expectation?

Matt Reindel

Sure. So yes. Expectation of positive same-store sales. As Michael said, the biggest driver of that is when we start to lap a lower COVID base in our prior year. Having said that, the work that we're doing internally on all of our key drivers, we expect to significantly improve our top line. I think the work that Pierre is doing will certainly contribute to that.

And as we roll out Scene+, as we said, one of the advantages and one of the benefits of this new program is it is an existing program. So there's 10 million customers out there, approximately 40 percent of whom do not currently shop at Empire. There are also a multitude of points out there in the market that existing Scene+ customers will be able to redeem at Empire stores.

So we are expecting that the launch of Scene+ will bring new net customers to Empire. Of course, that will be over time. We have a phased implementation launch as we explained in our press release. But certainly, we expect the incremental impact of Scene+ to be positive and accretive in year one. So yes, that will be one of the drivers next year.

Vishal Shreedhar

Okay. And lastly, I was hoping to get your perspective on gross margin, up 17 basis points excluding fuel; if you remove the strike impact, up even more year-over-year, quite a solid result given all the inflationary pressure. But top line, a little bit lower than at least I had expected on same store.

Wondering if management is satisfied with the balance between gross margin and sales, or if there's any fine-tune adjustment to be made there?

Matt Reindel

Yeah. So thanks. It's a great question. What I would highlight is, first of all, we're very happy with the balance and the mix.

So gross margin, as you said, was 17 basis points higher. If you exclude the impact of the strike, probably 35 basis points higher. And that's really coming from two main sources. One is the inclusion of Longo's, but more importantly it's our ongoing Horizon initiatives. This is not because of inflation but our ongoing improvement in our operational excellence in our stores continues to have a benefit on gross margin.

So the fact that we were able to increase our gross margin in this extremely volatile environment is a great testament to Pierre's team in particular, who obviously manages our negotiations and, ultimately, our pricing. And it demonstrates that we can consistently deliver results through challenging times.

The balance of margin and sales is something we are acutely focused on. We could go out and buy market share, but that's not in the best interest of our company or our shareholders. So the fact that we are gradually increasing our gross margin demonstrates that we're capturing the right sales in the right banners and at the right time. So yeah. We're very happy with the mix and the blend of sales and margin.

Vishal Shreedhar

Thank you.

Operator

Thank you. Next question will be from Patricia Baker at Scotiabank. Please go ahead.

Patricia Baker — Scotiabank

Yeah. Good morning. I'd like to resume discussion, Michael, on the Scene+. You guys certainly negotiated a very good deal, to say the least. Can you share with us some of the discussions that you had with the partners and, other than what you already told us, but anything else you can share about why they saw Sobeys as such a coveted partner?

And then also on Scene+, do you think that it's a bit of an advantage right now that you're going to be rolling that out in August to the Maritimes, which is probably one of the more struggling parts of the country, and doing it in the context of inflation? And that would make those Scene points look very valueoriented for those customers to really want to redeem the points for food when food prices are so high?

Michael Medline

Yeah. I'll take both those questions in turn. The first is that we were, and I'm not going to go through the details, highly coveted by many suitors to be a loyalty partner. One is that grocery is absolutely key to loyalty. Second is that we're national and one of the only national players in the country. The other one already has a loyalty program. And the third reason is because of being able to cut this deal is because we've been far more successful, and our brand is so much better than we were five short years ago.

So we were able to find the best fit for us and take the pick. At the same time, we were able to join Scene+ and have a third ownership for no cost to us because that's how important it was and what a good partnership it is. In terms of, is there an upside, I'm well aware as a Scene+ cardholder, there are some glut of points that customers, especially those with a credit card, will be looking forward to being able to redeem in their grocery stores. And so I think that we'll go through different stages of this that people are going to want to wear down their Air Miles points with us, which we welcome. And they'll have plenty of opportunity to do that.

And then, secondly, we're going to have to go through some change and have all our customers change over to Scene+. And we have very many plans for that. And, a couple hours ago, we took the board through our plans for that. And they're excellent.

And then third will be that we have these millions and millions of Scene+ members who do not currently shop our banners who will be available to us and have a lot of points. And I think they're going to love this program. And I got to give credit where credit is due to Sandra Sanderson, our Head of Marketing; Mike Vels, who, also with Sandra, led the negotiation; and Matt Reindel and others, who put together over time what is a great program.

What people don't see, I guess, and that's what you're looking for, is that over the last couple of years, we've been investing a lot in our business to get our data monetization and our store processes better and so that there's no real spending here. Now we'll just convert over. we'll make it as seamless as possible.

Patricia Baker

So, Michael, you'll be able to personalize a message to those 40 percent of Scene+ members who don't already shop at Sobeys?

Michael Medline

Yes. We've just started some personalization already with the data we currently had before Scene+. And our team has knocked the cover off the ball actually. And whenever I use a sports analogy, you should know I'm extremely serious. And we're really happy, and so we're building that capability alongside of eventually being able to personalize to all these Scene+ holders. So we're going to have our own customers. They should be excited and we're going to have some new customers. And we just have to execute.

Patricia Baker

Okay. Thank you. And then, do you have anything to say about my last comment about while fortuitous to be doing it at a time when there's high inflation, that makes the points even that much more attractive?

Michael Medline

Yeah. I mean absolutely. I think that having this loyalty program, we want to bring value to our customers. And this is going to bring value to our customers and they're going to be able to use points at a time when it's difficult out there.

And so, yeah. It is fortuitous. Hopefully, by the time we get to some of the other regions, it won't be so fortuitous, and the inflation will calm down. And we'll be able to be firing on all cylinders. But yeah. For sure, in August, when we unveil it in Atlantic Canada, it's going to be a great help to us. Thank you. Thanks for your questions.

Patricia Baker

Thank you very much.

Operator

And your next question will be from Mark Petrie at CIBC. Please go ahead.

Mark Petrie — CIBC

Yeah. Hi, there. I know there's a lot of moving parts in the top line and even in the same-store sales figure, and I know you're not going to quantify an inflation number. But I'm hoping you can just give some context around the actual impact of trade down on the top line.

And then I guess related to that, comments about how you think you performed in terms of market share, both by channel but also overall?

Pierre St-Laurent

Okay. It's coming from, obviously, customer behaviour changes. The biggest one is people are coming back to pre-pandemic behaviour by shopping more stores. They're buying more Own Brands, private-label products at the lower retail, but a good value for them and a good value for us, because we did an amazing job in rebuilding our Own Brands.

So we're pleased with the results we're having, especially right now. We're trending up, like I said, in Q3. Very pleased with the performance on Own Brand, but it's at lower retail. But that's really good margin. So it's explained, the top line and the bottom line penetration in Own Brands.

Obviously, customers are trading down some categories. And in protein, it's obvious, beef to chicken. It's an easy one. They're buying less impulse products, and they are buying less on impulse. They're sticking on their shopping list more. So they're more disciplined, and they're looking more for deals, obviously.

So those things are impacting the top line for sure, but we have everything in our portfolio to manage the demand we are seeing. We're measuring a lot of things in terms of promotion. Our promotional penetration has trended in line with the industry. So we're measuring everything, and we make sure that we remain relatively competitive. And that's exactly what we're doing. And we are there to meet customer expectations and demand. So that's the main changes we're seeing impacting top line.

Mark Petrie

Okay. Thanks for that, Pierre. And then, I guess, just following up on the private label comment specifically, are you able to quantify any piece of that, either in terms of penetration or the relative growth of your private label business versus the rest of your business over the last year? Or even the last several years? It would just sort of help us get a sense of the relative opportunity from here that you still have on private label.

Pierre St-Laurent

We are seeing much higher sales in private label than in national brands, which is good. And our overall margin rate is higher with Own Brand than it is with our average margin rates. So it's up here, but we're benefitting right now of the good work we did over the last two years to rebuild Own Brands, category by category.

Like I said in the past, this is the progress the team made. In every category, we have a relevant play for Own Brands. In some categories, less. In other categories, it's much bigger. So frozen foods is a great example. Most of the products are our Own Brands. In other categories, it's less relevant as an Own-Brand product. But overall, Own Brand sales are higher than national brand sales by a lot because of the good job done and at higher margin rate.

Mark Petrie

Okay.

Michael Medline

It's Michael. And, obviously, we've got to make sure we don't give out publicly disclosed information, but I know that you asked so nicely that I'm going to at least guide a bit.

But yeah. I mean the work we've done was at the right time to really improve what we're doing in Own Brands. And then, obviously, consumer behaviour's changing. And so everything we're seeing is we're growing faster than the market.

But this is, by far, the fastest I remember, since I've joined the Company, that our penetration is up. And as you know, penetration isn't the reason for everything we do on our Own Brands, but we haven't seen penetration like this before. So this is really great timing for us by that standpoint. It's not great for the sales, as Pierre pointed out, but it's really good for right now and for the long term.

Mark Petrie

Yeah. Understood. And if I could, just one more. SG&A was well controlled, adjusting out the COVID costs. Can you just help us understand the impact of the extra week on SG&A? Was it just a straightline impact? Or how did that play out? And then, also, how should we think about SG&A for next year just given all the inflationary effects in your business? Thanks.

Matt Reindel

Yeah. Sure. I can take that, Mark. So yeah. I mean, there's nothing highly unusual in SG&A for the quarter. You're right. You have the 53rd week, which you can basically straight-line it. I mean that's the absorption benefit we get from an extra week of sales. Having that said that, of course, it's not a complete fixed cost because there's a big piece of SG&A that's variable with the stores. So it's hard to specifically call out what the impact is. But of course, we got a kiss in Q4 from that.

As we look forward to F'23, I think I said on a call maybe two calls ago that we're beginning to reach our kind of a stable run rate of SG&A. So what you saw in Q4 is not going to be materially different from what we expect for Fiscal 2023. Now we're not going to give a specific number, but it'll be in that ballpark.

Mark Petrie

Appreciate that. All the best.

Matt Reindel

Thank you.

Operator

And your next question will be from Irene Nattel at RBC Capital Markets. Please go ahead.

Irene Nattel — RBC Capital Markets

Thanks and good morning, everyone. I just want to clarify one thing, Matt. When you say the run rate's similar to Fiscal 2023, are you talking about dollars? Or percentages? Or a run rate similar to Fiscal

2022.

Matt Reindel

Yeah. I'm talking rate.

Irene Nattel

Okay. Perfect. Thank you. So just continuing on the whole discussion around consumer spending behaviour, what are you seeing now in terms of penetration rates on promotions within the basket?

Pierre St-Laurent

So as I said, our promotional penetration trended in line with the external reports. So maybe a few things to highlight.

So we're still facing inventory availability challenges in some categories and, therefore, we cannot promote like we would like to do. Cereal's a great example of this, and it was during the quarter. Also, we are seeing less impulse buys, which are typically done on promotion in store, as customers now are more selective in their promotions.

But overall, when we look at our promo penetration versus the industry, we continue to trend in line with the industry. So there's a lot of volatility because supply chain and customer behaviour, but we continue to stay relevant and competitive based on those metrics from the industry.

Irene Nattel

That's really helpful. Thank you. So presumably, a lot of the work you've done on data and analytics and on your gross margin is really helping with your ability to sort of deliver the gross margin even with rising promotional rates.

Pierre St-Laurent

It's a combination of many things. But if you refer to the promo optimization tool, the usage of the tool is obviously well embedded in our merchandising practices regardless of the environment, which is good. And that said, when the environment experiences rapid changes like we've seen right now, we'll make sure that the tool is refreshed more frequently. And we need to engage more professional judgment, things that we do well, when we make decisions. And we continue to leverage insights from the tool and with our partnerships with suppliers to leverage those insights. So honestly, the team did a really good job working with the tool, working with insight, and having good professional judgment and then managing really well the promo mix right now.

And the decision we've made, as I said earlier in recent quarters, by having a sourcing team negotiating price increases with suppliers keeping our merchandising team focused on merchandising and business plan with supplier is very, very helpful right now. So we're benefitting from it. It's a combination of many things that could explain our good performance on margin right now.

Irene Nattel

That's really helpful. And actually, it leads into my next question, which is, what we're hearing from the supplier side is that they need to keep coming back for more price increases because, of course, they're facing the same magnitude of inflation.

So can you talk about the types of discussions you're having now? And how you think that that plays into the outlook for food pricing as we go through the back half of calendar 2022?

Pierre St-Laurent

We're taking those asks one by one. And we're measuring those asks versus peers versus and what could influence higher costs. Is it transportation? Is it commodities? Is it raw materials? Is it packaging? So we have really good insight to manage every single ask individually.

I would say so far, so good. It's really well managed by the sourcing team. But yes. We continue to face cost increases right now. It's not slowing down. Maybe the level of increase is slightly lower. We heard, again, there is an increase from the dairy farmers coming in September, which is lower than the one we got before in February. But it's, once again, it's category by category, one ask at a time, and it's very volatile right now. And it will continue to be volatile going forward, based on what we're seeing right now.

But really well managed. With discussions with suppliers, we have been able to manage it well with them. No major disruption. Obviously, cross-conversation because we're sensitive to their situation, but in same time, our job is to keep really good value for our customers, and it's exactly what we're doing.

Irene Nattel

That's great. Thank you very much.

Operator

Next question will be from Michael Van Aelst at TD Securities. Please go ahead.

Michael Van Aelst — TD Securities

Hi. Thank you. You've covered a lot, but I have a few leftovers.

So part of the Project Horizon target and getting there involved market share gains from what I recall. And you did get some from Longo's acquisitions and the new store openings. But I'm wondering if you need some same-store tonnage market share to also hit these goals over the period.

Matt Reindel

So yeah. It's an interesting question. What I would say is when we look at our final year of Horizon and our plans that we have in place for the year, we have enough growth that's coming from our store renovations, our space productivity, all of the operational excellence that we're delivering in stores to be able to capture enough growth to deliver Horizon.

So yeah. I think the work that Pierre is doing is going to capture tonnage growth. That's what our expectation is for Fiscal 2023, that we'll have positive same-store sales. So is there anything else specific out there that we need to do in order to capture that? I don't believe so. We've got confidence in our plans that we'll deliver 2023 with positive same-store sales to deliver those Horizon numbers.

Michael Van Aelst

All right. Thank you.

And then on the discount, as you're what, two-thirds of the way through, almost, your expansion in western Canada, I'm wondering if the success that you're having as well as the market conditions that we're seeing with all this inflation is leading you to consider going beyond the 65 or so that you had planned for Western Canada?

And also, if you have any plans to launch any discount in Quebec?

Michael Medline

So I'll take both those. No. We don't have plans to go beyond what we said we're going to do because when we looked at the market, around 65 stores was perfect. And it also it helped us fix the West. I think we've seen a really good performance even before inflation, which was a bit muted during the pandemic because discount suffered a bit during the pandemic. And there's no way I want to overreact to inflationary period that will end, hopefully soon, but maybe within however many months or whatever it is and make mistakes strategically and get off of where we want to be.

So when we looked at the markets and we looked at what it could hold and where the right places were, we came up with those 65 stores.

In the meantime, our Safeway and Sobeys stores and our community banners are doing much better in Western Canada as well. And so there's always attention to that. We believe there's room for great growth in our established banners too. And so, both financially and strategically, at this point, we're not going to get off of that. In Quebec, there are no plans to put discount banner into Quebec.

Michael Van Aelst

All right. Thanks. And then just a final question just to clarify on the e-commerce. You said that there was growth in Voilà. But I'm wondering if there was growth in Voilà if you excluded the Montreal conversion? Or so like in other words, was there growth in Voilà in Ontario?

Matt Reindel

Yeah. So we're not going to provide the split of all of the individual businesses that we have under e-commerce and, particularly, in a period where we're transitioning the IGA.net business over to Voilà. So that's obviously a moving picture. But what we can say, as we've said it previously, we are continuing to experience growth in our Voilà platforms, and we expect to continue to do that as we move forward. And in the older platforms, against a very high COVID baseline, they are lower than the previous year. So the overall net increases of 12 percent obviously has some positives and negatives, but that's the key takeaway. Voilà is growing, and the older businesses are not comparing to a COVID-elevated baseline.

Michael Medline

Even for us,—it's a great question, Michael. Even for us, sometimes you get lured by this pandemic memory time, remember what the heck happened when there were lockdowns. And obviously, we have to look at that all the time to be able to make sense of our results. But big portions of Q4 and Q1 a year ago, there were major lockdowns in central Canada, which when you go through it. And so obviously, there's been some small pullback. So the business is growing, but that kind of pandemic fever, if you may, is not there.

But we're happy with the underlying growth. But it was really everything was COVID-influenced last year, full serve, Voilà. It was scary. It's still scary times now for a lot of people, but it was very scary last year at this time in Central Canada.

Michael Van Aelst

Okay. Thank you. I'll leave it there. Thanks.

Michael Medline

Thank you.

Operator

Next question will be from Peter Sklar at BMO Capital Markets. Please go ahead.

Peter Sklar — BMO Capital Markets

Okay. Thank you. Michael, a question on the new loyalty program, which I can see management is very excited about.

So you're going to lose Air Miles customers who are not Scene members. And you're going to pick up Scene customers who are not currently Air Miles, currently don't hold the Air Miles. And so netnet, why is your management and you so optimistic that you're going to be so far ahead at the end of the day? It seems to me that you're substituting one loyalty program for another, but you're just so optimistic that the net impact is going to be so positive.

Michael Medline

I try not to wear rose-coloured glasses, but I am a bit rosy on this one. But I guess the way to look at it, Peter—thank you for the question because I'd like to clarify all that—which is, one, almost all our customers will convert over to Scene+. They might still have an Air Miles account, and I hope they do. And they'll also be Scene+ members. So we'll bring over almost all our customers, and then we'll gain new customers.

Now that's one reason. That's not the only reason I'm really excited. The other reason is that we're going to be able to use the data and the personalization and be able to communicate with more customers than we ever had before. Remember, Scene+ is at 10 million members. That's without a grocer. So this is going to be a really large and powerful program.

And also, I've had the benefit, which you haven't, of seeing our marketing and the plans for Scene+. And so I'm at an advantage. But yeah. We're pumped about this. We've worked hard. We followed the customer on this one. We did a lot of research. And we're pretty darn good at executing now. We make plans and we do everything to make sure that we're ready, and a lot of thought was going into this.

I think we're just glad that we don't have to keep it secret anymore, and we can talk about it and share with our stores because they're the front line of our company. And they are very excited about the change because they know it's going to be positive.

Peter Sklar

Yeah. But, Michael, how do you know that you can convert almost all of your existing Air Miles customers to take up the Scene loyalty program and be active on it? I would think there'd be some meaningful proportion, that said I'm loyal to Air Miles. So I'm going to stick with my Air Miles.

Michael Medline

I'm not going to take you through all the work we did because we don't have time, although we could do it at a different time, just you and I. But I think the key to that is that people are very loyal to their grocer and that they're going to be very excited about the loyalty program. And so that will increase their loyalty, love, stickiness with us. And it's the growth. They're going to go to where the loyalty program is. And because this is such a good one, I'm not worried about it. But this was not an overnight decision. This was plenty of thought put into it.

Peter Sklar

Okay. And I just have one final question on a different topic.

I'm sure you saw that Ocado, in their recent revised guidance, they said that consumers are putting one or two fewer items in the basket. And so there's some kind of online phenomena going on in the UK, I guess, as the consumer is squeezed by high cost of living inflation. When you look at Voilà, are you seeing anything like that? Or even in your instore, are you seeing fewer items in the basket?

Michael Medline

Yeah. I think probably most every retailer is seeing that because of the heavy cost of inflation. I don't think it has anything to do with online or not. I don't think it's huge, but it's enough to make a small difference. And it's clear. I'm sure, Peter, you've filled up your car in the last week or two. People only have so much money. When they fill up their car or they have extra expenses or they have to buy hockey skates are more expensive or they have to go to the grocery store, they have to make harder choices.

And so, to me, periods of high unemployment or high inflation are terrible for Canadians and for anyone. And so they have to make tough choices, and I don't think that's a surprise. And this is a global phenomenon. So I wasn't surprised at all. This too shall pass, and our job is to create even more value and get people to come in our stores more and loading up. So our job becomes a tiny bit harder but, as Pierre said, we have to tackle that. But these are tough times.

Peter Sklar

Okay. That's all I have. Thank you for your comments.

Michael Medline

Well, thank you for your questions. Appreciate it.

Operator

Next question will be from Chris Li at Desjardins. Please go ahead.

Chris Li — Desjardins

Hi. Good afternoon. Maybe just a few follow-up questions.

Michael, in your opening remarks, you mentioned that the quarter ended better than expected—than it started. So wondering if you can elaborate on that? Were you just talking specifically to same-store sales growth?

Michael Medline

I was talking about everything including same-store sales growth. I mean, it's so hard to see. I like numbers so much. I'm loathe to see trends that are in too short a period. But I can only tell you what I see. And that is, and we'll see how it goes from here, but we saw stabilization, but we also saw that it takes a little while for any retailer, including ourselves, no matter how good we are and no matter how smart Pierre and his team are, to figure out changes that occur with such velocity.

And these changes came on us, just getting out of the pandemic and you see inflation which, in a period or quarter, took off. And so the customer had to get used to it, and we have to get used to it.

And so I like what we're doing. We've got further plans. And if I knew the answer to all economic questions, I'd be a lot smarter than I am. But that's just what we saw.

Chris Li

Okay. That's helpful. And you also mentioned that you saw a bit of a shift to discount picking up towards the end of the quarter. Just wondering, has that sort of accelerated post the quarter in May and June? Or has that also started to stabilize?

Michael Medline

So hard to see, right, because there's a lot of moving pieces. But I think it's—our view at this moment would be that it's stabilized, pretty much. But it's all logical, right? Customers are incredibly logical in a certain period of time. We all are. We make different decisions. And so, as I said, I ranked the order. The third thing that influenced sales was a small movement to discount.

I'm also comparing to COVID-heated sales a year earlier where full-service benefitted more than discount. So it all moves around that lever as well.

Chris Li

Okay. Great. That's helpful. And then another one I have is just in order for you to achieve your financial targets for Horizon, do you need market conditions to improve a lot? Or do you have enough levers under your control to really achieve those targets? I mean, essentially, I'm trying to get a sense of how confident you are in achieving the earnings growth target for Fiscal 2023.

Michael Medline

Well, we said that we remain on track and confident. We basically think that whatever's happening now, we'll anticipate that, and if it gets better, good for us. And we'll make other changes as necessary to be able to hit our targets as we have over the last five and a half years.

But I mean I'd rather it was smooth sailing, honestly. I'd rather it was a better market. But our job is to perform on the bottom line in any type of market. And so that's how we're feeling.

Chris Li

Great and best of luck.

Michael Medline

Thanks so much. Thanks for your question.

Operator

Next question will be from Mark Petrie at CIBC. Please go ahead.

Mark Petrie

Yeah. I just had a couple follow-ups.

On Scene, does it have any sort of regional strengths? Like is there a region of the country where

it's over or under-penetrated versus the national average?

Michael Medline

Mike, you want to take that? You've been too quiet. I got to hear from Mike Vels.

Mike Vels

Sure. Thanks, Michael. There are variations across the country, Mark. Strong but less penetrated in Quebec I'd say would be the only region that I would call out.

Having said that, our dealers and our employees in that region, as we've introduced the program to them, are just super excited to have it, and actually can't wait to get started. So nothing material that causes us significant concern or issue. I think it's going to be strong all the way across the country.

Mark Petrie

Okay. Thanks. And then also just following up on Scene+, is there any change in the cost of offering that program versus Air Miles? Or is it pretty consistent?

Mike Vels

We have more flexibility in terms of how we are going to set our earn-and-burn rates, Mark. So I'd say the best answer to it is it's going to be significantly more effective for us because we have more control about how we take it to market.

Mark Petrie

Yeah. Okay. Fair. And then I guess also just one other follow-up with regards to Voilà, you reiterated the achievement of positive EBITDA for the Vaughan facility. I know this is on track with your original plans. But could you just talk about how the actual P&L there or other operating metrics are coming in relative to the original plans?

And then related, what should we expect for time to breakeven or positive EBITDA for the Montreal facility just given the different ramp curve? Thank you.

Matt Reindel

So first of all, we're very happy with the operational metrics. The one thing, as we've said and as we've called out, the thing that we can't control is the speed of the curve, the shape of the curve of ecommerce adoption. So that's the one risk we've called out. But we are happy with how that's tracking versus the business case.

We have not committed to when we're going to break even for the second CFC. But again, it's a very, very different model because we're actually taking over the existing IGA.net business into that facility. So that's not something that we've given any guidance on.

Mark Petrie

Okay. Thanks very much. Appreciate it.

Operator

Thank you. Next question is from Vishal Shreedhar at National Bank. Please go ahead.

Vishal Shreedhar

Hi. Thanks for squeezing me in.

Just a quick follow-up, CapEx seems to be trending above the three-year \$700 million target indicated. I was hoping you can give us some colour on that extra spend and if your capital investments are generating the desired rates of return.

Michael Medline

Yep. They are because we wouldn't be investing more if they weren't. We're very happy with our store renovation program. And so yes. And so that helps us spend capital knowing full well that it's going to get the return. We also have Longo's numbers in there, which, in some ways, up the number. And so yeah. I think that with our store investments, with our Voilà investments, and with everything we're doing on the technology and data side, which is really helping us and is going to help us, that we're going to be higher than that \$700 million, and we're going to be closer to this trend that we just talked about at the \$800 million.

Vishal Shreedhar

Okay. So past fiscal 2023, is the \$800 million number a more sticky number I should consider for Empire's CapEx on an ongoing basis?

Michael Medline

Well, we haven't announced what our future ones are, but if you want to put that in, that's a good number to use. Use whatever we just announced in Fiscal 2023, and it will either be slightly higher or slightly lower than that, but it's probably around that number. Is that okay, Matt?

Matt Reindel

Yes. I agree.

Vishal Shreedhar

Okay. Thank you.

Operator

Thank you. And at this time, we have no other questions. Please proceed with closing remarks.

Katie Brine

Great. Thank you, Sylvie.

We appreciate your continued interest in Empire. If there are any unanswered questions, please contact me by calling me or by email. We look forward to having you join us for our first quarter 2023 conference call on September 15th. Talk soon.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.