EMPIRE
COMPANY LIMITED

Sobeys inc.

Q1 F2022 Earnings Call

September 9, 2021

First Quarter Highlights

- Earnings per share of $0.70 compared to $0.71 last year.
  - Prior year included a net positive impact of $0.04 as a results of a gain on a significant real estate transaction partly offset by a lump sum payment related to collective bargaining in Alberta.
- Same-store sales excluding fuel decreased by 2.2% compared to elevated sales last year.
  - Two-year same-store sales growth of 8.1%.
- Excluding fuel, gross margin increased by 40 basis points.
- Project Horizon growth plan on track.
- 42 FreshCo locations in Western Canada confirmed; 29 stores open and operating as at September 8, 2021.
- 45 Farm Boy locations in Ontario confirmed; 40 Farm Boy stores open and operating as at September 8, 2021.
- $133 million of shares repurchased to date; fully offsetting shares issued as part of the Longo’s acquisition.

First Quarter Financial Summary

	Quarter 1	
	Actual	**Last Year**
Sales	$7,626.0	$7,354.2
Same-store sales, excluding fuel	*(2.2%)*	*11.0%*
Gross Profit	$1,912.2	$1,848.6
Gross margin	*25.1%*	*25.1%*
Selling and Administrative Costs	$1,597.1	$1,512.1
Selling and administrative margin	*20.9%*	*20.6%*
EBITDA	$581.9	$582.5
EBITDA margin	*7.6%*	*7.9%*
Earnings per Share	$0.70	$0.71
Free Cash Flow	$115.5	$145.1
Capital Expenditures	$147.0	$119.8

Outlook

EMPIRE COMPANY LIMITED Sobeys inc.

The Company expects that fiscal 2022 will continue to be affected by COVID-19, with some normalization of business throughout the year as vaccination rates increase and COVID-19 restrictions are relaxed. Management has observed increased levels of food consumption outside of the home and related reductions in grocery industry volumes and expects to see these trends to continue. As restrictions ease, consumers are expected to shop more frequently and at more grocery stores. Grocery formats that experienced lower relative growth during the pandemic lockdowns, such as discount, should experience higher relative sales.

- **During the first quarter, the cost of maintaining safety and sanitization measures was approximately $18 million (first quarter of fiscal 2021 – $67 million).**
  - In the second quarter of fiscal 2022 it is expected the Company will incur approximately $10 million (second quarter of fiscal 2021 – $14 million) in selling and administrative expenses related to the increased cost of maintaining safety and sanitization measures, and other COVID-19 related costs.
- **The Company expects that same-store sales will continue to reduce in the remainder of fiscal 2022 as industry volumes decrease compared to the unusually high COVID-19 driven sales impacts in fiscal 2021**. Margins will continue to benefit from Project Horizon initiatives, other operating improvements and the addition of Longo's. These benefits will be partially offset by effects of sales mix changes between banners and the impact on sales mix of increasing fuel sales.
- The Company expects improvements in the results of its Toronto based e-commerce site as volumes continue to increase and costs reduce due to improved operational efficienciesl. At the same time, Voilà total costs will increase as the Montreal and Calgary facilities begin operations and store pick e-commerce is implemented in up to 85 additional stores in the remainder of fiscal 2022.
  - In total, the combination of improving results in Toronto, increasing costs in Montreal and Calgary and additional store pick e-commerce locations is expected to reduce Empire's fiscal 2022 net earnings by approximately $0.25 to $0.30 per share (fiscal 2021 – $0.18).
  - **The Company expects that fiscal 2022 will reflect the highest net earnings dilution for the Voilà program as the Toronto site is expected to begin to reflect positive EBITDA results towards the end of its third year of operations.**
- Management continues to expect the Company will achieve its three-year Project Horizon strategy targets. However, due to significant positive impacts on sales and earnings related to COVID-19 in fiscal 2021, growth rates in fiscal 2022 for same-store sales and net earnings are expected to be lower.

Project Horizon

PROJECT HORIZON

EMPIRE COMPANY LIMITED

Sobeys inc.

Three-year growth strategy for core business expansion and e-commerce acceleration.

Management targeting an incremental $500 million in annualized EBITDA, driving an improvement in EBITDA margin of 100 basis points by fiscal 2023.

To be achieved through:

1) **Growth in market share**
   - Invest in Empire's Store Network
   - Improve Store Space Productivity
   - Win Canadian Grocery E-Commerce
   - Grow Empire's Private Label Portfolio
   - Provide Best in Class Customer Personalization
2) **Building on cost and margin discipline**
   - Drive Non-Merchandising Sourcing Efficiencies
   - Continue Merchandising Sourcing Efficiencies
   - Invest in Best-in-Class Analytics to Improve Customer Value Proposition
   - Optimize Supply Chain Productivity
   - Improve System and Process

Benefits are expected to ramp up over the three-year period with the largest benefits reflected in year three.

Large portion of benefits are expected to be achieved through initiatives related to store productivity, private label, store renovations, and new stores.

Management believes that the Company can continue to grow faster than its key competitors, improving EBITDA margin by another 100 basis points on a higher sales base.

- Expected to generate a CAGR in EPS of at least 15% over the three years.

For additional information on the strategy, please click here to view Empire's Management's Discussion and Analysis for the quarter ended July 31, 2021.

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

In **the first quarter of fiscal 2022**, earnings continued to be positively impacted by strategic initiatives, including the continued expansion and renovation of the store network, promotional optimization, data analytics and strategic sourcing efficiencies. Benefits were partially offset by the continued investment in the Company's e-commerce network. Management expects these factors will continue to drive the majority of benefits through the remainder of fiscal 2022.

Project Horizon – Discount Expansion West

OVERVIEW

DISCOUNT EXPANSION TO WESTERN CANADA

Empire expects to convert up to 25% of the 255 Safeway and Sobeys full-service format stores in Western Canada to the FreshCo discount format.

During the first quarter, the Company opened one location and expects to open eleven additional FreshCo sites in Western Canada in the remainder of fiscal 2022. The Company expects to have 40 locations open in Western Canada by the end of fiscal 2022. As at September 8, 2021:

29 stores open and operating:	11 stores expected to open in the remainder of fiscal 2022	2 stores recently announced and are expected to open in Alberta in fiscal 2023
• 16 in B.C. • 6 in Manitoba • 5 in Saskatchewan • 2 in Alberta	• 10 in Alberta • 1 in Northern Ontario	

STORE CLOSURE AND CONVERSION COSTS

During the first quarter ended July 31, 2021, the Company expensed $6.3 million (2021 – $11.4 million) in store closure and conversion costs.

The Company recently announced two new FreshCo locations in Alberta and the conversion of a Sobeys Urban Fresh store to Farm Boy in Ontario. The FreshCo in Cornerstone, Calgary will be a new construction build.

- The combined store closure and conversion costs related to these store conversions are estimated to be approximately $2.6 million before tax and will be charged to earnings in the second quarter of fiscal 2022.

Project Horizon – Voilà Timeline

January 22, 2018:
- Sobeys signs agreement with Ocado to bring world's leading online grocery delivery solution to Canada.
- Central Fulfilment Centre ("CFC") #1 announced in the GTA.

May 9, 2019:
- Announced name and brand for online grocery delivery service in GTA, Ottawa and Quebec – *Voilà by Sobeys* and *Voilà par IGA*
- CFC #2 announced in Montreal; will deliver to customers in early 2022.

June 22, 2020:
- ***Voilà by Sobeys* launches for GTA customers.**

September 15, 2020:
- Launched curbside pickup service in Nova Scotia

December 10, 2020:
- Location of CFC #3 announced in Calgary, Alberta; will deliver to customers in the first half of 2023.
- Early Voilà operating metrics:
  - Weekly on-time delivery score 98.6%
  - Fulfilment of 99.6%
  - Net Promoter Score of 87 (vs industry best-in-class target of 70)

February 18, 2021:
Launched curbside pickup service in Alberta.

March 10, 2021:
- First CFC #1 spoke[(1)] location open
- Building construction for CFC #2 complete – Ocado is now building the internal grid.

August 27, 2021:
Voilà Curbside Pickup now available at select stores in B.C. and Manitoba.

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

Project Horizon – Store Network Optimization

- Over the course of Horizon (three years), Empire plans to renovate approximately 30% of its store network.
- In fiscal 2021, the Company invested $679.2 million in capital expenditures, in line with management's previously disclosed expectations of between $650 million and $675 million.
- The Company invested $147.0 million in capital expenditures[(1)] for the quarter ended July 31, 2021 (first quarter of fiscal 2021 – $119.8 million), including renovations and construction of new stores, investments in e-commerce fulfilment centres, FreshCo locations in Western Canada, and investments in advanced analytics technology and other technology systems.
- In fiscal 2022, capital spending is expected to be approximately $765 million, with approximately half of this investment allocated to renovations and new stores.

Number of locations renovated/converted

F21					**F22**
Q1	Q2	Q3	Q4	Total	**Q1**
20	21	19	28	88	**25**

Sobeys Albert St. (Regina, SK) – Converted to FreshCo

Before

After

CEO's Direct Reports

EMPIRE COMPANY LIMITED
Sobeys Inc.

Michael Medline
President &
Chief Executive Officer

Pierre St-Laurent
Chief Operating Officer, Full Service

Vivek Sood
Related Businesses

Mike Venton
Discount Format

Sarah Joyce
E-commerce

Michael Vels
Chief Financial Officer

Simon Gagné
Chief Human Resources Officer

Sandra Sanderson
Marketing

Doug Nathanson
General Counsel & Corporate Secretary

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

Mohit Grover
Innovation, Sustainability & Strategy

Disclaimers

Forward-Looking Information

This presentation contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize the Company's financial position and understand management's expectations regarding the Company's strategic priorities, objectives and plans. These forward-looking statements may not be appropriate for other purposes. Forward-looking statements are identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees" and other similar expressions or the negative of these terms.

These forward-looking statements include, but are not limited to, the following items:

- The Company's expectations regarding the financial impact and benefits of Project Horizon and its underlying initiatives, which could be impacted by several factors, including the time required by the Company to complete the initiatives and impacts of the COVID-19 including changes in customer behaviour;
- The FreshCo expansion in Western Canada and Farm Boy expansion in Ontario, including the Company's expectations regarding future operating results and profitability, the amount and timing of expenses, the projected number of store openings, and the location, feasibility and timing of construction, all of which may be impacted by COVID-19, construction schedules and permits, the economic environment and labour relations;
- The Company's anticipation that a percentage of food consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores, which may be impacted by future shutdowns or eased public health restrictions due to COVID-19, the ability for restaurants and hospitality businesses to re-open and resume operations, and the ongoing demand for restaurants and hospitality services in the near term;
- The Company's expectations regarding an increase in fuel sales, which could be impacted by future shutdowns and travel restrictions implemented by government authorities;
- The Company's expectation that it will incur approximately $10 million in the second quarter in selling and administrative expenses to respond to COVID-19, which may be impacted by future shutdowns or eased public health restrictions due to COVID-19 and safety precautions and transitions required;
- The Company's expectations that fiscal 2022 will reflect the highest net earnings dilution for the Voilà program, as the Toronto site continues to grow and is expected to begin to reflect positive results towards the end of the third year of operations, partially offset by the increasing costs of the Montreal and Calgary sites as they are built, and the plans to expand its Curbside Pickup service, which may be impacted by COVID-19, future operating and capital costs, customer response to the service and the performance of its technology provider, Ocado; and
- The Company's estimates regarding future capital expenditures, which may be impacted by operating results, impacts of the pandemic and the economic environment.

Non-GAAP Financial Measures & Financial Metrics

There are measures and metrics included in this earnings call presentation that do not have a standardized meaning under generally accepted accounting principles ("GAAP") and therefore may not be comparable to similarly titled measures and metrics presented by other publicly traded companies. The Company includes these measures and metrics because it believes certain investors use these measures and metrics as a means of assessing financial performance.

For a more complete description of Empire's non-GAAP measures and metrics, please see Empire's Management's Discussion and Analysis for the fiscal year ended July 31, 2021.