FINAL TRANSCRIPT

Empire Company Limited

Fourth Quarter 2025 Conference Call

June 19, 2025 — 8:30 a.m. E.T.

Length: 51 minutes

CORPORATE PARTICIPANTS

Katie Brine
Empire Company Limited — Vice President, Investor Relations, Treasury & Pensions

Michael Medline
Empire Company Limited — President & Chief Executive Officer

Constantine (Costa) Pefanis
Empire Company Limited — Chief Financial Officer

Pierre St-Laurent
Empire Company Limited — Chief Operating Officer

Matt Reindel
Empire Company Limited — Former Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Tamy Chen
BMO Capital Markets — Analyst

Mark Petrie
CIBC World Markets — Analyst

Michael Van Aelst
TD Securities — Analyst

Chris Li
Desjardins Capital Markets — Analyst

Vishal Shreedhar
National Bank Financial — Analyst

John Zamparo
Scotiabank — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Empire Fourth Quarter 2025 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 this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Thursday, June 19, 2025. I now would like to turn the conference over to Katie Brine, Vice President of Investor Relations. Please go ahead.

Katie Brine

Thank you, Joelle. Good morning and thank you all for joining us for our fourth 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 www.empireco.ca. There is a short summary document outlining the points of our quarter available on our website. Joining me on the call this morning are Michael Medline, President and Chief Executive Officer; Costa Pefanis, our new Chief Financial Officer; Pierre St-Laurent, Chief Operating Officer; and Matt Reindel, our former Chief Financial 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

Thanks, Katie. Good morning, everyone.

This was a very strong quarter for Empire and I am pleased with the way our team finished the fiscal year. We have become a disciplined grocer that is focused on delivering earnings growth. Our results this year have improved quarter after quarter as our hard work from prior years has enabled us to effectively navigate through the macroeconomic uncertainty in the latter half of our fiscal year.

In Q4, we saw a positive results across every major financial measures. We demonstrated strong gross margin control, capital discipline and SG&A containment while delivering strong same-store sales growth. This was our fourth consecutive quarter of sequential same-store sales growth and our momentum continued to build throughout the year. All together, this amounted to meeting our financial framework goals this year with annual growth of adjusted EPS of 8.8%. Our financial framework aims to grow our adjusted EPS at an average annual rate of 8% to 11% over the long term.

Today, I'll focus on three topics: our Q4 results and market trends, the current environment, and capital allocation. Starting with our fourth quarter, overall, we delivered an EPS of $0.74 this quarter. This translates to 17.5% EPS growth year over year. This was supported by strong same-store sales growth of 3.8%, which was driven by the continued strengthening of our full-service banners and sustained performance of our discount banner. We also gained market share this quarter. Over the last three quarters we've been saying that we were seeing green shoots or early indicators that customers are returning to more favourable and predictable shopping behaviours. What we're seeing in our customer behaviour is tough to reconcile against published consumer sentiment, which is near its lowest level in many years, but as one of our key suppliers recently said, we have to parse sentiment from behaviour. In Q4, there is no doubt that our customers' behaviour continued to improve.

In Q4 we continue to see sales growth in our fresh department, which indicates customers are trading up from non-fresh to fresh products. Basket size continues to improve. We see customers shopping fewer stores than last year and a continued decline in promotional penetration. As well, our data from a trusted third party shows that there has been a shift of buying from US identified retailers to Canadian retailers. We believe that much of this customer shift will stick. Having said that, we continue to keep our eyes on the health of Canadian consumers. These remain very volatile and unpredictable times for Canadians and the economy. As well, we are glad to see spring weather finally start over the last couple of weeks across much of the country, as we're now into our busiest time of the year.

Gross margin continued to improve this quarter, driven by operating efficiencies and a strong focus on executing with excellence in our stores. Margin improvement of 32 basis points was better than our medium-term expectations of growth of 10 to 20 basis points per year. In Q4, the increase was largely due to continued strong growth in full-service, which has a stronger margin profile, the benefits of space productivity and disciplined execution within our stores with enhanced tools and processes that enable us to continue to improve and focus on areas such as non-theft shrink.

Now to SG&A. At first glance, our reported SG&A does not tell the whole story. In Q4, our stock price grew by an unprecedented amount, the highest market cap increase within a quarter in our history. This is great for our shareholders and we wouldn’t want it any other way, but similar to Q3 and even more so in Q4, that contributed significantly to the non-cash accounting increase in total compensation expenses of $49 million over last year. Said another way, our EPS would have been an extra $0.15 this quarter without this. Excluding our incentive programs, our SG&A dollars grew by a reasonable 2.9%.

Now let’s talk about what we’re seeing in the current environment, as I know you want to hear about that. Let me be crystal clear, we are not seeing inflation in our business outside of historical norms and Empire’s price inflation has remained very stable. Our internal inflation this quarter was way under CPI food inflation purchased from stores and significantly below our same-store sales. Looking ahead, we expect food inflation will remain in line with long-term averages. Over the last 25 years, CPI’s food inflation purchased from stores has averaged 3%, and while there may be some ups and downs, we believe this trend will hold. All to say, we are unable to reconcile what we are hearing or reading about inflation in the media in food or from some in the industry to what we are actually experiencing.

Last quarter we spoke about our approach to managing tariffs and protecting our customers. Our approach had three major components: elevating our local strategy, further tapping into non-US alternate supply sources, and having tough discussions with suppliers on tariff-related cost increases. This quarter we are confident that our approach was the right one for our business and our customers and has ultimately kept pricing and, therefore, inflation down. Let’s dig into this in more detail.

First, last quarter we said we heard loud and clear from our customers that they want Canadian products. We have been actively doing our part, not just the last few months but the last few years, by moving to a more local Canadian supply. A trusted retail and consumer intelligence third party recently confirmed that we have the highest Canadian product assortment in our banners versus our competitors and by a significant margin. It is clear that our customers are voting with their wallets, as our sales of Canadian products continue to rise.

Secondly, over the years we have developed a much larger and diversified source of supply to proactively manage threats and we have accelerated these efforts in recent months. Our sourcing of US products has continued to drop and we expect this number to continue to decline as we enter the growing season for produce in Canada.

Finally, we continue to work with our suppliers to ensure that reactionary or unjustified costs are not passed on to our customers. We are committed to building long-term partnerships with our suppliers and passing through tariff-related increases can lead to their products becoming uncompetitive versus other viable alternatives. While these are not always easy conversations, we strongly believe our approach is the right one. With this three-pronged approach to tariffs, we are protecting our customers and doing our part to keep food inflation down.

Next I want to talk about our capital allocation plans for fiscal 2026. Our business is generating a very healthy amount of cash, $1.5 billion of free cash flow before CapEx, and we will continue to invest your capital wisely. Through the transformation period spanning fiscal 2018 to fiscal 2023, we focused our investment on getting our store network back to a healthy state, largely through renovations. We're now in a place where we can bring an increased focus on new store growth, filling gaps in our network to gain market share in pockets where we don't have significant exposure but our competitors certainly do. We expect to put up 24 new stores in fiscal 2026 compared to an average of eight per year through the six years of the transformation. We've increased our capital to account for this and estimate that we will invest $850 million, with half of this on our store network, and Costa will give you more details on this shortly.

Today, we announced a 10% increase in Empire's quarterly dividend per share, which brings our five-year dividend CAGR to 10.8% and represents an increase in our dividends for the 30th year in a row. We also announced that we renewed our NCIB to repurchase up to 11.5 million shares, representing about 10% of our public float. In fiscal 2026 we plan to repurchase up to $400 million of shares. We remain committed to returning free cash flow to our shareholders and continue to see this as a highly effective use of cash.

And as you heard when we kicked off the call, we have both Matt and Costa with us today and the transition has gone swimmingly. Matt has been working closely with Costa the last two months and will be winding down next week. Matt will be staying on a few of our partner boards to represent us, but has now stepped back from the day-to-day operations.

With that, I'd like to say our final thanks to Matt for his hard work the last six years, as this will be his last conference call before retirement, and I'd like to welcome Costa and I'll pass the call over to him for his inaugural report as CFO of Empire Company.

Constantine (Costa) Pefanis

Thank you, Michael. Good morning, everyone. I'll start my remarks by providing some colour on our Q4 performance before discussing our fiscal 2026 expectations and then opening it up for your questions. But first, let me say how honoured I am to join Empire's executive leadership team. I would also like to thank Matt for his support as I transitioned into the CFO role last month.

In fiscal 2025, we delivered adjusted EPS growth of 8.8%, which was within our financial framework. While this is a long-term framework, it’s great to see the progress we have made over the last year. We finished the year strong and delivered solid financial performance from same-store sales all the way down to the bottom line. Q4 adjusted EPS was $0.74, which was 17.5% higher than last year. While our headline numbers were good, they do not paint a clear picture of how strong our financial performance actually was in Q4. SG&A expense was elevated in Q4 due to higher share-based compensation expenses. This was driven primarily by the significant increase in our share price. Compared to last year, the accounting of our long-term incentive program expense had a non-cash pre-tax impact of $49 million, or about $0.15 per share, on an after-tax basis.

Now moving to the top line, our food same-store sales was 3.8% in Q4, which was 360 basis points higher than last year and 120 basis points higher than Q3. Throughout fiscal 2025 we delivered steady sequential same-store sales momentum and, more importantly, full-service was a strong contributor to this improvement. Our gross margin rate, excluding fuel, increased by 32 basis points versus last year. This gross margin expansion stemmed from several key items, such as the continued disciplined execution of targeted in-store efficiencies, including shrink improvement and benefits from supply chain initiatives. Our medium-term expectation continues to be delivering 10 to 20 basis points of gross margin expansion per year.

Now let's discuss SG&A. In Q4, after excluding elevated long-term incentive program costs and adjusting items, SG&A dollars grew by 2.9% year over year, slightly below our sales growth of 3.0%. The drivers of this increase were higher retail labour cost and continued investment in our business. Overall, I'm pleased with the cost control that has been delivered to close out the fiscal year. We started to see better leverage of our fixed costs, especially as we are now delivering better top-line growth, and moving forward we are likely to continue to benefit from these efficiencies and cost-control initiatives.

Other income and share of earnings from equity investments came in as anticipated and were about $11 million higher than last year. When we exclude these two streams of income in both years, we delivered adjusted EPS growth of $0.07 compared to last year. Our effective tax rate for Q4 was 25.2%, which was lower than 28.4% last year. The tax rate in Q4 fiscal 2024 was unusually high due to revaluation of tax estimates. For fiscal 2026, excluding the effects of any unusual transactions or differential tax rates on property sales, we continue to estimate that our effective income tax rate will be between 25% and 27%.

Now I'll speak to some of our fiscal 2026 expectations. We will continue to provide guidance on other income and share of earnings from equity investments, which is largely our real estate income. We continue to believe that this has improved transparency for investors and analysts. In fiscal 2026, we expect pre-tax contribution from this income stream to be in the range of $120 million to $140 million. Based on our current visibility, we're expecting to trend towards the lower end of the range. The quarterly cadence will be about 25% in Q1, 20% in Q2, 25% in Q3, and 30% in Q4. And as we noted in fiscal 2025, if there are shifts in timing of certain transactions, we will provide an update to this cadence throughout the fiscal year.

With regards to capital allocation, our fiscal 2026 plans are supported by our strong balance sheet and the continued generation of our significant free cash flow. We announced a 10% increase in our dividend and also the renewal of our NCIB program, whereby we intend to repurchase up to $400 million of our shares. In fiscal 2026, we anticipate CapEx of about $850 million, with half of this allocated to our store network for renovations and new store expansion, a quarter towards IT initiatives and business development projects, and the balance towards items such as logistics.

As we look forward, there is some volatility caused by tariff and trade environment, plus the uncertainty with how this will continue to affect consumer confidence. Before joining Empire, I operated in a heavily tariffed environment for many years, so I understand how critical it is to continue to react with speed and agility, especially as we face a changing trade landscape. I'm very impressed with how our internal tariff task force is managing this ever-changing environment by keeping our loyal customers at the heart of our decision making. With our improved execution over recent years, plus our increased focus on controlling what we can and taking cost out of our business, we expect to continue to deliver our long-term financial framework.

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

Katie Brine

Thank you, Costa. Joelle, 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. Should you have a question, please press star followed by the one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Your first question comes from Tamy Chen with BMO Capital Markets. Your line is now open.

Tamy Chen — BMO

Hi. Good morning. Thanks for the questions. So, it sounds like your customers, their behaviour has not retrenched or gone back towards trade down. I wanted to ask if the way they're shopping is they're cherry-picking less and going to multiple banners and stores less. I think at one point you alluded to, you saw year-over-year traffic growth, so I'm wondering how you saw that if what you're seeing is customers are shopping less at multiple banners.

Pierre St-Laurent

Very good question. Thank you. The thing we're seeing is more back-to-normal behaviour compared to last year. Last year, people shopped multiple stores, more than usual, and this year we're seeing back-to-normal behaviour. So that means they're shopping fewer stores, and this is what we said is good for promo penetration, because when people are shopping fewer banners the promo penetration goes down. And it was not natural for customers to shop that many different banners due to the high inflation from a few years ago. So we're really seeing back-to-normal behaviour, which is helpful for our business. And this is why we're seeing basket size going up, transactions remaining very strong, we continue to see that in the positive, unit per basket is increasing, and like Michael said, we're seeing a trade up compared to last year where people are shopping more fresh, where we're very strong.

Tamy Chen

And on the promotional penetration, how are you thinking about that going forward? Just because, for example, one of your competitors has recently announced rollbacks, so I'm just wondering if there might be any change to, so far, the improvement you've seen in your stores as promo penetration?

Pierre St-Laurent

Right now we're back in a more normal situation. I think we're more stabilized now. We saw a decrease over the last couple of quarters. I think we're in a sweet spot right now to continue to navigate through different scenarios, but right now I think the promo penetration level is pretty healthy and normal.

Tamy Chen

And my last question is with respect to the Buy Canadian trends, specifically the preference for Canadian retailers, certainly that's been going on, but I'm just curious if, as the months recently have gone past, are you seeing that settling out or waning in any way? Thank you.

Michael Medline

It's Michael. Thanks for the good question, Tamy. So I've got to always stay… Katie always reminds me and so does our general counsel - I can't talk about this quarter we're in and I don't want to disclose anything. But I can't say that we did not see that waning up until the end of the last quarter and I'm not commenting on what we saw after that. But I think from what I said in my script, I said that we believe that much of this behaviour is becoming sticky. It doesn't take a lot of people changing behaviour to make a real difference in retail, especially in the grocery business, and there are people who have changed their behaviours, will not go back, and we're doing our utmost to make them very happy at our banners. So we think much of it will stick. But we shall see. I mean we don't have a crystal ball, we don't know what's going to happen, but I don't think that the mindset of Canadians is switching very quickly away from how they felt at the beginning of the year.

Tamy Chen

Thank you.

Michael Medline

Thank you.

Operator

Your next question comes from Mark Petrie with CIBC. Your line is now open.

Mark Petrie — CIBC

Good morning. Thanks. Just a follow up on the topic of sort of the consumer and competitive environment. I wanted to ask specifically about Quebec again, and any comments about all of the metrics that you were discussing earlier, if that's sort of more accentuated in Quebec or if there's any difference versus the other regions of the country.

Pierre St-Laurent

No, we're seeing the exact same behaviour in Quebec. People are shopping fewer banners, basket size is increasing. There's some, obviously, variation across the country, but very, very little. But we're seeing the exact same trend across the country right now. That's not anything different in Quebec.

Mark Petrie

Thanks, Pierre. And any comment on the sort of competitive activity across the country? Are there any regions that are more competitive than others or is it all relatively rational and stable?

Michael Medline

I'll say what I always say, and it hasn't changed, and this is, contrary to some people's belief, this is an unbelievably competitive industry, one of the most competitive grocery markets in the world, if not the most. I think it's been competitive and, other than some blips here and there, it's the same competitiveness since I joined the Company 8.5 years ago, honestly. I haven't changed my mind on that. So we're not seeing anything out of the ordinary right now, but we've got to be sharp because our competitors are sharp.

Mark Petrie

Yeah. Okay. And I guess, sorry, just a follow up on that, I think previously you had commented about trying to close some price gaps, specifically in Quebec, so I'm sort of hearing that you think this is done and this is stable. Is that a fair interpretation?

Pierre St-Laurent

We are watching our indices, so both regular and effective, and Quebec remained very, very competitive on both indices, in every single region in the country. So there's no more gap by region. Quebec is a very strong banner, IGA is a very strong banner, very strong on fresh. So sometimes the perception is different, but the pricing itself, we're addressing pricing the same way and we're addressing pricing indices in every single region. So we're following the same process and our indexes are very competitive compared to peers. And we're pleased with that.

But again, we're always focusing on the value proposition. So value is the right term. So we're focusing on value and pricing is one element of the value proposition. Our value proposition in every single banner is very strong. When we talk about assortment, where we are located, close to every community we serve. Service is an important component in the value proposition. So we're very strong in the value proposition and, again, pricing is one element, but indices are very strong right now. We're pleased with that. We made progress, gradual progress. We're following what's happening in the market and we remain very competitive.

Mark Petrie

Okay. Thanks for all those comments. Sorry to go so long on that. I did want to also ask just about the acceleration in square footage growth in your business and the implications to maybe the margin lines, pressure that you think that might have on gross margin or SG&A. And you talked about the 10 to 20; are there other initiatives in the business that could offset that for fiscal 2026 or is that a reasonable expectation for next year, knowing that you don't give guidance on a specific year?

Michael Medline

That’s a great question. Costa or Matt, do you want to take it and then I can add on if there’s anything I think necessary.

Constantine (Costa) Pefanis

Sure. I think, you know, when we look at the expansion and the new store initiatives that we had, I mean we always model it out on the basis of achieving a certain return on capital, so the expectation around sales volume and margin typically would be in line with that modeling. But one of the major initiatives that would help combat any margin degradation would be initiatives like shrink, minimization of shrink on our overall network, which we’ve seen. I mean part of the reason why we had a 32-basis-point improvement in Q4 was due to our continued focus on minimizing our shrink.

Michael Medline

Yeah, I think that's a good example of what we do. And I mean, as you can imagine, we have a pretty robust budgeting process, so we understand the implications of new stores going in and accelerating that. But we were doing a lot of renovations before too and I don't think it's that big of a difference in terms of we're just spending more money taking advantage of places where we can grab market share, in our estimation. And we have the long-term goal of 8% to 11% and so everything has to fit together when we're putting together the budget. But this year we just felt we were seeing some very good opportunities and more confidence in our business going forward, especially our ability to control capital per store but also get returns from those stores. So we switched from the renos being the key, as I said in my script, to the new stores, and so I think we're setting ourselves up for good growth in the future while at the same time being able to deliver the bottom line for our owners, our shareholders.

Mark Petrie

Okay. Appreciate all the colour. Thanks for answering all the questions.

Operator

Your next question comes from Michael Van Aelst with TD Cowen. Your line is now open.

Michael Van Aelst — TD Cowen

Thank you. Just quickly, to start on the CapEx side, so your budget, I think, last year was $700 million. I think it came in at $777 million [Edit – actual was $721M]. And now you're guiding to $850 million for this coming year. What's the incremental spend being allocated to? Is it new stores or is it supply chain or what is it?

Michael Medline

Most of the incremental are to the stores, to new stores, some to supply chain, a little bit on the technology side as we're becoming more efficient. We're putting in some systems that are going to make us more efficient. So that's where most of it is.

Michael Van Aelst

Okay. All right. Thank you. And then just getting back on the discount versus full-service commentary, so it's clear that you're saying that full-service banners are doing well and doing better. Are your full-service banners growing faster than your discount banners or are you just narrowing that gap? I guess that would be part A and then I'll come back to the second part of that.

Pierre St-Laurent

The same-store sales growth in our full-service banners was extremely strong in the last quarter. We're very pleased with that. We're gaining market share in every single format, so we're pleased with the discount performance. Discount into the discount, channel is gaining share. Full service, into the full-service channel is gaining market share. And in total, we're gaining market share.

So again, we are operating in different regions. We did invest a lot of capital of new stores and conversions in Western Canada. We're very, very pleased with the results in Western Canada with the discount store. But overall, we're seeing the same strong trend in full service. And yes, the gap is narrowing and in some regions it's the same. We had the same same-store sales growth in both discount and full service - in some regions. So the gap is narrowing, full service is performing well, and we're pleased with both channels in their respective channel.

Michael Van Aelst

Okay. That's interesting. Thank you. And I guess the follow up to that is I'm trying to reconcile those comments and that performance, I guess, with what Scotiabank said on their credit card data where they, on their last call they said that they're seeing a shift to discount grocery. So do you think they're talking about like private label, like lower-priced grocery items, or do you think they're talking about a shift to discount stores?

Michael Medline

Yeah, I don't know. I remember reading that, but you'd have to ask them. I didn't go into any detail on that. And so if they said what you said, I have trouble reconciling it to our numbers, but we only represent, well not only, we're a big part of the market, but we're part of the market, so we'd have to see what our competitors are doing as well, but it's not what we're seeing.

Michael Van Aelst

I just thought, with their affiliation with Scene, that it would be representative, a bit more representative of what you were seeing.

Michael Medline

I don't think it would be because of Scene that they were looking at that data, I don't think. So it would be more general, I think. You'd have to check with them. And if you get a good answer, give me a call and we can discuss it more.

Michael Van Aelst

Okay. And then just finally, getting back to your commentary around the LTIP, incremental LTIP costs that were $0.15 a share, and the majority of that seems to be tied to the higher share price, so I mean if we just did some back-of-the-envelope math and said, okay, well, $0.10 of that $0.15 is due to the higher share price and if we use a stable tax rate and stable other income we'd probably be around 25% EPS growth. So it seems like your momentum is good, but are you suggesting that, like if things continue to perform the way they are this quarter, that in the next few quarters we could see that 25% type EPS growth?

Michael Medline

So, while you're right, this was a good quarter and these things don't fall from heaven, right? You earn them. And it's not me. It's the team that did all this work to get there. And I'm not going to talk about future quarters. We push for, basically we push for as high as we can get and we just go for it, but I'm not going to speak for future quarters. But I think 25% is a pretty darn good number. And I don't think we, if we did that for the next 20 years, we'd be in good shape. My successor will have to worry about that. I don't want to talk about the rest of the year, but we've said that what we're aiming for is to meet our long-term financial target.

Michael Van Aelst

Okay. Is there anything in that, anything that composed that rough 25% that you would consider not necessarily repeatable?

Pierre St-Laurent

When we have 3.8% same-store sales, when we grow our margin by 30 bps, when we have good control on cost - it's a volume business, and when growing at that size, this is the type of results we should expect.

Michael Van Aelst

Okay. Great. Thanks. Great quarter.

Operator

Chris Li with Desjardins, your line is now open.

Chris Li — Desjardins

Good morning, everyone. My first question maybe, just to maybe use a baseball analogy, just in terms of your reduction in non-theft shrink, what inning roughly do you think you are at on that journey?

Michael Medline

You know I can't resist sports questions, right, so I'm going to answer. I think middle of the game here as long as it doesn't go to extra innings. Like fourth or fifth inning. I think there's still a lot of opportunity here. At the same time, I'm proud of what the team has accomplished.

Chris Li

Okay. That's helpful, Michael. Thank you. And then just on SG&A expenses, maybe just a high-level question. As we look about fiscal 2026, I mean roughly speaking, is it fair to assume we should think about SG&A expenses growing more or less in line with the revenue growth or should we expect that to actually outpace revenue growth a little bit, at least in the near term as you accelerate the new store openings this year?

Constantine (Costa) Pefanis

I think as we continue to look at our cost containment, I mean one of the big focuses for me as new in the role is to look at our SG&A leverage, our fixed costs, our ability to have, you know, the comments that Pierre made specifically speak to our ability to see results on good sales volume/top-line growth. So the translation of that in every quarter is going to be dependent on that growth, but that's the focus, getting the leverage we want off of our fixed cost base.

Chris Li

Okay. Got it. Okay. Thanks. And my last question, just in terms of your capital allocation framework, it wasn't mentioned in the press release, so I want to just touch base on where does inorganic or M&A fit in in terms of your capital allocation philosophy in the future?

Michael Medline

We're always looking for opportunities if it profits our owners, our shareholders. And I personally have a reputation for doing deals if they're great, and doing them very rarely, but they have to be great. So we don't plan for that or put it into the budget or anything, but if we see something that is extraordinary, like Farm Boy or Longo's or a couple of others that did another company, then we would do it. But I've never experienced a really bad one, I don't really want to do a really bad one, so very, very picky and slim pickings.

Chris Li

Okay. Thanks. And Matt, I just want to say, again, best wishes to you and your family and you'll definitely be missed.

Matt Reindel

Thank you, Chris. Appreciate it.

Operator

Your next question comes from Vishal Shreedhar with National Bank. Your line is now open.

Vishal Shreedhar — National Bank Financial

Hi. Thanks for taking my questions. With respect to the CapEx, the $850 million, my understanding was previously that a good long-term number to use was $700 million. Does this $850 million reflect higher building costs or an expectation of higher CapEx in the future given more opportunities? How should we think about the longer term in terms of modeling?

Michael Medline

I always thought in the past $750 million, $800 million was a good place to be. When we see where we're situated right now and we know that we can be on our front foot, we're going to take advantage of that - where we can really grow this company and grow the sales and grow our market share and the bottom line. So I think we're not talking a ton more CapEx, and I'm not saying we're going to do this every year, but we've seen an opportunity as we strengthened our real estate and our business to be strong in our food and we still have a lot of room to improve our top and bottom line. So I don't think, we're not saying that this is going to be the new number, but this year we thought this was the time to invest in the stores.

Vishal Shreedhar

Okay. And with respect to the Buy Canada comments that you indicated earlier where you're saying you're seeing it sticky, was that with respect to the actual banners, the Canadian banners versus the US grocery banners, or was that also with respect to the products within the store and the Canadian-produced products versus the US-produced products?

Michael Medline

Both.

Vishal Shreedhar

I see. And so you're not seeing a waning of sentiment with regard to either of those trends?

Michael Medline

Well, I'm not going to talk about future quarters, but no.

Vishal Shreedhar

Okay. And with respect to the shrink that you're seeing in the improvement, is that in part due to the accelerating sales growth and presumably even faster sales growth in fresh given the comments that you made at the top and less associated with spoilage or is that due to more concrete measures that you've implemented in the org to offset that shrink?

Pierre St-Laurent

Both. We're working on initiatives like we did in the previous quarters, but again, when we have higher sales, it's easier to manage shrink, and both are providing better results on shrink. And this is why we need to continue to work on initiatives and sales growth. It's easier to manage.

Vishal Shreedhar

Okay. And with respect to the gross margin, I'm just trying to tease out what, if we're trying to assess what percentage of the improvement, which was very, very solid, was due to the shrink benefit and the variety of initiatives that Empire has been working on, space productivity, analytics, et cetera, is there any rule of thumb or course help you can give us in terms of how to think about that?

Pierre St-Laurent

It's multiple things. Retail is detail and our supply chain did a lot of good stuff. The promo mix management by our merchandising team is phenomenal; Shrink improvement. We heard things about promo penetration is helpful. The mix is helping our gross margin as well because we're selling more fresh food, and fresh food is more profitable in general when it's well managed with low shrink. So it's a combination of multiple factors that drove the performance on gross margin.

Vishal Shreedhar

Okay. Thanks very much. Congrats on the quarter.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star one. Your next question comes from John Zamparo with Scotiabank. Your line is now open.

John Zamparo — Scotiabank

Thanks very much. Welcome to you, Costa, and all the best to you, Matt. I wanted to ask about private label penetration and based on your disclosure it seems like this is growing well above the pace of overall sales growth. I wonder if you could talk more about that. Is that primarily from the increase in SKU count? Is it doing better with particular hero SKUs? Any colour you can add there would be helpful.

Pierre St-Laurent

We are seeing continuous improvement with penetration and as I said before, penetration is not the only metrics I'm looking for. It needs to be relevant and it's a different strategy, category by category. In some categories, private label is playing a more important role, in some other categories less; but it's very important that we have a lower retail and it's very important that private label continues to generate better penny profits. This is the golden rule that we use all the time. But appetite from customers for private label products is growing and we're pleased because we have a very strong assortment. We undertook major improvements in our assortment over the last year, so it's a continuous improvement and it's a continuous improvement in penetration and following all the golden rules I just mentioned.

John Zamparo

Okay. Got it. And then I want to move to square footage growth and on the 1.5% guide for this year. I know you're not going to guide beyond this year, but when you talk about a gap versus competitors in certain markets, do you think about that more as a one-time initiative to address certain regions or certain markets or is the increase more you think you have momentum with your brands, you think you have the store network in a good place and you're resonating with customers and you want to take up the more normal course store growth over the medium term?

Michael Medline

It's a good question. It's definitely the latter. We think we have momentum and I don't think it's a one-year blip, but we'll continue to assess at all times, as we always do for our shareholders.

John Zamparo

Okay. Thank you for that. And one more on square footage growth. When you think about the entire market, we've seen multiple grocers expand targets on this, I wonder if you could talk about the quality or availability of real estate opportunities that you're seeing. There's obviously a finite number of sites. I'm wondering, does that mean higher leasing cost? Does it alter the strategy at all of what Empire is looking for in terms of real estate? How is this impacting your real estate strategy?

Michael Medline

It’s always a tight market getting good real estate. I think that our team has never been stronger in doing that, so we’re really pleased with the, obviously, with where we’re putting sites right now. I’d say that, I used to say the bigger bang was on renovations than in new stores. I think that has changed with both our execution and also the cost of renovation compared to new stores. They’ve gotten closer in terms of cost. But it’s always a competitive market out there. But where we’re looking, there are openings here for us to grow and put some pressure on others.

John Zamparo

Okay. I appreciate the colour. I’ll leave it there. Thank you.

Operator

Your next question comes from Mark Petrie with CIBC. Your line is now open. Mark, your line is open.

Mark Petrie

Following up on the square footage growth a little bit further, could you just give a bit of colour with regards to sort of the channels that you might be, versus your current penetration, the channels where you might be growing, the regions, sort of rural, urban, any colour you can provide with regards to sort of the mix and how this might skew the portfolio?

Michael Medline

I would love to do so, but I don’t want to make it easier for our competitors. Although they’re pretty smart; they’ll probably figure out what we’re doing, like how we figure out where they may be going. So I’d rather not do that, but we do target certain markets where we think there’s more opportunity for us and the banners where we believe we’ll be more successful and where we have a unique proposition to win.

Mark Petrie

Yeah. Okay. Understood. And then a separate, I mean similar topic, I guess, but a separate line of questioning, on Farm Boy, you guys have played around with the store size for that format and I’m just curious how your thinking has evolved over time, if you’re still sort of targeting that sort of low mid-20s kind of square footage size or if you think the larger format is a better fit?

Michael Medline

That’s a great question, because I think our thinking has evolved, or more likely Jean-Louis’ and Shawn Linton’s thinking has evolved over the last while - because nobody knows their business better than them. They can be successful pretty well in any good boxes and they’re very picky about where they go in, but once they make that move, they are highly successful and they can make it work in any size. I think if we’d change anything, that we believe Farm Boy can be even more successful in larger boxes than maybe even we originally thought. We’re very, very pleased with some of the conversions in the stores where they have more square footage. But they know what they’re doing and they can be successful anywhere. I’ve never seen a store banner like it actually in my career. But we like the new stores because we can have a more full offering for customers. We thought it would take a little more time. That’s been a home run. Early days, but a home run.

Mark Petrie

All right. Appreciate the colour. Thanks.

Michael Medline

Thank you, Mark.

Operator

Your next question comes from Chris Li with Desjardins. Your line is now open.

Chris Li

Thanks for the follow up. Just on Voilà, as you look back at the last fiscal year, how did it perform relative to your internal expectations?

Pierre St-Laurent

We continue to make improvements in all CFCs and the decision we made to focus on the existing three is paying off right now. So, year over year, we continue to make progress. We continue to see double-digit growth in Voilà and performance is improving. Very pleased with the progress we've made over the last year and we will continue to move in this direction. And the new partnerships we have with Uber and Instacart are having no impact on Voilà. It's a very different customer profile; immediacy versus planned trip, Uber and Instacart are a younger crowd, so it's very complementary.

Chris Li

Okay. That's helpful. And are there any sort of new cost reduction or margin enhancement initiatives that you're planning for this year for Voilà specifically?

Pierre St-Laurent

Efficiencies. Same type of things we're doing in the brick-and-mortar business. How can we optimize promo mix, promo management, how can we bring a new assortment that would help to grow the basket. It's multiple things. The same type of thing that we're doing in brick and mortar but specifically to e-commerce profile, which is higher basket size. There's always opportunity to grow, there's always optimization possible in both margin, cost and sales.

Chris Li

Okay. And last one is just, I know it's been, I guess, a year since you announced the policy rolling out in Voilà in Vancouver, might still be still early to ask, but when do you think you'll make a decision on whether to proceed or not?

Michael Medline

We'll let you know when we decide.

Chris Li

Okay.

Michael Medline

That's not very helpful to you, but that's the answer really. So I'm not being flippant; we will let you know when we have decided.

Chris Li

Okay. Great. Thank you.

Operator

There are no further questions at this time. I will now turn the call over to Katie for closing remarks.

Katie Brine

Thank you, Joelle. 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 us for our first quarter fiscal 2026 conference call on September 11th. Talk soon.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.