

Q3 F23 Earnings

March 16, 2023

Cybersecurity and Project Horizon Update

Cybersecurity Impact

- EPS of \$0.49 compared to \$0.77 last year. Adjusted EPS of \$0.64.
- Cybersecurity Event adversely impacted the quarter; operational impacts relating to this event are now resolved.
- To compare Q3 fiscal 2023 to Q3 fiscal 2022 EPS, there are three reconciling items to be considered:
 - Cybersecurity direct cost impact (i.e. inventory shrink, hardware & software restoration costs, legal & professional fees, labour) of \$39.1 million after tax (**\$0.15/share**). Excluding this impact leads to **Adjusted EPS of \$0.64/share**.
 - Temporary decline in sales and operational effectiveness (temporary loss of advanced planning, promotion, and fresh item management tools, temporary closure of pharmacies, and customers' inability to redeem gift cards and loyalty points), which is estimated to have impacted third quarter net earnings by at least \$15.0 million (**\$0.06/share**). These impacts are **NOT** included in Adjusted Metrics ⁽¹⁾, consistent with regulatory guidelines.
 - Q3 F22 EPS of \$0.77 benefited by \$0.14 related to unusually large lease termination income and higher property sales from Crombie REIT.

Project Horizon

- In its third and final year, the Company has remained disciplined in its Project Horizon execution focused on growing market share and building on cost and margin discipline despite significant inflationary pressures.
- Benefits of Scene+, Personalization, Space Productivity and continued expansion of Farm Boy and Discount will not be fully captured in F23.
- Project Horizon is on track to deliver \$500 million increase in **annualized** EBITDA. The Company expects to generate:
 - Approximately 50 basis points of EBITDA margin expansion and approximately 13% EPS CAGR over Project Horizon's 3 year timeframe.
 - Both metrics exclude the **full impact** of the Cybersecurity event and the one-time costs associated with the Grocery Gateway integration.

⁽¹⁾ Adjusted Metrics include adjusted operating income, adjusted earnings before interest, taxes, depreciation and amortization, adjusted net earnings, and adjusted earnings per share.

Additional News Release Highlights

- Same-store sales, excluding fuel, increased by 0.1%.
- Gross margin, excluding fuel, was flat to last year.
- Scene+ will be launched in Quebec and Thrifty Foods on March 23.
- The next locations for Farm Boy will be Burlington and Port Credit, Ontario. Empire has 47 Farm Boy stores open, 3 in development.
- In the third quarter of fiscal 2023, Voilà delivered sequential growth of 9.4% versus the second quarter of fiscal 2023.
 - The Company's four e-commerce platforms (Voilà, Grocery Gateway, IGA.net and ThriftyFoods.com) experienced a combined sales decline of 14.7% compared to the same quarter in the prior year.
- 7.4 million of Non-Voting Class A shares repurchased to date in fiscal 2023 for \$276 million.

Future Highlights

- Longo's e-commerce business, Grocery Gateway, will be integrated into Voilà in July 2023.
 - Grocery Gateway customers will transition to Voilà over a six-week period, starting in July 2023.
 - The full assortment of Grocery Gateway products will be available on the Voilà platform via a Longo's 'shop in shop'.
 - Costs of the integration will be charged to earnings in the fourth quarter of fiscal 2023; estimated to be approximately \$11 million after tax.
- The sale of all 56 retail fuel sites in Western Canada to Canadian Mobility Services Limited (CMS), a wholly owned subsidiary of Shell Canada announced in the second quarter of fiscal 2023, for approximately \$100 million, expected to close in the first quarter of fiscal 2024.
- The 53rd week of operations in fiscal 2022 accounted for approximately \$551.0 million in sales and generated earnings per share of \$0.07.
- The Company estimates that the final impact of the Cybersecurity Event on **net earnings over fiscal 2023 and fiscal 2024 will be approximately (\$32.0) million, net of estimated insurance recoveries.**

Third Quarter Key Metric Summary

	Quarter 3	
	Actual	Last Year
Same-store sales, excluding fuel	+ 0.1%	(1.7%)
Gross margin, excluding fuel	Flat	+ 41 bps
E-commerce (Voilà, Grocery Gateway, IGA.net and ThriftyFoods.com)	(14.7%)	+ 17.0%
Store renovations	12	34
Discount West – Total Stores (@ March 15 th)	44	38
Discount West – New Stores (in the quarter)	+ 1	+ 7
Farm Boy – Total Stores (@ March 15 th)	47	43
Farm Boy – New Stores (in the quarter)	+ 1	+ 2

Third Quarter Financial Summary

	Quarter 3	
	Actual	Last Year
Sales	\$7,489	\$7,377
<i>Same-store sales, excluding fuel</i>	<i>0.1%</i>	<i>(1.7%)</i>
Gross Profit	\$1,901	\$1,893
<i>Gross margin %</i>	<i>25.4%</i>	<i>25.7%</i>
Selling and Administrative Costs	\$1,694	\$1,614
<i>Selling and administrative %</i>	<i>22.6%</i>	<i>21.9%</i>
EBITDA	\$493	\$598
<i>EBITDA margin %</i>	<i>6.6%</i>	<i>8.1%</i>
Adjusted EBITDA	\$545	\$598
<i>Adjusted EBITDA margin %</i>	<i>7.3%</i>	<i>8.1%</i>
Earnings per Share – diluted	\$0.49	\$0.77
Adjusted earnings per Share – diluted ⁽¹⁾	\$0.64	\$0.77
Free Cash Flow	\$78	\$552
Capital Expenditures	\$143	\$160

5 (1) This does not include impact of temporary sales declines, and a temporary decline in operational effectiveness attributable to the Cybersecurity Event; -\$0.06 impact.

Outlook

- The Company expects same-store sales will grow in fiscal 2023.
- Margins will continue to benefit from Project Horizon initiatives and other operating improvements in fiscal 2023.
- The industry continues to experience heightened levels of 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 due to ongoing labour shortages.
 - Although it is difficult to estimate the duration of these challenges, the Company 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 resulted in higher costs in the first half of fiscal 2023 with improved results expected in the remainder of the year.

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 50 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

2) 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 adjusted EBITDA margin by another 50 basis points on a higher sales base.

- The Company is on track to generate a compound average growth rate in earnings per share of approximately 13% 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). See slide 2 for description of exclusions.

For additional detail on Project Horizon please click [here](#) to view Empire's Management's Discussion and Analysis ("MD&A") for the third quarter ended February 4, 2023.

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. The Company is on track to achieve its Horizon target of an **incremental \$500 million in annualized EBITDA**. Over Project Horizon's three-year timeframe, the Company expects to generate a **compound average growth rate in EPS of approximately 13%** and an increase in **EBITDA margin of approximately 50 basis points**, both excluding the full impact of the Cybersecurity Event and the one-time costs associated with the Grocery Gateway integration.

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 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. During Q4 F23, Scene+ will be launched in Quebec and in the Thrifty Foods banner in British Columbia. Project Horizon initiatives focused on loyalty, store optimization and customer experience will largely provide financial benefits in fiscal 2024 and beyond.

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 \$143.4 million in capital expenditures for the quarter ended February 4, 2023 (2022 – \$159.5 million) including renovations and construction of new stores, investments in advanced analytics technology and other technology systems, FreshCo stores in Western Canada and 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	Q2	Q3
88	132	22	17	12

Sobeys, Forest Lawn

BEFORE



AFTER



Fresh Co, Red Deer

BEFORE



AFTER



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 the third quarter of fiscal 2023 and opened another store in Alberta subsequent to the end of the third quarter.

Supporting management’s plans to realize \$500 million in annualized EBITDA benefits was the target to convert approximately 30-35 conventional stores to FreshCo in Western Canada. Empire has successfully hit this target with the conversion of 31 stores at March 15, 2023.

As at March 15, 2023:

44 stores open and operating:

- 16 in British Columbia
- 16 in Alberta
- 6 in Manitoba
- 5 in Saskatchewan
- 1 in Northern Ontario



Store Closure, Conversion and Lease Terminations

- During the third quarter of fiscal 2023, the Company recorded a recovery of \$0.9 million in accrued store closure and conversion costs related to FreshCo conversions.

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>First Quarter F24 – Calgary CFC to open with deliveries expected to start in Q1 F24.</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](#).

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



Bruce Burrows
Chief Information Officer



Simon Gagné
Chief Human Resources Officer



Sandra Sanderson
Marketing



Doug Nathanson
EVP, Chief Development Officer & General Counsel



Mohit Grover
Innovation, Sustainability



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



Jacquelin Weatherbee
Communications & Corporate Affairs



Orlando Espinola
Interim Real Estate

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:

- Management's expectations regarding the scope and impact of the Cybersecurity Event, and the estimate of the impact on its financial results in the third quarter of fiscal 2023 and subsequent quarters. These statements and expectations may be impacted by several factors including the nature, amount and timing of the insurance outcome;
- 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 impacts 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 expectations on the timing of the disposition of 56 retail fuel sites in Western Canada, which may be impacted by regulatory approval and closing conditions;
- The plan to integrate Voila and Grocery Gateway may be impacted by supplier transition of platforms;
- 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 plans to purchase for cancellation Non-Voting 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.

In addition, management adjusts measures and metrics, including operating income, EBITDA and net earnings in an effort to provide investors and analysts with a more comparable year-over-year performance metric than the basic measure by excluding certain items. These items may impact the analysis of trends in performance and affect the comparability of the Company's core financial results. By excluding these items, management is not implying they are non-recurring.

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 third quarter ended February 4, 2023 available on SEDAR at www.sedar.com, which section is incorporated by reference into this press release.