

Empire Company Limited

First Quarter 2023 Conference Call

Event Date/Time: September 15, 2022 — 1:00 p.m. E.T.

Length: 50 minutes

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Empire Company Limited First Quarter 2023 Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during the conference you require immediate assistance, please press *, 0 for the Operator.

A reminder that today's call is being recorded, Thursday, September 15, 2022.

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

Katie Brine

Thank you, Michelle. Good afternoon and thank you all for joining us for our first quarter 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; Pierre St-Laurent, Chief Operating Officer; and Michael Vels, Chief Development 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 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

Thank you, Katie. Good afternoon, everyone. Turning to our business right away. Fiscal 2023 is off to a strong start and this quarter, we saw a return to positive same-store sales, significantly increased gross margin expansion, and we generated a great deal of excitement around the launch of Scene+ in Atlantic Canada.

Our full-service and discount banners are performing well, and we continue to be pleased with our performance in e-commerce. Our results this quarter reflect the strong momentum of our business and the ability of our team to consistently perform and deliver.

I'm going to keep my comments short and to the point, as our first quarter results speak for themselves that this was a very clean quarter.

Today, I'll focus on three topics: our Q1 results and key market trends; our recently launched loyalty program, Scene+; and the release of our Sustainable Business Report.

First, our results and market trends. Our sales grew 4.1 percent this quarter. We achieved positive same-store sales growth of 0.4 percent, which was 260 basis points higher than last year and 280 basis points better than last quarter. It is fair to say that we are seeing some better same-store sales momentum as we begin fiscal 2023.

Same-store sales improved throughout the quarter and were much stronger once we no longer comped last year's COVID restrictions later in the quarter. We also saw customers continue to return to more pre-pandemic shopping behaviours resulting in higher transaction counts and smaller but still strong basket sizes versus the prior year.

As you would expect, the industry is seeing some shift to discount. In our case, FreshCo is performing very well and putting up the best results in its history. That being said, we are also pleased to see that our full-service stores are performing better than we had anticipated in this inflationary environment. They are now satisfying many needs of the value-seeking customer through strong promotions, better personalized offers, great quality and service, and an excellent assortment of Own Brands products. In particular, our Own Brands portfolio is on fire and delivering immense value to customers. And in Q1, our Own Brand sales increased 9.5 percent year over year.

You can hear the Pictou County train going by if you listen carefully I hope.

Importantly, we are protecting our full-service market share and seeing strong momentum across our banners. If we can perform at this level during an inflationary period, then we believe we are very well placed when inflation returns to more normal levels. And while it is too early to definitively say that inflation has peaked, we are seeing some encouraging signs including the fact that the number and rate of cost increases from our suppliers is decreasing.

Empire's gross margin was strong this quarter. Our gross margin rate excluding fuel grew by 63 basis points. These margins were achieved despite the inflationary pressures we faced. This is largely due to our Horizon initiatives with promotional optimization in Own Brands. The improvements in margin also reflect the enhanced discipline and new tools we've built over the past five years through Sunrise and Horizon. With our strong sales and margin performance, we delivered EPS of \$0.71 this quarter.

With that, I'll now turn to our Scene+ launch. As you probably know, on August 11th, we launched our new Scene+ loyalty program in Atlantic Canada. This was the culmination of a lot of hard work, and I am so impressed by the efforts of our leaders but especially by our teammates in store to effectuate a near flawless implementation.

Although we are only about 30 days into our decades-long journey, we could not be more pleased with the early traction. Our teams are now focused on preparing for the launch of Scene+ in Western Canada next week. This is a great start, but we are in the early innings of our journey to thrill customers and unlock the power of personalization through loyalty.

We knew that Scene+ was a great loyalty program with strong recognition among Canadian consumers, and unsurprisingly, we've seen a lot of interest from potential new partners. We'll be choosy with any new partners. Their brand will have to strongly resonate with Canadian consumers.

Now for our sustainable business report. In August, as part of our ESG efforts, we released our fiscal 2022 report, which included our new climate action plan. This year, we set science-based emissions reduction targets in support of Canada's transition to a low-carbon economy. These targets are only one important way that we are progressing on our journey to be a leader in climate and ESG in Canada.

ESG has been on our agenda for many years, and we continue to make progress in areas such as removing plastics and waste from the business, expanding our efforts to cultivate an inclusive workplace for all, growing our community investments, and embedding sustainable business mandates within our performance management goals. While there's more to be done, our management team and the board are pleased with the commitments we've made to ESG and the progress made over the last few years.

And with that, over to Matt.

Matt Reindel

Thanks, Michael. Good afternoon, everyone. I have some comments on our quarterly performance, Voilà, our balance sheet, and then we'll move to your questions.

Firstly, our performance. So, as Michael said, same-store sales was positive at 0.4 percent. We're particularly pleased with this result as we continue to comp COVID-elevated sales in the prior year for about one-half of the quarter.

Our gross margin was 24.9 percent, which was 63 basis points higher than last year when you exclude fuel. As in prior quarters, this improvement is due to benefits from Project Horizon, particularly our promotional optimization tools and the continued strength of Own Brands through increased penetration and better costing.

Gross margin, as you know, has been a key focus for us over the past five years, and initiatives implemented through both Sunrise and Horizon have enabled us to consistently and sustainably grow margin despite recent inflationary cost pressures.

Our SG&A was 13 basis points lower than last year. This is largely due to improved sales leverage and lower COVID costs, partially offset by our continued expansion of Voilà, Farm Boy, and discount in the West.

Other income was \$15 million lower than last year, mainly due to gains we had on lease terminations in fiscal 2022, which did not repeat this year.

Our effective tax rate was 25.6 percent in Q1 versus 24.5 percent in the prior year. The income tax rate for the quarter was lower than the statutory rate primarily due to differing tax rates of various entities. For fiscal 2023, excluding the effects of unusual transactions or differential tax rates on property sales, we're projecting that the effective income tax rate will be between 25 percent and 27 percent.

On to Voilà. We're very pleased with the performance of Voilà. The capture of market share is in line with our expectations, and the key operational metrics, such as net promoter score, on-time delivery, substitution rate, and labour efficiency, are extremely strong.

However, after the easing of COVID restrictions, e-commerce industry sales are slightly lower now. Based on our latest sales forecast, we believe Voilà's dilution will be approximately the same as last year and that includes the headwinds from higher fuel and labour costs that Voilà is currently absorbing. We are and remain very confident in the long-term trajectory of our e-commerce business.

And last but certainly not least, our balance sheet continues to benefit from strong cash flow generation that is enabling our capital allocation strategy. We continue to strategically allocate our free cash flow to deliver the largest impact to our business and actual results.

This quarter, we improved 22 stores through renovation, development, or conversion. We've repurchased approximately 3.1 million shares for consideration of \$124 million so far in fiscal 2023. And, as we announced last quarter, we increased our dividend for the 27th consecutive year.

So fiscal 2023 is off to a strong start. We're in the final year of Horizon, and we're still on track to hit all of our targets. But as we've noted before, some of the key initiatives being executed in fiscal 2023 will primarily generate benefits into fiscal 2024 and beyond. And so we're even more excited about our post-Horizon period. A good example is Scene+ where we'll see the benefits start in Q2 and then ramp up in Q3, Q4, and beyond as more Canadians see the great value that this program delivers.

And with that, Katie, I'll hand the call back to you for questions.

Katie Brine

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

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press *, followed by the number 1 on your telephone keypad. If your question has been answered and you would like to withdraw, please press *, followed by the number 2. One moment, please, for your first question.

Your first question will come from Irene Nattel, RBC Capital Markets. Please go ahead.

Irene Nattel — RBC Capital Markets

Thanks and good morning, everyone. A couple of questions. So, first of all, on the promotional effectiveness, can you talk in particular about where you're seeing the benefits and how that plays into the current inflationary environment? And your ability to, really to drive basket with price-sensitive consumers?

Pierre St-Laurent

Good question. We're leveraging the data through new tools and the new algorithms that we're using. We have indicators very early on when a promotion is effective or not based on customer behaviour, customer demand, and profitability. We have the agility now to correct the course very, very quickly. So I think it's the main reason why we have been able to deliver that strong margin and remain competitive and relevant at the same time. So the tool and, like I think Matt said, a very strong discipline in managing the promo mix with the people in merchandising.

Irene Nattel

That's great. Thank you. And if you think about sort of this journey along promotional effectiveness, how far along would you say you are in the process?

Pierre St-Laurent

It's been implemented for a several quarters already. We continue to work with the tools, improving our knowledge of it. So, obviously, there's volatility. We need to fuel the engine with new data and new behaviours. But as I said, we have information very quickly, more than when we had no AI to support our decision-making process.

So, most of the ramp-up is behind us, but I strongly believe benefits of the tool will continue to generate incremental results over time.

Irene Nattel

That's great. Thank you. And on the private label, you mentioned that sales were up 9 percent. So, obviously, sales growing more quickly than the average. Can you talk about which categories and where your private label penetration is today and what your updated targets might be?

Michael Medline

Pierre is kind of shaking his head that he'd rather not share it. He wouldn't mind sharing it with you, I think, or some of the people on this call, but he'd rather not share it, generally, I think.

Irene Nattel

Okay.

Michael Medline

I think you understand that. Yeah. But it's a good question.

Irene Nattel

I do. I do. Thank you. And then just finally, sort of one curiosity question, which is, I noticed in the presentation deck that you're going to be fulfilling Gatineau—that Voilà is going to be extended to Gatineau and Quebec City, or is, actually, already. How are you fulfilling that because that's an awfully long ways away?

Pierre St-Laurent

Oh, we have a spoke already in place in Quebec City and a spoke in Ottawa. We have two spokes.

Irene Nattel

Understood. Thank you.

Michael Medline

And for people on the line, because we use our own nomenclature sometimes, a spoke is basically a pretty simple, low-cost, cross-docking facility—for very low capital but allows us to extend our reach and serve customers fresh in a good way.

And by the way, if anyone ever wants to see what a spoke or CFC looks like, I'm sure we can arrange it. Because we're now a little bit more open and we hope COVID's settling down a bit, and people can come see the CFCs and the spokes. Just go through Katie.

Irene Nattel

That's great. Thank you so much.

Michael Medline

Thank you, Irene.

Operator

Your next question comes from Mark Petrie of CIBC. Please go ahead.

Mark Petrie — CIBC

Yeah. Good afternoon. I wanted to ask about the OpEx dollars. The increase accelerated in Q1 sort of from the trajectory we've seen in the last few quarters. Can you just give us a sense of the relative drivers of that? I mean is it just broad-based inflation across your business? Or are there some other specific pieces? And then also any comments with regard to your outlook and how you expect that to track over the rest of the year.

Matt Reindel

Sure. Let me tell you that one. So SG&A, when you look at it from a dollar perspective it was certainly higher than last year. There's a few main drivers of those. Inflation's a part of it, but I wouldn't say it's the biggest piece of it. When you look at the year-on-year movement, it's really the investments that we've made in our broadly called Horizon initiatives, but let me give you more detail to that.

So the increases are coming from Voilà; from Discount; from Farm Boy; from marketing timing, which I can share a little bit more information on; and depreciation.

So those are all linked to our Horizon strategy. As you know, we're increasing the stores, we're increasing our Voilà footprint, and on the capital side, as you know, we've increased our capital over the past few years. And that inevitably leads to increased depreciation. So those are the major drivers of the SG&A dollars.

In terms of outlook. Now, when we looked at it from rate perspective, our rate was a little bit low in Q1, mainly because of the sales leverage from fuel sales. So if you're looking at it from a percentage perspective, it looks a little bit low. Dollar-wise, it's not seeing massively different numbers from that for the balance of the year.

Is that helpful?

Mark Petrie

Yeah, that's helpful. I guess, maybe just to sort of circle back then to the investments in Horizon are the key drivers of the dollar increase. But the dollar increase is also sort of accelerating. So I guess are those Horizon investments accelerating and then sustaining? Or you alluded to some marketing and some timing there. So just trying to understand kind of how to think about it for the balance of the year on a year-over-year basis.

Matt Reindel

Yeah. I wouldn't say we're expecting it to accelerate. The marketing one in particular, so just to walk you guys through that. So our marketing spend in Q1 was higher than it was last year. And that was due to a timing issue last year.

So we have the Olympics at the end of Q1 and our spend on the Olympics. So all the production work was done in the prior year and then the actual airing was done towards the end of Q1 and into Q2. So that's the reason our spend was lower last year than it is this year. This year that marketing spend is going to be broadly consistent, if not a little bit lower, as we get into the second half of the year.

So overall, I don't see a spike in SG&A. It's due to our investments, which have been relatively consistent under Horizon.

Mark Petrie

Okay. Helpful. And I wanted to ask about Voilà and the change in sort of commentary with regard to dilution and also breakeven for the Toronto CFC. So I appreciate volume is the main driver here, and it's not sort of the specific performance of the business or the facility.

So maybe two questions I guess. Based on your growth assumptions that you have in place now, what do you think is a realistic timeline for the Toronto CFC to reach positive EBITDA?

And then with regards to the ramp-up of the Montreal facility, perhaps some comments about that and your expectations for that facility relative to what's happening in Toronto, just given the different dynamics.

Matt Reindel

Okay. All right. So there's a lot in there. So let's take them one by one.

Just to give you some extra colour then on the change in our projections. So I think it's pretty broadly been publicized that the total e-commerce grocery industry is a little bit lower, certainly, when you compare versus that very high spike in COVID tonnage last year. And, of course, it's also the summer season.

So the total pie is a little bit smaller. Our share of that pie is good, but the total pie is smaller. So when we project our sales, our sales for the year look like they'll be lower. And, of course, that translates down to dilution. So hence why we were super transparent in saying that our dilution will be approximately the same as last year.

That being said, that dilution includes the impact of fuel, the impact of labour that, obviously, our business isn't carrying this year.

So we remain very confident about Voilà. This is a timing issue. We're super happy with the metrics, the way it's performing. So this is not a long-term problem with the business.

Your second question was about the time period to breakeven and will we break even towards the end of the third year of operations, which is what we said before? Look. It's a good question. And if we have a slightly lower sales number, will that break-even point move slightly into year four? Yeah. Probably. I think that's a reasonable conclusion. But like I said, we're talking about a few months based on timing. And at the end of the day, we don't know exactly.

The final question was on the Montreal ramp-up. So that ramp-up has gone very well. We're very happy with that. As you would expect in any transition like that, you're always concerned that you're going to lose your existing customer base. It wasn't perfect, but it was very good. And we're really moving on a good pace now in that Montreal CFC. Momentum is heading in the right direction. All the metrics are very strong. Basket sizes are very strong. So yeah. We're really happy with that.

Mark Petrie

Okay. Appreciate all the comments. And all the best.

Operator

Your next question comes from Patricia Baker of Scotiabank. Please go ahead.

Patricia Baker — Scotiabank

Good afternoon, everyone. I have a few questions. So, Michael, thank you for giving us the data on the Own Brand's performance in the quarter of 9.5 percent. And I just want to square that 9.5 percent trend with the 0.4 percent same-store sales. And presumably, the Own Brands was accretive to margin but, of course, it does hurt your retailers. So if we try to look at this on a different basis and instead of looking at that same-stores sales with that high growth in the private label, would it be fair to say that units would be up more than the 0.4 percent on a year-over-year basis?

Pierre St-Laurent

All in, I don't think it affects our top-line sales because it's highly relevant right now. So with all the products we introduced through category rebuilds, I don't think it's affecting our top line. And as you said, I think it's highly accretive for us. The margin rate in Own Brand is way higher than our average in margin.

And yeah, the growth continues. It's accretive in margin. It's relevant for customers. So I don't think it's had it. That's because the retail price is lower, but I don't think it has an impact on the top line all in.

Our Own Brand products are highly efficient right now. We are seeing big growth on new product introduction. We're really pleased with the work done by the team over the last couple of years to rebuild the brand and to rebuild every single category plan with our Own Brands.

Patricia Baker

Okay. So let me ask it a slightly different way. So that 9.5 percent growth in private label or Own Brand, so does that reflect new customers coming to private label? Does it reflect customers shifting from national brands, which on average have a higher average retail price, right? And shifting to private label, which would have an implication for your basket dollars.

Pierre St-Laurent

It's mostly a shift from national brand. But, once again, I think our transaction count is very healthy.

Patricia Baker

Okay.

Pierre St-Laurent

So I think, and with new product introduction, new format, it's highly relevant. It's difficult to associate that to new customers, but clearly it's a shift. Like trading down in protein, stocking up on promotion, it's the customer behaviour we're seeing right now.

So shifting from national brand to Own Brand is a trend that we're seeing, and that will continue I think. But it's good for us, and it's good for customers. So everybody's happy.

Patricia Baker

Okay. That sounds good, Pierre.

So I'm going to ask about something that we never—I don't think—it's been a long time since it's been discussed on an Empire conference call. And that is what sort of trends are you seeing with your drug store business? You've got a total of about 400 drug stores across the country. So are you seeing any interesting trends there over the course of the last several quarters?

Michael Medline

Yeah. It's Michael. Thanks for the question, Patricia. Sometimes people underestimate the size of our pharmacy business because so much of it is contained in our stores, especially in Western Canada. And we also have Lawtons stand-alone stores. And I would say that obviously those store-in-store and Lawtons stores themselves are performing extremely well. And we don't really break them out—especially when they're in the store. They are so good for the customer and that we see stronger sales than normal in stores that have pharmacy. And because we don't break it out nobody sees how strong that western pharmacy business is.

But I would say it's very healthy, like everyone else is reporting in their pharmacy business. Always some areas to improve, and we're looking for those. But we're seeing really good growth that's very positive.

Patricia Baker

Okay. Thank you. Thank you for that.

Michael Medline

Thanks for asking that.

Patricia Baker

Michael—okay. You mentioned in your remarks that the supplier discussions are changing, and you're not getting as much in the way of asks for cost increases. When did you first start to see that, and how comfortable are you that we really are going to see abate and it'll be positive for the business?

Michael Medline

Yeah. We're more confident than we're not at this point. But there's a lot of things going on globally that we can't control. And I would say that we started to become a little more confident on that about three or four weeks ago.

Patricia Baker

Okay. And I'm going to ask one last question. And that is just on this all discussion and the other questions previously that were asked on the e-commerce trends, and it's perfectly understandable why the industry is down currently. Do you have your own views or broad views out there, about what the longer-term trends are for online grocery delivery in the Canadian marketplace? I'm not talking about the next year or the next quarter, but longer term.

Michael Medline

As usual this time of year, we're working on setting our plans for the coming year and years. And we're going to see—I mean, anyone who thinks this is not going to grow over time is putting their head in the sand. It may grow at a different pace. It may grow as the demographics change. But we're going to see a very healthy and large e-commerce business in this country, which is why we're so committed to it. While at the same time, we know that in the next few years, most of our business and our profits will come from our stores.

So nothing has changed our view that the world is moving ahead or that e-commerce does not involve grocery in Canada.

Patricia Baker

Okay. Thank you very much for that, Michael.

Michael Medline

Thank you.

Operator

Your next question comes from Vishal Shreedhar of National Bank Financial. Please go ahead.

Vishal Shreedhar — National Bank

Hi. Thanks for taking my questions. Once upon a time, Michael, Empire's business was more bifurcated, and the Quebec region tended to react more quickly to all these quick rapid changes in consumer demand in the market and how the consumer's behaving. So just wondering now, when you look at this business, is it more uniform in terms of how it's responding to these rapid changes in consumer demand? I'm talking about the increased price sensitivity and increased demand for value.

Michael Medline

Yeah. So I don't want Pierre to answer this because it'll sound too egomaniacal, so I won't let him, but. And I'm not sure about once upon a time. But I can tell you that when I joined the Company, Quebec was extremely strong and great executing and so was English Canada. We just had to organize ourselves better and lead it better. It wasn't because we weren't good at it.

I would say now that less and less we think of them as different regions. Obviously, IGA is a very strong brand and we have incredible dealers there. But you can tell from the way that we've organized ourselves and the leaders that we have who are from all over Canada that we are now taking best practices from all over.

And I would say, if I can speak for you, Pierre, that the things you've learned from it that you didn't know either when you were in Quebec and that there's best practices. But I can see that our incredible Quebec business is that the influence of that is helping us across the country. And some of that is in terms of knowledge and practice and execution. And some of it's just leaders.

Pierre St-Laurent

And tools.

Michael Medline

And the tools. Yeah.

Pierre St-Laurent

They've got the same ones across the country now.

Michael Medline

They have the same tools and many of the same leaders. So, yeah. I'm proud of that. I think that instead of everybody just sticking to their territories and competing against each other all the time that we have a company now that is national in breadth and national in culture. And, obviously, we get better results from that. Great question. Thanks, Vishal.

Vishal Shreedhar

Right. And on that point, just extending it, so you have these businesses, Farm Boy, Longo's, very entrepreneurial, and historically had to be more dynamic to compete against the big guys. Wondering if those businesses are responding differently to these challenges and how they're addressing the consumer and if there are any conversations going back and forth to take back best practices.

Michael Medline

We have conversations daily, if not hourly, between the businesses, as these are stand-alone, to some extent, businesses. Right? Longo's, we're partners with the Longo's family and JL and Jeff York and others have continued to retain equity ownership at Farm Boy. But having said all that, I've never met two groups which are more willing to share best practices with each other and with the other Empire banners, whether it's in private label, Own Brands or whether it's on supply chain, they're sharing back and forth.

And I think that, if I may say, that, obviously, the Longo's and Farm Boy acquisitions have been great both financially and strategically and have filled a hole in Ontario. But the learnings we have had by being open to learning from some real experts, especially on the fresh side and on the private label side, have been incredible.

Vishal Shreedhar

Okay. And that leads me to my question, which I think you've answered, is just given the incremental shift towards discount, management is still satisfied with the returns and hitting the thresholds that it aimed for with Farm Boy and Longo's at this point.

Michael Medline

Absolutely.

Vishal Shreedhar

Thank you very much.

Michael Medline

Thank you.

Operator

Your next question comes from Michael Van Aelst of TD Securities. Please go ahead.

Michael Van Aelst — TD Securities

Hi. Good afternoon. So you've covered a lot already, but I do have some questions on Horizon. And when you launched Horizon, much of the expected gains were predicated on market share improvements. And I'm wondering was this a combination of organic and acquisition market share gains that you were considering at the time? Because at this point, it doesn't seem like the organic growth has kept pace with your peers when you look back to the growth versus 2019, particularly during this period of high inflation.

Michael Medline

Yeah. Great question and I'm looking over at Mike Vels, and I think we're trying to remember back. But I think it was all organic that we expected because you don't know what you're going to buy. And we didn't know we were going to have Longo's in the fold, et cetera.

However, having said that, yeah. I think that when you look at it, and I'm always transparent, having had COVID and then gone throughout COVID, and now a period of higher inflation, that the market share numbers are—when we look at them, they're not exactly what everyone thinks they are, just so you know. And we're more optimistic than we hear in other places. However, they're a little lower than we would expect, for very obvious reasons that you pointed out, which we can look at it, I guess, glass half-empty or I'm often, half-glass full. And on the glass half-full, if we're doing what we're doing in full service right now in this environment, I'd like to see it when there's not this kind of inflation.

So yeah. I mean, we're going to hit these Horizon targets, that is our forecast and our belief. And if we can go over them, we'll go over them, but we're going to hit them like we promised. And we always do it a slightly maybe different way. And that's what good management does. So if market share's a tiny bit lower, we'll get it in margin or SG&A or somewhere else. But I think we're poised in our business to start gaining some market share.

Michael Van Aelst

Okay. So that was actually the second part of the question and what the catalyst might be to start a little bit faster growth in earnings as we get through the year because it's relatively modest in Q1 and you have to ramp it up a little bit to get to your target. So given inflation is still pretty high now and likely to stay high, even if it comes down a bit, it's likely to stay high for the next few quarters, it sounds like the catalyst might come a little bit more from margins than from the revenues.

Michael Medline

No. I wouldn't say that. I'd say that you saw that a little bit. I mean, we have some pretty good momentum. We went from, if our memory's correct, minus 2.8 percent comps to plus 0.4 percent comps. And I would like to hope that we'll see accelerated comps to a certain extent throughout the year.

Inflation isn't the best thing for consumers. It's not the best thing for Empire Company. But boy, is our full service, especially, surprising us in terms of its resilience. So even with inflation continuing, which is you got to kind of look at it, even though I'm glass half-full, we don't model it that way. And we have to model it as if inflation will go longer than we think or hope, in which case we still think we should hit our Horizon. We will hit our Horizon. And if inflation ebbs, I think we'll see better top line. But I think we'll have good top line, even in the face of inflation. I feel like we're right on the precipice here of figuring this out, too. This is not only my opinion. Everyone seems to be nodding around the table. But these are hard calls, but I'm giving you my most transparent and open answer to what we're thinking.

Michael Van Aelst

And we appreciate that. And just there was an interesting comment on the gross margin improvement. And you said that part of it was related to banner mix. And normally, we would kind of think the shift from conventional to discount would be negative. But then, is it the shift within the conventional towards say a Farm Boy, for example, or Longo's that is driving that banner mix improvement that you're talking about.

Matt Reindel

Well, there's a couple of things in there. When we look at that banner mix, we're really talking about, for example, Longo's. We're talking about wholesale. We're talking about discount West. So that's kind of the banner mix we're talking about. So some of those sort of highly accretive business units are also growing, now including Voilà.

Michael Van Aelst

Yeah. So the shift to discount in the West is gross margin accretive for you?

Matt Reindel

Shift among discount West is accretive. Yeah.

Michael Van Aelst

Okay. Great. Thanks very much.

Operator

Your next question comes from Chris Li of Desjardins. Please go ahead.

Chris Li — Desjardins

Good afternoon, everyone. Maybe just a quick question first on Voilà. Do you think the high food inflation is the main reason for the lower-than-anticipated online sales as, obviously, in-store is a cheaper way to shop? And if so, do you believe those pressures that you're seeing are more transitory and online should grow again, once inflation normalizes?

Pierre St-Laurent

I don't think it's because inflation. It's more a seasonal thing and a variation versus last year with restrictions in place than inflation. The basket size is way higher in e-comm.

So people are looking for more than just discount. They're looking for convenience; looking for time; looking for assortment. So I don't think inflation has an impact on the sales trend. It's more the summer travel and the variation versus last year with COVID restriction than anything else.

Chris Li

Okay. And maybe just to follow up on that. I guess I'm just trying to understand what changed in the last two or three months when you provided first your dilution guidance at end of June and then with the update today. What changed in the marketplace that would cause you to have lower-than-expected industry sales? And the only thing I think of is because of high inflation. That's sort of the big change in the last few months. But yes. I just want to understand better sort of because it's only been two or three months and then you updated your dilution guidance.

Matt Reindel

Yeah. I mean, there's a couple of things in there, Chris. I mean, first of all, the timing of when we'd done the forecast. So obviously, that environment continues to be very dynamic in terms of how many people are shopping and how comfortable people are visiting a different number of stores, one of which would be e-commerce. So there's a couple of things in there. I wouldn't say it's inflation.

Michael Medline

And I think we try to be pretty open, and right now it's pretty early in the year. And so we don't want to come to you later and go oh, yeah, we hit it by a cent, or we missed it by a cent and surprise you. So while we still don't absolutely know what it's going to be or if it's going to be the same, we know it's going to be approximately the same. So I think it's just better disclosure. And I don't like surprises late in the game. I'd rather give you a heads up it's going to be very, very close. And I think that's just better so that we're all talking the same language.

Though it's still being persistently higher, a bit longer maybe than we had thought, sort of caused us to talk about it a bit more, too.

Chris Li

No. I appreciate the transparency. Maybe just a follow-up question on Michael's question about Horizon and your confidence in achieving those targets despite some of the near-term challenges. Can you draw down a little bit, just maybe elaborate. What other parts for your business can you lean on a bit harder to get those extra benefits so that you can achieve your earnings target for this year? Can you labour a little bit on specifically what you can do better or more aggressive?

Matt Reindel

Well, maybe I'll start, and Michael can finish. I mean, honestly, I don't think it's a case of having to lean on any other pieces of the business. We have really good plans in place through our other initiatives that are producing some very, very strong results. You saw that in the margin performance. What we're talking about Voilà here is actually a very small movement in earnings per share in the scheme of things.

So our plans that we have in place, we're very confident about. So I don't think it's a case of leaning on anything else. What we're doing by business unit is doing the right things. And I think maybe there's still upside in other initiatives, like for example Scene, which the launch has well exceeded our expectations. So there may be some upside there. But I don't think it's a case of leaning on any individual business units. They're doing the right things and that will get us there.

Michael Medline

Yeah. I think if I had to say that we're more confident or optimistic in any of the businesses right now, we'd say that we've seen greater strength in Western Canada than we've ever seen before, I guess, in terms of underlying strength in the business. And we're very happy with the team at FreshCo and how they're managing their business using all the levers at their disposal. And so I think that we're more confident in that business in Ontario, where most of the stores are, and in the west. So I think those will be two areas where I'd just say we're a little more confident.

But basically, we do what we say. Right? And we execute plan we had for Horizon. We execute on that plan. Michael asked a really good question. Sometimes it's a little more here or a little less there. But as I said last quarter I think, we don't get off plan by little things that would bother some executive teams. And so we still have that confidence because we're running a business well, even in times when it's not that easy to do. So that's the best I think we can say.

Chris Li

Very helpful. And then last question, just on Scene+. As that program is rolled out nationally early next year, do you expect to incur any sort of meaningful expenses that would have an impact on earnings?

And then secondly, realistically speaking, how long do you think it would take before you'll be able to leverage some of the data and personalized promotions to have an incremental impact on sales and earnings longer term?

Matt Reindel

Yeah. That's a great question. So first of all, no. It's not going to give us an incremental hit to earnings from an expense perspective. We have marketing budgets. We have flexibility where we can invest and where we don't. And, obviously, Scene for us is a priority right now, so. But no. There'll be no unexpected or year-on-year aggravation in marketing.

Michael Medline

Maybe I'll take the second part.

On the personalization part, which thank you for asking about, you need to really understand customers to really get the most out of personalization. Personalization has started. I would not say yet it's from Scene+ and that program. But I wouldn't say its material yet because it's too early.

Chris Li

Great. Thanks. Thanks a lot.

Operator

Your next question comes from Peter Sklar of BMO. Please go ahead.

Peter Sklar — BMO

Just one question. So the other day, I'm sure you saw that Ocado discussed their retail sales decline. And they talked about it in terms of the impact of food inflation, the number of items in the basket, right down to house brands, number of customer transactions. Just wondering, can you provide some flavour on Ocado's 21 percent decline in revenue? Kind of talk about the moving parts sort of in the same context?

Michael Medline

Yeah. It's Michael. Thanks for the question, Peter. I'm loathe to talk about other companies because I wouldn't want them talking about us. However, I think that as you know that Ocado—it is a great company and they had quite the ride during COVID to supply UK households with product when no one else basically could. So I think they're coming off a bit of that. I mean—I don't say a lot about it, but we haven't seen any material changes. We have a healthy basket size, which is not shrinking. We continue to gain customers on every metric we're improving that I can think of. You touched on some of them, Matt, in your script. But in terms of looking at all the numbers every week, I'm getting happier every week, and sending nicer notes every week.

So, I mean, it's just a different fact situation. That's also a far more mature e-commerce industry in the UK. The most mature in the world. I mean the amount of groceries and goods, and hard goods and soft goods sold is incredible. I'm a little dated on my statistics, but it's very, very high compared to Canada or anywhere else.

So very well-run company. Good partners. And I don't think it's really applicable to our situation. But you'd have to ask them.

Peter Sklar

Yeah. Well, I thought that thing that was disconcerting in their disclosure is that their basket count, so number of items in the basket, was down 10 percent. Are you saying you're not seeing anything that severe?

Michael Medline

So if you could italicize this and underline it, absolutely we are not seeing that.

Peter Sklar

Okay. Good to hear. That's all I have, Michael. Thanks.

Michael Medline

Thanks, buddy. Good luck.

Operator

There are no further questions from the phone lines, so I would like to turn the conference back to Katie Brine for closing remarks.

Michael Medline

This is not, Katie. This is Michael. And I just want to say that this is Patricia's last call, we think, with us. And I hope it's the last call she has to do because it would be with us, and it would be historic. But we wish Patricia all the best in retirement for everything she's done and for the industry and how well respected she is. And we were sorry we couldn't be at her conference, but we had a board meeting. Should have been better scheduled by someone, either us or them. But, Patricia, well respected and thank you for everything you've done in this industry.

Katie Brine

Great. Thank you, Michael. Thank you, Michelle. We appreciate your continued interest in Empire. If there are any unanswered questions, please contact me by phone or email. We look forward to having you join our second quarter fiscal 2023 conference call on December 15th. Talk soon.

Operator

Ladies and gentlemen, this concludes your conference call for this afternoon. We would like to thank you all for your participation. You may now disconnect your lines.