



Empire Company Limited

First Quarter 2026 Conference Call

September 11, 2025 — 8:30 a.m. E.T.

Length: 42 minutes

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Empire First Quarter 2026 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, September 11, 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, Ludi. Good morning and thank you all for joining us for our first quarter conference call. Today we will provide summary comments on our results and then open the call for questions. This call is being recorded, and the audio recording will be available on the Company's website at 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, Chief Financial Officer; and Pierre St-Laurent, Chief Operating 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, and good morning, everyone.

Fiscal 2026 is off to a solid start. EPS was \$0.91. The core business, which excludes other income and share of earnings from equity investments, improved 14.3% over last year, and while our results on same-store sales are a little softer than we've gotten used to, with our strong bottom-line result this quarter we are very encouraged with what we can do on this front with a stronger top line. I'm going to keep this short. Today we're going to focus on two topics: Our results and market trends during Q1 and then the current environment.

First, our results and market trends. Sales, excluding fuel, grew 2.6% this quarter with same-store sales growth of 1.9%. There are some good one-time reasons for our same-store sales comp. Last year there were a few anomalous events that worked in our favour and drove new customers into our stores. Foremost was the boycott campaign against Loblaws last year; another competitor in the west experienced a cyber event which led to service disruptions and supply shortages for a period of time; and finally, there was a nearly one-month long LCBO strike, which meant more customers purchased beer and wine in our stores. We were cycling these one-time events in Q1, and while they were all relatively contained events, collectively they had an impact on our same-store sales comp this quarter.

And two, on our Q4 call we noted that we were happy when we moved into June and began to see warmer weather patterns. Q1 started with an unseasonably cold May, as many of you will remember. In fact, Toronto saw its coldest May in the last 50 years. Typically, May marks the start of the summer season, specifically the start of barbecue season and outdoor eating, which drives purchases in fresh and prepared foods. That unusual May weather dampened sales, especially in Full-Service.

Our same-store sales were supported by continued growth in both Full-Service and Discount. Consumer sentiment is showing improvement, and we are encouraged to see basket size continuing to improve. Gross margin continues to improve, driven by disciplined execution and targeted efficiencies in our stores. Margin improvement of 63 basis points again underlines how good our execution has become. This continues to be driven by several smaller but meaningful changes. For example, we are using very advanced analytics to provide us better granularity on inventory data, and this in turn allows us to be more efficient controlling and managing our inventory and is another lever to reduce shrink.

On to our current environment. CPI food inflation purchased from stores was 3.1% this quarter. Internally, we were way below the CPI number, so tonnage was relatively flat this quarter. Given the approach we took to managing tariffs, which was to protect customers by ensuring that reactionary or unnecessary costs were not accepted and passed on, this comes as no surprise to us. Given the removal of some Canadian retaliatory tariffs, products in our stores that were subject to tariffs will no longer bear this additional cost. As we discussed before, we took a very hard stance on not accepting the vast majority of tariff-related cost increases, which has now proven to be the right approach for our customers and for Canadians.

We've also been very accurate in predicting inflationary patterns over the last few years, the most accurate I might say, and that has been helpful for us. Last September we stated our expectations were 2% to 4% and that, in fact, has proven to be the case. Other than typical fluctuations on a few commodity-linked products like coffee, we are not seeing anything out of the ordinary. Even with the recent development on the removal of some Canadian retaliatory tariffs, we continue to see Canadian product sales continue to outpace US product sales; however, over the last few months the Buy Canadian sentiment has moderated slightly from previous highs seen earlier in the year. The silver lining in all of this is that we now have an increasingly diversified source of supply that will enable us to continue to be incredibly resilient for years to come. And through all of this, we strengthened and identified new and existing supply relationships that will be advantageous for us and our customers for the long term.

And one last thing before I hand it over to Costa. Over the last year there has been a lot of real estate activity in the market, I'm hearing a significant uptick over prior years. This has created plenty of discussion around the right amount of growth for grocers. All I will say on this topic is that this remains a competitive market and there is always room for us to grow. For our part, we will be opening about 20 new stores this year, two this quarter, and grow our square footage by about 1.5%. These builds are aimed at filling gaps in our network. We see opportunities to gain market share in areas where we do not have significant presence, and we do not green-light new stores just because we can. We are disciplined and precise about growth and the bar for new store approvals remains high.

With that, I'll turn it over to Costa.

Constantine (Costa) Pefanis

Thank you, Michael. Good morning, everyone. I'll first provide some colour on our quarterly performance and then introduce a key technology project, which is well underway, before opening it up for your questions.

In Q1, we delivered a solid start to the year with adjusted EPS of \$0.91. Our results last year benefitted from higher contribution from other income and share of equity earnings. When excluding these earnings streams in both years, our core operations delivered year-over-year adjusted EPS growth of 14.3%. Clearly, we executed well in our stores to make up for the tempered top-line growth. And like Q4, we were also impacted in this quarter by higher incentive program expenses and accruals, such as LTIP and retirement arrangements, which put upward pressure on SG&A. I'll discuss this in further detail a little later on.

While our food same-store sales in Q1 was higher than last year's result of 1%, it tapered from Q4. As Michael said, top-line performance was impacted by annualizing several small non-recurring benefits last year, which in concert with unseasonable weather this year, primarily in May, made it tougher to generate same-store sales to levels we saw in Q4.

In Q1, our gross margin rate, excluding fuel, increased by 63 basis points versus last year. We saw strong performance in our Full-Service banners, and we continued to benefit from disciplined execution and target efficiencies in our stores, including planned initiatives aimed at refining our data and improving our inventory control, which reduces shrink across our store network. As well, gross margin rate benefitted from better promotional mix control. Over the last couple of years, we have been performing above our medium-term gross margin expectations of delivering 10 to 20 basis points of gross margin per year given our execution continues to improve and many of our initiatives are outperforming initial expectations.

And now let's move on to SG&A. In Q1, adjusted SG&A, excluding depreciation and amortization, grew by 4.7%, and our SG&A rate, excluding depreciation and amortization, increased by 60 basis points. This largely reflected higher labour costs, higher incentive program costs, and continued investment in our business. Specifically, we estimate that the incentive program costs were higher year over year by \$20 million and that had a negative \$0.06 impact on earnings per share.

Looking at SG&A dollars, we anticipate Q1 will represent the peak spend for the fiscal year. At the end of the day, we delivered solid core earnings growth this quarter, which is a testament that our investments in the business over the last few years have set us up well and will continue to drive growth in the future. There is more work that can be done on SG&A, which is one of my primary focuses as CFO. I'm confident that our cost savings and efficiency initiatives across strategic sourcing, supply chain, and Voilà will help drive stability with our SG&A growth. In addition, future operating leverage will also benefit from our other drivers, including the new store expansion program that will accelerate our top-line growth.

Other income and share of earnings from equity investments came in as anticipated. It was about \$25 million higher last year. We are maintaining guidance for this real estate-related income at the lower end of our range of \$120 million to \$140 million. We expect the quarterly cadence to be unchanged at 20% in Q2, 25% in Q3, and 30% in Q4. If there are shifts in timing of certain transactions, we will provide an update to this cadence throughout the fiscal year.

Our effective tax rate for Q1 was 26%, which was higher than 22.9% last year. Last year's tax rate was unusually low due to the non-taxable portion of higher other income and the revaluation of tax estimates, most which are non-recurring. 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%.

With regards to capital allocation, our Q1 CapEx totalled \$138 million, mainly on store renovations, construction of new stores, and technology investments. In the quarter, we repurchased 1.5 million shares for total consideration of \$80 million. One last item we called out, a key project related to our technology platform, in our disclosures today. This involves the migration of our legacy ERP system and has already been a part of our budgeted IT spend for the last two fiscal years. This ERP project is foundational in nature and aims to streamline financial reporting, procurement, and supply chain operations. Shifting to the upgraded ERP platform will also allow us to execute more quickly against our growth plans and initiatives, in addition to improving our productivity gains over time. In fiscal 2026 we will move on to the execution and implementation stage. The project is both on pace and on budget and implementation will be phased across the next two fiscal years.

To wrap it up, I'm pleased with our ability to execute this quarter, but there is always room for improvement. We delivered solid adjusted EPS growth in the core business despite lighter sales growth, which shows we can do better delivering bottom-line results as we look to grow our top line. Our team at Empire has built resilience over the last several years through the pandemic, through a period of high inflation, and through the tariff uncertainty this year, and these challenges have enabled Empire to be stronger at execution. This reinforces our confidence in our ability to achieve our long-term adjusted EPS growth target as set out in our financial framework.

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

Katie Brine

Thank you, Costa. Ludi, 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. To ask a question, you may press star one on your telephone keypad. To withdraw your question, please press star two.

With that, our first question comes from the line of Chris Li with Desjardins. Please go ahead.

Chris Li — Desjardins

Good morning, everyone. Michael, over the last couple of quarters I think you've mentioned that you've seen some green shoots from the consumer. I was wondering, is that continuing? And are you continuing to see some trade-up in fresh? Thank you.

Michael Medline

I'll do the first part. And Pierre is even more knowledgeable than I am about the fresh right now. So I'll just say that, yes, continue to see green shoots. I wouldn't walk back any statement that we made over the last number of quarters, including Q4. We continue to see progress in terms of the customers. They're not trading down. In fact, in many areas, they're trading up. We're offering a very strong promo offer, but that promo offer isn't being taken up quite as much as people are spreading their purchases over a larger basket. No, we're not seeing anything in a negative direction in terms of the consumer for our business. I only talk about our business. I can't talk about the whole industry. And we're especially seeing that in full serve, which is good, because we've got a lot of full-serve. Want to talk about fresh?

Pierre St-Laurent

We're pleased with the progress we're making. It's a big area of focus for us, the fresh category, and we're seeing progress with programs that we launched. So the trend is pretty good compared to the peak of inflation where people were trading down, like Michael said. But right now we're trending in the right direction. It's a big area of focus and we believe that we're in strong position to win in the fresh department.

Chris Li

Great. Thank you. And then my follow up is just, Michael, you also mentioned in your opening remarks about an uptick in square footage growth for the industry. Have you seen any notable changes just in terms of the general competitive environment recently?

Michael Medline

That's a great question, and we've been asked that more recently than usual, so what we did, I asked to see all the new store and new square footage put in over the last ten years and broke it out by every province, broke it out by every kind of way you could break out new stores, and what you see there is that what's going on right now is not atypical actually in terms of new square footage.

You do see a bit of a rhythm to it. Like every three or four years there's a little bit more square footage and then that seems to fall and it's different competitors putting up more square footage at different times then totally dropping off. And so I think, after almost a decade of hearing from me, that I don't think there's any sudden shifts in any business or any industry, so I don't think there's some sudden scary uptick in terms of real estate. Because we're so confident in our own business right now, we're putting a little bit more in than we have over the last few years, which I think is a good decision and we'll get good returns from that, and we're doing it in areas where we don't have stores for the most part. So I'm not too worried about that. I think it's always a competitive market and we've got to compete against some very, very tough players, but I wouldn't get my knickers in a knot over the real estate being put in. I think it's mostly normal if you look at a ten-year trend.

The one thing I'll point out is there's a slight uptick in the number of stores, but there are some smaller stores being put in. So you've got to differentiate between the number of stores and the square footage being put in. But I like facts, I don't like talking about things I don't know about, that's why we did quite a bit of work on this before this call.

Chris Li

Great. Thanks. That's helpful. Thanks and all the best.

Operator

And your next question comes from the line of Irene Nattel with RBC Capital Markets. Please go ahead.

Irene Nattel — RBC Capital Markets

Thanks and good morning, everyone. I was intrigued by something that you just said, Michael, around promotional intensity or penetration in the basket. Can you talk about what you're seeing and whether, in fact, we're seeing that reverse?

Pierre St-Laurent

We're seeing very normal promotional penetration right now. So, compared to last year, last year we had a peak in promo penetration, and right now we're trending in a more normal way. So this is why it contributed to gross margin expansion. But right now, from what we're seeing, we're in the range where we consider that normal.

Irene Nattel

That's really interesting. Thank you. And are there specific sort of categories within the store where you're seeing sort of, I guess, consumers being slightly less sensitive on promotions?

Pierre St-Laurent

That's a good question. I think fresh is competitive, especially meat, because we're facing higher prices, especially in the beef, so customers are price sensitive on beef right now. But other than that, it's pretty equal by category, but fresh meat especially.

Michael Medline

Yeah, center of store is very normal right now compared to a year ago.

Pierre St-Laurent

Exactly.

Irene Nattel

That's really interesting. Thank you. And then you were mentioning something in the prepared remarks about better analytics and using data to make better decisions. Can you talk about where you are in that process and the degree to which that may be contributing to some of the gross margin gains?

Michael Medline

Thanks. It's a great question. Behind the curtains, we have made enormous strides in our use of advanced analytics to make business decisions that help our customers and help us. Great strides. We don't talk about it a lot, but you can see it in the results. So I would say we're quite advanced and one of the most sophisticated retailers, I think, on doing that. Certainly of retailers of our size, for sure.

In terms of AI, we have started to make early gains and we are getting quite good at it, especially on the merchant side of the house. But I'd say we're in earlier innings on AI than we are on the advanced analytics, and I do differentiate between the two. I would say, though, that absolute kudos to our chief technology officer and our technology team and our merchants in the way they work together. And to have a chief technology officer who understands the business is really paying dividends and she and Luc and a bunch of the others are making huge gains. We just had a presentation from buyers this week, taking us through their day-to-day, how they're operating. As you know, I don't get too emotional, but I was pretty emotional seeing how sophisticated we are, especially when I compared it to where we were nine or ten years ago. But it was a good question, because we don't make a big deal about it, but we are becoming highly sophisticated and we have momentum.

Irene Nattel

That's great. Thank you.

Operator

And your next question comes from the line of Vishal Shreedhar with National Bank Financial. Please go ahead.

Hi. Thanks for taking my question. I was looking at the outlook commentary and nothing necessarily surprising there, but I was reflecting on the CEO transition and where Empire has gone from and to and how there will be a transition in leadership and just wondering. I know this may not be exactly a fair question for you to answer, but wondering how we should think about Empire's evolution on a management transition. Will it be more of what we expected over the last several years or do you anticipate the Company moving in a different direction? To the extent you can answer. I know it's a tough question.

Michael Medline

Obviously, we have a really strong board of directors and they're doing a good job thinking through this. I mean obviously, I think we're on a really good track here. You can see it. We've gone from making \$0.13 in a quarter to \$0.91 in a quarter. You're on the right track. And I don't think we're anywhere near done. At the same time, one of the reasons I wanted to step down was - it'll be almost a decade in the seat, and I'd like to see some fresh eyes and have others be able to take us to greater heights. So I think the direction is good, but I think that the team that leads this and the CEO that leads this Company afterward will take us higher, because they'll just, they'll be able to build.

Honestly, I had to spend six years just putting infrastructure in place and now we're benefitting from and we have all the infrastructure and tools necessary to do really well, the Company is structured correctly, has great people, so... I was going to say that whoever takes over has a much easier job, but it's never easy, but at least they've got all the tools to take us to great heights. So I feel good about that and I feel good about how the board is thinking about it. Does that answer it?

Vishal Shreedhar

Okay. It does. Thank you. And I know it's more of a board question, but thank you for your perspective. And with respect to the large initiatives that Empire is working on, could you help prioritize and help me understand what are the bigger initiatives? There are so many things going on and I'm having difficulty wrapping my head around what are the larger initiatives that are driving growth. Is that a fair question or is it really just a little bit of everything?

Constantine (Costa) Pefanis

Vishal, it's Costa here. I think that the way I've been thinking about it for the last couple months is that it's a little bit of everything, but it's a prioritization where we can realize some short-term benefits that gives us the momentum to continue.

Michael alluded to the fact that we're working on advanced analytics that's giving us really good data sets to work with to improve on execution within the store. And I think that, with our ERP implementation and going to SAP S/4, I mean that's going to translate into further improvements around our processes, the way we look at the way we do business on our supply chain. So I think it's a prioritization of many things that we've already looked at to see where we can get the best return in the shortest period of time without sacrificing the long-term ability for us to continue to improve.

Vishal Shreedhar

Thank you.

Operator

And your next question comes from the line of Etienne Ricard with BMO Capital Markets. Please go ahead.

Étienne Ricard — BMO

Thank you and good morning. It's interesting to see internal food inflation remaining below CPI. My question is how sustainable is this given I presume you've had more difficult conversations with suppliers recently or is this driven by partnering with new suppliers?

Michael Medline

I'll make a general statement and then I'll turn it over to Pierre on the suppliers. My general statement is I said we were way below CPI, which we were. So there's only two reasons for that. It can only be two reasons. One is CPI is not measuring the correct basket which is in a normal grocery store and/or our competitors have higher inflation than we do. I don't know which one is true, because I'm not running the CPI and I'm not running our competitors, but those are the only two reasons. We're always thinking about the customers. Anytime we have our inflation way below CPI, I'm on a happy camper.

And Pierre, I'm going to say I think that is sustainable, but why don't you comment?

Pierre St-Laurent

You're absolutely right. The CPI is a very small basket compared to the way we are measuring internal inflation. It depends on this basket versus the total business at Empire. Sometimes it's below, sometimes it's higher, because we're not comparing apples with apples versus CPI. That being said, we're trending lower than CPI, which is a good sign. We delivered strong margin at the same time, which is better.

Again, to your question with suppliers and the way we handled tariffs and the hard line we took on tariffs, I will remind you that U.S. product sales, it's less than 10%, so this is not material to the overall inflation. But yes, the hard line we had a small contribution to that lower inflation level, but not material.

Michael Medline

And why don't you say how you feel the discussions and relationship with suppliers right now are?

Pierre St-Laurent

Our relationship is very strong. I think we've had very honest conversations with suppliers. They understand why we took this position to protect that customer. So when we bring this argument to the table, they have the same purpose. They also want to be relevant with customers. So, generally speaking, we're aligned on the end goal. The way to get there, sometimes we have tough conversations, but they understand what we're trying to do. And based on what we've done and what we're seeing right now, I think we have to admit that we took the right approach and they are respectful for that.

So this is how we feel when we are sitting in front of them. They respect our position. We're sharing data, we're explaining why we're making decisions, even if it's not necessarily to their benefit short term. But long term, it's how we handle our business with suppliers.

Étienne Ricard

Interesting. Appreciate your comments. And I want also to focus on competitive dynamics in the province of Québec. Given some of your competitors have pulled back from the Full-Service market, what traffic trends are you seeing there?

Pierre St-Laurent

Again, year over year, we're seeing positive trends. The peak of inflation is behind us. As you know, we had no discount stores in Quebec, but we're overlapping that big time right now and we're seeing very positive momentum. The other thing is we're more active on the real estate side. We did open a new store last week, a very nice store, and we have a couple in our pipeline right now that will open in the next couple of months. So I think the Québec business is moving in the right direction. Our dealers are highly engaged with regards to pleasing customers and we have a very good strategy right now to have very good value proposition for our customer at IGA. We're seeing benefit of this already in our numbers. So yes, it's a competitive market. It has always been a competitive market. We have a strong brand, strong NPS, strong network of franchisees, so we feel good about the future.

Étienne Ricard

Thank you very much.

Operator

Thank you. Your next question comes from the line of Mark Petrie with CIBC. Please go ahead.

Thanks. Good morning. Again, on the gross margin, this isn't the first time you've called out shrink as a tailwind, but is it fair to say that the impact was bigger this quarter than maybe the last couple of quarters and so you're still seeing incremental benefits sequentially? And would that remain a tailwind for the next couple of quarters?

Pierre St-Laurent

It's not the first quarter we're having tailwinds with shrink. I think for the last year we did improve on shrink. So again, shrink is one of the components of overall gross margin. I think this quarter the results are due to many small things. Supply chain did contribute to the improvement in the gross margin. As I said earlier, the promo penetration is lower than last year. Shrink is one of the components.

Again, shrink is a big thing. I know a lot of people are talking about it, but the way we approach shrink is, again, on a very disciplined manner. Going too hard on shrink could cause a top-line decrease and we don't want that. So we have a very disciplined approach around shrink and over the last few years we have made progress in a smart way. We will continue to look at shrink because it's a component of gross margin. So this is the answer. We'll continue to look at shrink to improve that, because everything we can reduce there we can reinvest in different elements of the business to be more relevant with customers, but again, nothing specific to mention this quarter on shrink.

Mark Petrie

Okay. Thanks. And then on the ERP implementation, could you just walk through the timelines in more detail and how you see execution risk evolving over the two-year time frame?

Constantine (Costa) Pefanis

The way I would think about it is that we've planned this out over the last year and a half to two years to take an approach that over the next two years, on a regional basis, we're going to be deploying the implementation to manage and mitigate any kind of execution or implementation risk. The impact of that is going to be, on a continuous basis, looking at what needs to be improved in order to continue to look at this from an operational point of view that doesn't disrupt anything that we're currently working on or doing.

Operator

Thank you. And your next question comes from the line of John Zamparo with Scotiabank. Please go ahead.

John Zamparo — Scotiabank

Thank you. Good morning. I would like to touch on a couple of other items related to consumer behaviour. Could you talk about the delta in the same-store sales that you saw on your full-service versus discount stores and whether you saw any changes to private label penetration in the quarter?

Michael Medline

We saw some changes between full serve and discount. We saw the smallest gap, when we look at it, that we've seen in years. And what was your second point, John?

John Zamparo

On private label penetration, please.

Pierre St-Laurent

Private label continued to outperform total store. Our assortment is great. We're improving assortment, so the penetration is growing quarter after quarter. Private label products are very popular right now with customers who are looking for value. We feel good with the progress that we've been making there with the assortment we have in our stores and promotions.

John Zamparo

Okay. That's helpful. And then my second question, it's kind of a higher-level question. I wonder if there's been an evolution in your best returns on capital spending. I think if we go back a couple of years, this had been renovations and then you saw inflation on those projects increase and then the top returns pivoted to new stores. Is that still the case on your latest iteration of new stores? Are those providing your highest returns? And is there any delta on the returns of new discount banners versus full service?

Michael Medline

Still good returns on renovations when we do them, but we're seeing, there was a big gap before, and part of that was just growing pains as we were modernizing our fleet of stores across the country. So we had to renovate quite a bit. Now we're seeing stronger returns, especially with inflation. The cost of doing a new store is not that much different in some cases than doing a renovation, so the returns are so much better. And we're also strategic too, that we feel that we are in a position, from a store design and an execution standpoint, that we can really do well on new stores. And we're picky with them. So I just think it's a matter of balance and waiting and we have shifted from mostly renovation. We were doing a lot of conversions as well for a long time there and there's still some conversions here and there, but you'll see more stores more heavily in our capital spend.

John Zamparo

Thank you very much.

Operator

And your next question comes from the line of Michael Van Aelst with TD Cowen. Please go ahead.

Michael Van Aelst — TD Cowen

Thank you. You've covered quite a bit, but a few follow ups. First, on the same-store sales trend, I know May, obviously, was tough because you were lapping the boycott and the bad weather, but clearly June and July were better. Would you say that trend has continued above 1.9% heading into, in the early stages of Q2?

Michael Medline

Yes. Although I'm always loath to talk about the quarter we're currently in. Because Q1 had so many anomalies, I will say something to that, is that I can definitely say that Q2 has started ahead of the Q1 result.

Michael Van Aelst

Okay. Thank you. And then Costa, you mentioned that the OpEx in Q1 was the peak or that was peak spend. Was that on a dollar basis or percentage growth or rate? What was the guidance you were trying to provide? In dollars?

Constantine (Costa) Pefanis

Total dollars.

Michael Van Aelst

Okay. And then could you just also clarify Pierre's remarks on... When he was answering Mark's question, I think it was on the gross margin expansion of 63 basis points in Q1, asking if that's something that we could see continuing through the next few quarters as you cycle some of these benefits, was there something in Q1 that...? Pierre's comments made it sound like maybe it was sustainable, but was there something in Q1 that might not be as repeatable?

Pierre St-Laurent

No. What we have in terms of objective is what we said before, we think we can continue to improve gross margin by 10 to 20 bps. There's some elements year over year that we have to consider in our results like in this quarter, as I said, that promo penetration was elevated last year at the same time. This is one of the reasons this year, at a normal rate, we saw benefit in our gross margin. But again, the gross margin performance is related to that. It's related to the private label penetration. It's related to supply chain. It's related to promo mix management. It's a lot of small things. But I think this quarter the reason why we have high gross margin expansion, it's versus last year's situation more than the trend we're expecting for the future.

Michael Medline

I realize that we have credibility on a lot of things, but our credibility on this 10 to 20 basis points is sort of evaporating as we continue to beat it. I think what Pierre and I are saying is, you know, don't go modeling 63 every quarter, but that, if we see ways to execute better, and we're seeing a lot of different ways to execute better, including AA and AI, et cetera, we're not going to hold it down to 20, but we just think that very few retailers can keep up the kind of margin performance of what we're doing now is very, very good. But we're doing it. I mean this is 27 straight quarters of gross margin improvement, not because of price increases but because of good execution. And if management continues and our teammates continue to execute, we'll continue to see good gross margin performance. So I do believe that we have lost some credibility, but we'll always do our best. So if we can beat it, we'll beat it.

Michael Van Aelst

Yeah, you do keep beating it. But it's tough to compare the gross margins between the different grocers just because there's different components in it at times, but would you, to the extent that you can compare, do you think your gross margin is comparable or better now or are you catching up to them and that's why your gains are stronger?

Michael Medline

I told our board yesterday, because I do believe 27 quarters in a row is a world record, and who's going to prove me wrong, right, but I did say to the board I think that this company, the way it's going, can sustainably continue to increase its margin by doing business better. But I also did say that we were, in the early years, that we were starting further back than our competitors and we had more room to grow it. So I think that is a fair comment, Mike.

Michael Van Aelst — Analyst, TD Cowen

Okay. But more recently, at this stage, you think you're pretty much comparable?

Michael Medline

No, we probably... No, I don't think so. I think we started out the race and we've really, really closed the gap, but I think we still have a bit of a gap.

Michael Van Aelst

Okay. Great. Thank you.

Operator

And we have no further questions at this time. I would like to turn it back to Katie Brine for closing remarks.

Katie Brine

Thank you, Ludi. 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 second quarter fiscal 2026 conference call on December 11th. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.