

Q1 F23 Earnings

September 15, 2022

First Quarter Highlights

- Earnings per share of \$0.71 compared to \$0.70 last year.
- Same-store sales excluding fuel increased by 0.4%.
- Excluding fuel, gross margin increased by 63 basis points.
- Other income decreased \$14.7 million largely due to gains on lease terminations in the prior year.
- Net earnings essentially flat (-\$1.0M). Growth in operating income offset by higher other income last year.
- Project Horizon strategy on track.
 - We remain bullish on fiscal 2024 and beyond. Project Horizon initiatives such as loyalty, store optimization and customer experience will provide financial benefits largely in fiscal 2024 and beyond.
- *Scene+* launched in Atlantic Canada in August 2022. Western Canada to launch on September 22, 2022. Additional regional launches are planned across Canada in calendar 2022 and ending early calendar 2023.
- Very happy with Voilà. CFC 2 transition in Montreal was well executed. Voilà's sales capture of the market continues to be strong, as well as all our key operational metrics. In the first quarter of fiscal 2023, e-commerce industry sales were lower as restrictions eased and lockdowns were lifted compared to the prior year.
 - Voilà's future earnings are primarily impacted by the rate of sales growth. As a result, management expects that Voilà's net earnings dilution for fiscal 2023 to be approximately the same as fiscal 2022.
- On July 11, 2022, DBRS Morningstar ("DBRS") upgraded Sobeys Inc.'s ("Sobeys") credit rating from BBB (low) with a positive trend to BBB with a stable trend.
- 3.1 million of Class A shares repurchased to date in fiscal 2023 for \$124 million.
- Empire's Sustainable Business Report was published in August 2022 which set bold, science-based emissions reduction targets.

First Quarter Financial Summary

	Quarter 1	
	Actual	Last Year
Sales	\$7,938	\$7,626
<i>Same-store sales, excluding fuel</i>	<i>0.4%</i>	<i>(2.2%)</i>
Gross Profit	\$1,978	\$1,912
<i>Gross margin %</i>	<i>24.9%</i>	<i>25.1%</i>
Selling and Administrative Costs	\$1,652	\$1,597
<i>Selling and administrative %</i>	<i>20.8%</i>	<i>20.9%</i>
EBITDA	\$594	\$582
<i>EBITDA margin %</i>	<i>7.5%</i>	<i>7.6%</i>
Earnings per Share – diluted	\$0.71	\$0.70
Free Cash Flow	\$31	\$109
Capital Expenditures	\$156	\$147

Outlook

- The Company expects same-store sales to be positive in fiscal 2023.
- Margins will continue to benefit from Project Horizon initiatives and other operating improvements.
- The industry continues to experience inflationary pressures, particularly related to cost of goods sold and fuel.
 - Although it is difficult to estimate how long these pressures will last, the Company is focused on supplier relationships and negotiations to ensure competitive pricing for consumers.
- The industry continues to experience supply chain challenges primarily due to labour shortages.
 - Although it is difficult to estimate the duration of these challenges, management remains focused on utilizing alternative sourcing options where necessary and does not expect significant adverse impacts to its supply chain.
- The Company expects continued improvements in the results of Voilà's Toronto Customer Fulfilment Centre ("CFC") as volumes increase and efficiencies improve. At the same time, Voilà will also incur additional costs as the Montreal CFC continues to ramp up and the Calgary and Vancouver CFCs are commissioned.
 - The ramp up of the Montreal CFC is expected to have higher costs in the first half of fiscal 2023 with improving results in the remainder of the year.
- Management continues to expect to achieve its Project Horizon targets and that associated benefits will continue into fiscal 2024 and beyond, including initiatives launching in fiscal 2023 that are focused on loyalty, store optimization and customer experience.

Project Horizon



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 the Company's Own Brands Portfolio
- Provide Best in Class Customer Personalization

1) Building on cost and margin discipline

- Drive Non-Merchandising Sourcing Efficiencies
- Continue to Build 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.

- The Company is on track to generate a compound average growth rate in earnings per share of at least 15% over Project Horizon's three-year timeframe, based on trailing twelve-month EPS at Q3 F20 as a proxy for fiscal 2020 (last quarter before COVID-19 impact).

For additional detail on Project Horizon please click [here](#) to view Empire's Management's Discussion and Analysis ("MD&A") for the first quarter ended August 6, 2022.

In the first quarter of fiscal 2021, the Company launched Project Horizon, a three-year strategy focused on core business expansion and the acceleration of e-commerce. In its third and final year, the Company remains on track to achieve an incremental \$500 million in annualized EBITDA and an improvement in EBITDA margin of 100 basis points by fiscal 5 2023 by growing market share and building on cost and margin discipline.

In fiscal 2022, benefits were achieved from promotional optimization and data analytics, the continued expansion and renovation of the store network, and strategic sourcing efficiencies. Benefits achieved in fiscal 2021 and fiscal 2022 were partially offset by the planned investment in the Company's e-commerce network.

These initiatives continue to deliver benefits in fiscal 2023. Additional benefits are expected from strategic initiatives launched more recently as part of Project Horizon, including Scene+, the Company's new loyalty program. Scene+ was successfully launched in Atlantic Canada in August 2022.

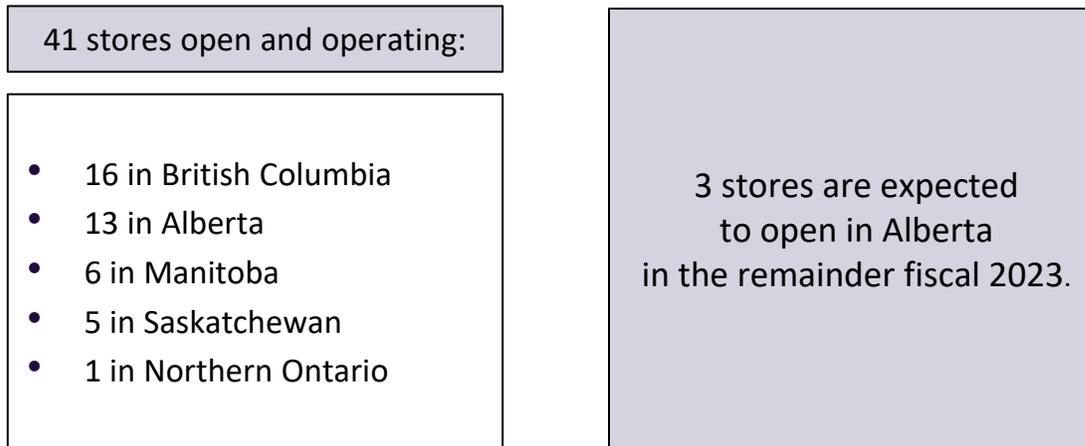
Project Horizon – Discount West Expansion



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

The Company opened one FreshCo store in Alberta during Q1. The Company expects to have 44 FreshCo stores in Western Canada by the end of fiscal 2023.

As at September 14, 2022:



Store Closure, Conversion and Lease Terminations

- During the first quarter of fiscal 2023, the Company expensed \$1.0 million in store closure and conversion costs related to FreshCo conversions (2022 – \$6.3 million).

Project Horizon – Voilà Timeline



F2019	<p>January 2018</p> <ul style="list-style-type: none"> 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.
F2020	<p>May 2019 – CFC #2 announced in Montreal.</p>
F2021	<p>June 2020 – Voilà by Sobey's launches for GTA customers. (CFC #1)</p> <p>September 2020 – Launched curbside pickup service, starting in Nova Scotia.</p> <p>December 2020 – CFC #3 announced in Calgary, Alberta</p>
F2022	<p>November 2021 – E-commerce option available for customers in every province.</p> <p>January 2022 – Ocado announces new innovations, including next generation robots and grids, to be considered for future CFCs⁽¹⁾.</p> <p>February 2022 – CFC #4 announced in Greater Vancouver Area, British Columbia.</p> <p>March 2022 – Voilà par IGA launches for Quebec customers. (CFC #2)</p> <p>April 2022 – Voilà by Sobey's expands to Ottawa via Spoke facility. From CFC #1.</p>
F2023	<p>May 2022 – Voilà par IGA rollout completed, now services 100+ municipalities from Gatineau to Montreal to Quebec City.</p> <ul style="list-style-type: none"> CFC #2 progressing well; increasing weekly order volume, strong customer experience metrics including on-time delivery & fulfilment.
F2024	<p>Calgary CFC to open.</p>
F2025	<p>Greater Vancouver CFC to open.</p>



(1) For more information on Ocado’s announcement and a replay of their event, please click [here](#).

Project Horizon – Store Network Optimization

- Empire plans to renovate approximately 30% of its store network over the course of Horizon (three years).
- The Company invested \$156 million in capital expenditures in Q1 (2022 – \$147 million), including renovations and construction of new stores, investments in advanced analytics technology and other technology systems, expansion of FreshCo stores in Western Canada and the construction of Voilà CFCs.
- In fiscal 2023, capital spending is expected to be approximately \$800 million, with approximately half of this investment allocated to renovations and new stores.

Number of locations Renovated/Converted

F21	F22	F23
Total	Total	Q1
88	132	22

Sobeys Digby, Nova Scotia

BEFORE



AFTER



Fresh Co Rutherford, Ontario

BEFORE



AFTER



Empire's Executive Committee



Michael Medline
President & Chief Executive Officer



Pierre St-Laurent
Chief Operating Officer



Vivek Sood
Related Businesses



Matt Reindel
Chief Financial Officer



Michael Vels
Chief Development Officer



Simon Gagné
Chief Human Resources Officer



Sandra Sanderson
Marketing



Doug Nathanson
General Counsel & Corporate Secretary



Mohit Grover
Innovation, Sustainability & Strategy



Julie van Wyck
Chief of Staff, Office of the CEO



Sarah Joyce
E-commerce



Mike Venton
Discount Format



Bonnie Birollo
Retail Operations



Luc L'Archeveque
Chief Merchandising Officer



Mark Holly
Real Estate



Bruce Burrows
Chief Information Officer



Andrew Walker
Communications & Corporate Affairs

Disclaimers

Forward-Looking Information

This document 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 the effects of inflationary pressures;
- The Company's expectation of the impacts of cost inflationary pressures, which may be impacted by supplier relationships and negotiations and the macro-economic environment;
- The Company's expectation that labour shortages will not have further significant impact on supply chain challenges, which may be impacted by labour force availability;
- The Company's expectations that fiscal 2023 will achieve growth of same-store sales, which may be impacted by the effects of inflationary pressures on consumer buying behaviours;
- The Company's expectations for net earnings dilution for the Voilà program for fiscal 2023, which may be impacted by future operating and capital costs, customer response and the performance of its technology provider, Ocado;
- 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 construction schedules and permits, the economic environment and labour relations;
- The Company's plans to purchase for cancellation Class A shares under the normal course issuer bid which may be impacted by market and economic conditions, availability of sellers, changes in laws and regulations, and the results of operations; and
- The Company's expectations regarding the amount and timing of expenses relating to the completion of any future CFC, which may be impacted by supply of materials and equipment, construction schedules and capacity of construction contractors.

By its nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made. For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of the fiscal 2022 annual MD&A.

Non-GAAP Financial Measures & Financial Metrics

There are measures and metrics included in this news release 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 the section headed "Non-GAAP Financial Measures & Financial Metrics" in Empire's MD&A for the first quarter ended August 6, 2022 available on SEDAR at www.sedar.com, which section is incorporated by reference into this press release.