

Empire Company Limited

Third Quarter Fiscal 2026 Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Empire Company Third Quarter Fiscal 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, March 12, 2026.

I would now like to turn the conference over to Katie Brine, Vice President, Investor Relations. Please go ahead.

Katie Brine

Thank you, Julie. Good morning and thank you all for joining us for Empire's Third Quarter Fiscal 2026 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 as well.

Joining me on the call this morning are Pierre St-Laurent, President and Chief Executive Officer; Costa Pefanis, Chief Financial Officer; and Luc L'Archevêque, Chief Customer Officer.

Before we begin, I would like to remind you that today's discussion includes forward-looking statements. We caution that these statements are based on management's assumptions and beliefs and are subject to risks and uncertainties 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 risk factors.

With that, I will now turn the call over to Pierre.

Pierre St-Laurent

Thanks, Katie. Good morning, everyone.

Our Q3 financial results were solid. This was supported by healthy performance across all of our formats and strong cost management. Beyond the financials, we executed on several important strategic moves in Q3, including the update related to our e-commerce business as well as the recently announced executive leadership changes. These actions reflect our focus on delivering immediate results. This is also positioning us well to advance our strategy and deliver against our long-term financial framework. I will focus on three topics today: First, our third quarter performance and market trends; second, an update on our strategic priorities; and third, our new executive leadership structure.

Starting with Q3 results, food sales grew 3% this quarter with food same-store sales growth up 2%. Same-store sales were driven by strong performance in full service. We also saw positive performance in our discount, both financially and versus the market. We continued to see healthy customer metrics across all banners with increasing basket size and customer traffic year over year.

All of our formats are performing well and contributing to the top line. This confirms that customers are seeing value across all our banners.

Looking at market trends, we continue to closely monitor food inflation. While reported CPI for food purchased from stores was 4.8% this quarter, our internal food inflation remained below CPI. As a reminder, when looking at CPI in December and January, these months were artificially higher given the impact of last year's tax break. Based on our internal and market measures, the CPI rate is approximately 150 basis points lower when we adjust for this one-time impact. Overall, inflation remained generally stable and we are continuing to actively manage supplier cost increases to protect customer value.

Turning to margin, our total company gross margin was flat. When excluding fuel, we experienced a 25-basis point decline. This figure requires additional context as it was driven mainly by some non-recurring minor items and business mix impacts. We continue to expect to achieve 10 to 20 basis points of gross margin improvement annually and we are trending well on this metric in fiscal 2026, gaining 18 basis points year to date. We continue to manage margin closely and have opportunities ahead to continue experiencing gains. The current margin rate is much stronger than it was when we announced the transformation in 2017. We continue to leverage the tools and capabilities we have developed since then to maintain stronger margin control.

We also continue to improve advanced technologies across the business, supported by a comprehensive and disciplined approach to data and AI. This is not new. There has been accelerated focus and investment in the past 18 months, driven by a strong partnership between the business and technology teams. We have already seen successes across supply chain, marketing, merchandising, and national sourcing with meaningful opportunities ahead to continue to leverage these technologies.

On SG&A, cost discipline continued to improve. This reflects tighter cost control across the organization. As well, we simplified the business and began to realize the full potential of the investments we've made over the past several years. Costa will provide more details on this shortly.

Overall, we delivered EPS of \$0.72 this quarter versus \$0.62 last year, with core business results improving by 8.8%. This reflects the healthy performance we are seeing across all formats and channels as well as the increased focus on cost discipline throughout the organization.

Moving onto our strategic priorities, I shared previously that we have four obsessions that anchor our strategy—customers, stores, growth, and cost control—all enabled by our talented people. These obsessions are the lens through which we will drive the business going forward as well as make decisions on our priorities and capital allocation. With the new leadership team now in place, we are finalizing our strategy, and we will share more details on our Q4 call in June. For today, I will share highlights on a few key initiatives that impact our four priority areas.

First, an update on our loyalty program. This quarter we were very pleased to welcome Shell Canada into the Scene+ program. Fuel has been the most requested category to add to our loyalty program and this partnership provides substantial opportunity to gain new members and increase share of wallet for existing members. The rollout began in Alberta this month and will extend to the rest of Canada on May 26th. We will continue to explore opportunities to bring new partners into the Scene+ program, but we'll be selective and ensure every partner adds value to our customers. Shell Canada is an outstanding example of this and we are very pleased they have joined us. Loyalty is one of the many ways that we are continuing to elevate our value proposition. Throughout owned brand assortment, value size, product offering, verified price program, member pricing, commitment to quality and commitment to great in-store and online experiences, we continue to increase our focus on value as part of our day-to-day operation.

Another area where we are meaningfully advancing is e-commerce. During this quarter we reassessed expected performance across our Voilà network and announced actions to improve near-term earnings and increase customer choice. This includes the closure of the Calgary Customer Fulfilment Centre and expanding third-party partnerships through a new national agreement with DoorDash, which is now live across all of our banners. As a result, we recorded a \$746 million impairment in restructuring charges in this quarter. While this impacted reported earnings, it resets the cost structure and sharpens our focus on profitable growth. These actions are expected to deliver approximately \$95 million of annualized operating income beginning in the fourth quarter. We expect approximately two thirds of this will hit the bottom line with the remainder reinvested in strategic growth initiatives.

Operationally, e-commerce sales grew 10.3% year over year, driven by continued Voilà growth and third-party partnership. We are continuing focusing on this business and recent actions. We expect sustained improvement in our e-commerce financial performance beginning in Q4 and accelerating into the next fiscal year.

And lastly, a brief highlight on our retail media business, Empire Media+. Since launching in November 2024, revenues have grown approximately 50%. We are seeing strong momentum in the supplier, increasing annual commitment and effective measurement capabilities that are driving repeat spend and larger campaigns. We expect this to be an attractive growth engine in the coming years with a significant opportunity ahead of us. On top of this, we continue to drive growth through our store network. We have opened nine new stores and completed two conversions year to date. We expect to open seven stores in the fourth quarter with four of them in discount. And we plan to open more than 20 new stores in fiscal 2027, mostly through new stores as part of the broader real estate strategy. We continue to be strategic and disciplined in how we allocate capital and plan to direct more towards new store growth now that we are out of the transformation and see plenty of white space to capture.

These are just a few concrete examples on how our four obsessions are translating into action today and we look forward to sharing more about our new strategic plan on the fourth quarter call.

Moving onto my third topic, our new organizational structure. As you may have noticed, we have aligned the executive leadership team's roles around our four obsessions. The new structure is designed to create clear accountability, strengthen collaboration, and accelerate performance across our four focus areas.

Sandra Sanderson, our Chief Marketing Officer, will retire in July and I want to thank her for her significant contribution to Empire. With that change, we took the opportunity to bring marketing and merchandising together under Luc L'Archevêque, who I have appointed as the Chief Customer Officer. Luc has more than 25 years of experience across buying, marketing, category management, and multi-banner merchandising. Under his leadership, we will strengthen how we connect and engage with our customers.

Julia Knox has been appointed Chief Retail Officer with end-to-end accountability across stores and supply chain while continuing to lead the technology and transformation during the transition. Julia has more than 20 years of retail experience in Canada and US, spanning strategy, merchandising, and in both full service and discount segments. She will remain in her technology role for the next 12 months, focused on advancing critical IT projects. We will hire a new Chief Technology and Transformation leader and transition that role over the next 12 months.

In the interim, Jean-Louis Bellemare, Founder of Farm Boy, will serve as executive adviser on our retail and store operation, reporting directly to me. JL is a gifted operator who built Farm Boy from the ground up into one of the most well-loved banners with strong NPS scores, impressive same-store sales growth, and strong control on margin and cost. He has an outstanding track record and we are excited to see what he unlocks at Empire.

Doug Nathanson has expanded his responsibility as General Counsel and Chief Pharmacy and Development Officer, reflecting increasing strategic importance of pharmacy in our company.

Costa Pefanis continues as Chief Financial Officer and Sandra Pasquini continues as Chief Human Resources Officer.

To close out, I'm pleased with our Q3 results and see significant opportunity ahead of us. We remain focused on providing value for customers, simplifying the business, and driving profitable growth while executing against our long-term financial framework.

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

Constantine (Costa) Pefanis

Thanks, Pierre. Good morning, everyone. I'll start with a review of our third quarter financial performance, focusing on adjusted results, and then I'll touch on capital allocation and our outlook.

In the third quarter we delivered adjusted EPS of \$0.72, representing year-over-year growth of 16.1%. When you look behind the headline results, the increase was driven by three key factors: solid operating performance in the core retail business, higher contribution from other income and share of equity earnings, and continued benefits from share repurchases. When we exclude real estate-related income in both periods, adjusted EPS increased by nearly 9%, or approximately \$0.05, which speaks to the continuing strength of our underlying core operations.

Our adjusted results exclude the \$746 million impairment charge related to our e-commerce update. This included the impairment of right-of-use assets and property and equipment as well as direct costs associated with the closure of our CFC in Calgary, such as severance, one-time contract termination payments, and decommissioning costs. As we begin the next chapter in reshaping our e-commerce strategy, our focus remains on driving sales volume and further improvements in our active CFCs while expanding our immediacy offering with the addition of DoorDash.

Turning to the top line, food same-store sales increased 2% in the third quarter. Our two-year stack continued to climb sequentially to 4.6%. Food sales for the quarter increased by 3%, reflecting positive growth in the business, especially at our full-service banners.

Total Company gross margin this quarter was flat. Excluding fuel, it decreased by 25 basis points versus last year. This was mostly driven by non-recurring minor items in our business unit mix, predominantly from higher wholesale sales. If we exclude the impact of the non-recurring minor impacts and higher wholesale sales, gross margin excluding fuel would have grown marginally versus last year.

As Pierre mentioned, we have delivered significant gross margin expansion over recent years. Looking ahead, we continue to expect annual gross margin expansion in the range of 10 to 20 basis points, supported by disciplined execution and ongoing initiatives such as inventory control, shrink improvement, space productivity, private label penetration, and promotional optimization.

In Q3, adjusted SG&A dollars excluding depreciation and amortization increased by 1.6% over prior year, largely reflecting business expansion and continued investments in stores, technology, and key projects. We did see a sequential decline in our SG&A dollars. What stands out this quarter is that SG&A as a percentage of sales decreased versus last year as total sales grew at a faster rate than SG&A. This reflected better cost optimization, particularly around technology, real estate, and marketing expenses. Our focus on growing the business more profitably and optimizing cost is beginning to deliver results. As I've said previously, we continue to expect this past Q1 to represent the high watermark for SG&A dollars this fiscal year; however, improvement will not always manifest in a straight line.

In the quarters ahead, we'll start to benefit from the \$95 million in annualized benefits announced as part of our e-commerce update. Approximately one third of these benefits was identified to be reinvested into strategic initiatives to accelerate our growth engines. We expect to achieve about \$15 million of these largely cash benefits in Q4 with full run rate achieved in fiscal 2027. A portion of Q4 benefits were captured as part of our cost reduction strategies we discussed earlier this year.

Contributions from other income and equity earnings totaled \$29 million, largely in line with the guidance we provided in Q2. We continue to expect this real estate earnings stream to come in at the lower end of our fiscal 2026 guidance of \$120 million to \$140 million with Q4 representing approximately one third of the annual amount. Subsequent to the quarter, we announced the sale and lease back transaction with Crombie REIT which is already included with the aforementioned Q4 expectations. Transactions like this aren't an annual occurrence. This transaction has been in our plans for some time and makes sense for both Empire and Crombie.

With respect to capital allocation, our Q3 CapEx totaled \$239 million, reflecting investments in store renovations, new stores, advanced analytics technology, and other technology systems. We remain on track for CapEx of approximately \$850 million in fiscal 2026. In addition, on a year-to-date basis, we have repurchased about 6.6 million shares for consideration of \$330 million. We expect to complete \$400 million of share repurchases this fiscal year.

In closing, we're pleased with the update we made to our e-commerce business. While these actions added some noise to reported results this quarter, we are pleased with how our teams drove good results in our core food business. We continue to execute well against the financial framework and, as Pierre mentioned earlier, we have many growth levers to deliver consistent solid returns for shareholders over the quarters and years ahead.

With that, I'll turn it back to Katie.

Katie Brine

Thank you, Costa. Julie, you may open the line for questions at this time.

Q & A

Operator

Thank you. Ladies and gentlemen, if you'd like to ask a question, please press star one on your telephone keypad. If you would like to withdraw your question, please press star two. One moment please for your first question.

Your first question comes from Vishal Shreedhar from National Bank. Please go ahead.

Vishal Shreedhar — National Bank Financial

Hi. Thanks for taking my questions. I was hoping, Costa, you could give me some details on these cost initiatives that you're taking that are bearing fruit and how you can tell us what they are and how we should anticipate them to manifest. And if you could actually quantify that, that would be helpful for us.

Constantine (Costa) Pefanis

Thanks, Vishal. I'll start by saying that we're happy with our cost control in Q3. I won't be giving you specifics in terms of amounts, but since I started with Empire the conversations that we've been having internally is how to simplify our store operations. With that, that's driven cost optimization strategies that have continued around how we spend in our IT areas, our marketing dollars, and our supply chain. As we continue to press on these initiatives, we will continue to see improvements as we deploy certain things in our stores, but the overriding guiding principle is how we make the lives of our teammates simpler in order to be able to serve the value that our customers expect.

Vishal Shreedhar

Thank you for that. And just want to get colour on Empire Media. How large is that business currently and what tactics are you using within the media business and how should we think about the contribution of that going forward?

Pierre St-Laurent

As I said, we did start this journey in 2024, so it's fairly new. As I also said, we are seeing good traction right now. We made good investments on retail media over the last year and 18 months, so most of the investment is behind us, and now we're focusing on growing that business and we're seeing a very fast pace considering that it's new. But again, it's a growth engine for us. I won't disclose the size, obviously, because it's confidential, but we see it's a growth opportunity for us and now investment is behind us and we're driving growth. And every month we're seeing good repeat in investment from suppliers, which is a good sign, and larger campaigns, so that's a good sign, and we are seeing improvement quarter to quarter and I hope we will capture the full value of this new segment of growth and revenue in the next years and in the future.

Vishal Shreedhar

Thank you.

Operator

Your next question comes from Irene Nattel from RBC Capital Markets. Please go ahead.

Irene Nattel — RBC Capital Markets

Thanks, and good morning. I'd actually like to dig in a little bit on the answer to the last question around SG&A, but I guess more fundamentally, you mentioned that you're trying to simplify store operations, but you highlighted IT, marketing dollars, supply chain. These are all kind of very fundamental to how the business operates. Can you walk through kind of where you see the biggest buckets of opportunity and what kinds of things you might be targeting here? Thank you.

Pierre St-Laurent

It's a very good question. And you're absolutely right, these areas are fundamental in retail. I said previously that, in the last few years, we made significant investment in different areas of the business, in tools, in technology, in people. So, as I said that before, that's my priority; to extract the full value of the investments we've made in the past. And now, by focusing on the business less than on a transformation, our appetite is to capture the full benefit of all the investment we've made.

So we made investment in all of those areas. We made investment in marketing, we made investment in supply chain, we made investment at the store level to simplify store's life, and now we're going after the benefit without compromising the experience in stores, without compromising our teammates experience. This is fundamental for us. In our four obsessions, customers and stores are the two main priorities and will make their life easier, will provide more value to customers. So all those things are the basics in the retail and we believe that focusing on it, there's a lot of value to extract.

Irene Nattel

Thank you. Would you be able to give us some examples of some of the changes that you've made and how you see the results flowing through and perhaps what inning are we in terms of all of this and how are we on the outside going to be able to see how this manifests in the performance of the business?

Pierre St-Laurent

There's a lot of little things that we implemented in stores to simplify their life. We call that quick-action initiatives, simplify their life. It's small details, but at scale sometimes it's bigger than we thought. A good example is electronic shelf label. So the investment we've made in electronic shelf label simplifies the stores' life and accuracy is way better. We see immediate benefit by implementing that. So this is an example to simplify their life on Thursday morning when it's time to change the merchandising plan and that's very, very efficient. And there are savings immediately there without impacting our teammates. It's the opposite. We simplify their life. They love it. And there's other features than just the price tag that we're looking at right now. And again, we made the investment already, so we don't have to invest more money to activate those features. That's an example.

I think we spoke many times about the investment we've made in merchandising. We did not grow the margin 28 quarters in a row without any investment. I think the merchandising team is having way better tools now to do their job every day. We continue to see opportunities to make some gains, but we're in very good control in how we manage our margin, how we're investing to provide value to customers, and I think customers are seeing that value right now based on the results we have in all our formats.

So it's many small little things that are driving benefit right now. Supply chain is the same thing. I spoke about some investments in technology that's giving better visibility, better accuracy, better on-time deliveries, and this is impacting the entire chain from the supply chain to the store operation. Stores are having visibility of where their truck is and this is more efficient to plan the labour in stores. So there's many little things. I already gave you too much, for competitive reasons, but we're very pleased with the investment we've made and we continue to see value to capture ahead of us.

Irene Nattel

Very much appreciated and never, ever too much. Thank you.

Operator

Your next question comes from Mark Petrie from CIBC World Markets. Please go ahead.

Mark Petrie — CIBC

Thanks, and good morning. I'm going to ask again on the OpEx actually, and I guess just specifically with regards to Voilà and the \$95 million of savings, you stated that you have targeted one third to be reinvested, but you're also saying that the focus is harvesting the benefits from previous investments, so could you just talk about the sort of specific areas that you see opportunities to invest and also how you came up with that one third versus two thirds? And then where on the P&L should we expect to see the two thirds showing up?

Constantine (Costa) Pefanis

Good morning, Mark. I think the way that we're looking at it is, as we look at our e-commerce strategy, we are looking at how we're going to be evolving that, and today we're not going to be spending too much time talking about our strategy, we're going to reserve that for our next call, but when we look at the way we've modeled that out for our fiscal 2027, it's going to be a ramp in terms of the way that we're going to see the benefit on our OpEx reduction, how we continue to build on that strategy in order for us to be able to grow the top line.

There are many things that we want to continue to press on and that's why we refer as reinvestment in our strategic initiatives, but I think as we look at Q4 specifically, the \$15 million that will allow us to have an improvement on SG&A, even a portion of that, you know, when we contemplated where these cost reductions are going to come from in earlier quarters, we always knew that we would reinvest some of these benefits. And I think that, as we continue to discuss how we're going to grow the top line, the impact that we're going to have in our ability to become more efficient across the company, as Pierre mentioned, will definitely have a benefit overall. So this isn't something that's going to manifest in a linear fashion, but it's definitely going to be a ramp as we go into fiscal 2027.

Mark Petrie

Okay. Great. So the two thirds of the \$95 million is mostly going to show up in SG&A.

Constantine (Costa) Pefanis

Correct.

Mark Petrie

Okay. Thanks. And then could you just, I know you're saying minor and non-recurring, but could you just give us some colour on what those items were in gross margin? And when you say non-recurring, does that mean like they were isolated to Q3 and so we should expect Q4 to be more like the normalized rate, which I think you said was marginally positive?

Constantine (Costa) Pefanis

Yeah, exactly, Mark. Yeah, we'll have a more normalized rate, which is positive. But in terms of the one-time minor impacts, I think you should take that offline with Katie.

Mark Petrie

Okay. Fair enough. Appreciate the comments. All the best.

Constantine (Costa) Pefanis

Thank you.

Operator

Your next question comes from Chris Li from Desjardins. Please go ahead.

Chris Li — Desjardins

Good morning, everyone. I know you have sort of covered that in the opening remarks, Pierre, but I wanted to just ask you, given that the macro environment obviously remains very dynamic, what are you seeing in terms of the consumer behaviour? And also maybe a similar question in terms of what are you seeing in terms of the current competitive environment. Thank you.

Pierre St-Laurent

It's a good question. A couple of things. Pretty stable to previous quarters in terms of what we're seeing in the market. Customers continue looking for value and I think our results are showing that we're doing really good there in all formats. It's our day-to-day operation to provide value to customers, so we know that customers are looking for value and I think our promotional, our offering is more and more relevant, and this is why we are seeing very good improvement, especially in our full-service business. As I said, in Q3 we had stronger same-store sales in full service than in discount. And this is not a surprise for us. This was expected. I've said that before. And the reason why it's simple, so the full-service stores in 2017 and the full-service stores today are very different.

And I gave a couple of examples of things that we did over the last years and most recently to provide more value to customers and I think we had good results with that. That means that customers are seeing that value in our stores. So that's the thing.

Promotionally, no major changes. Same promo penetration, pretty stable TPR (Temporary Price Reduction), but again, we have focus, we have to stay relevant for customers and the value-seeking approach we are taking right now (with customers) is paying off. But other than that, I don't see any major things. I think competition is very disciplined on promotional and things like that, but no major changes. We are seeing, obviously, inflation pressure, but it's highly isolated in a few categories. We have good plans to mitigate that, we have good plans to offer alternatives to customers to mitigate with inflation, and I think, again, we're doing well on that.

Chris Li

Perfect. thank you very much. And I have maybe a couple of questions for Costa. First one is, I know you plan to provide us with more details on F27 when you report Q4 results in June, but I just want to ask you, just at a high level, do you believe, for F27, you can perhaps exceed your financial framework of 8% to 11% EPS growth next year with some of these incremental benefits from the Voilà Alberta closure?

Constantine (Costa) Pefanis

I think it's important that we speak more to these details when we're ready to talk about our strategy, but at a very high level, that's the expectation, is that the reason why we looked at our e-commerce operation the way we did was to have the benefit of reductions in OpEx. That allows us room to reinvest in the business so that we can focus on growing the business.

Chris Li

Okay. That's great. And then my last question, just also on Voilà: When would a decision be made on the Vancouver CFC?

Constantine (Costa) Pefanis

I think what we're saying is that we've just put a pause on that and that's what we're continuing to say. Not much else to add at that point, but again, as we talk about our refreshed e-commerce strategy in the quarters ahead, we'll provide you additional colour around that.

Chris Li

Okay, great. Thank you very much and all the best.

Operator

Your next question comes from Michael Van Aelst from TD Cowen. Please go ahead.

Michael Van Aelst — TD Cowen

Hi. Good morning. You covered a lot of it, but I just wanted to touch back on the competitive environment versus the gross margin performance. You've had eight straight quarters of very strong gross margin expansion and this quarter it was relatively flat excluding the wholesale and non-recurring. And you've also talked about providing more value in full service, which can come in many ways, but I guess it could also come through better value, better promotions, things like that. Have you just run through the gamut of most of your gross margin expansion initiatives and now you're at a more normal pace or are we seeing at least some level of promotional intensity pick up or competitive activity pick up?

Pierre St-Laurent

As I said, the promo penetration hasn't changed. It remains stable. It's a lot of one-time things in Q3. As I said, year to date we are in the guidance range that we gave you, so far year-to-date we have 18 basis points of margin improvement. On our radar and in our planning, we continue to believe we can have gains in gross margin by 10 to 20 basis points. We're very confident to deliver on it. We have a lot of initiatives. But this has nothing to do with promo penetration. Very important. We're talking about optimization. We're talking about assortment.

And again, the value is not one dimensional. It's multiple things that drive value for customers. Customers have different filters to see value in our store, they're all different, and we have to focus on all elements of the value equation, including the price. But I think we have been able to demonstrate value through all five key elements of the value equation. So, nothing to do with promo penetration, confident to deliver on our framework and our guidance we gave to you, and we see opportunity ahead of us to improve it.

Michael Van Aelst

Okay. Good to hear. And then just a clarification on the OpEx benefits from the cost optimization program. It sounds like those benefits are going to ramp up through 2027. Is this a multi-year initiative where we're going to see this be a tailwind for two, three years, or is this more so 18 months and then you've captured most of it?

Constantine (Costa) Pefanis

Michael, I think the way we look at it is that we're constantly looking for us to optimize our cost structure. Very important. But again, as we focus on growing our business, we will see leverage improve, especially, as Pierre mentions, our focus on realizing the benefits of initiatives that we currently have in play. But as we've talked at length about our e-commerce change, that's part of the philosophy is that how do we change our business in order to have the benefit over multiple years. Growing our top line and having cost optimization is the goal.

Pierre St-Laurent

Top line will grow faster than the expenses. This is our focus. We're a \$33 billion company and there's a lot of opportunity for us to get the operating leverage and this is exactly what we're going to do. And again, transformation is behind us. Our focus is driving the business. So it's a long-term strategy and we believe there's a lot of potential.

Michael Van Aelst

Perfect. Thank you.

Operator

Your next question comes from John Zamparo from Scotiabank. Please go ahead.

John Zamparo — Scotiabank

Thank you. Good morning. A couple of clarifications and then one question. On the gross margin, you'd said it was up, marginally, I think, was the term. Is that excluding both the wholesale customer mix and all of those one-time items that you're referring to?

Pierre St-Laurent

Absolutely.

John Zamparo

Okay. And then on the one third of the \$95 million from the Alberta CFC to be reinvested, is the reinvestment solely going to Empire's e-commerce strategy or is it some of it allocated to different parts of the business?

Constantine (Costa) Pefanis

Yeah, John, it's allocated to different parts of the business. It's how do we take cost out of one part of the business to get the benefit across multiple parts.

John Zamparo

Okay. Understood. And then my question is on store growth across the industry, not specific to Empire. But we've heard from some of your peers that the increase in square footage is having somewhat of an impact at least. I wonder if you'd agree with that. And are there any pockets of the country where you're seeing relatively more competitive behaviour?

Pierre St-Laurent

I won't comment on other's strategies. One thing I can tell you is, as I said previously, transformation is behind us. We have many areas of the business. We have growth opportunities. We are underdeveloped and we'll go after that. Discount is one example. Pharmacy is another example. Retail media is another example. So now we're focusing on growth and we will allocate capital with discipline. That's very important. We're looking for profitable growth and we will deliver on it.

So we see opportunity everywhere, so it's different, white spaces are market by market, and this is our approach in real estate. In some markets we see opportunity in discount. In some other markets we're seeing opportunity with full-service stores. In some other markets we see opportunity to grow the pharmacy business. So this will be addressed market by market, but we see plenty of opportunity for growth in the future for us if we allocate our capital smartly going forward.

John Zamparo

Okay. That's all for me. Thank you very much.

Operator

Your next question comes from Étienne Ricard from BMO Capital Markets. Please go ahead.

Étienne Ricard — BMO

Thank you and good morning. To circle back on the new leadership appointments, how do you expect these changes to impact the reporting structure to you, Pierre, and ultimately your decision-making capabilities?

Pierre St-Laurent

That's a good question. First of all, all the moves we've made are all internal, so that's the good news. People are under my team, they know the business really well, they know the Company really well, they know the culture really well, so I don't see any major disruption by this change. It's the opposite.

Since we did announce it, I saw a lot of energy in the organization. I've got very good feedback at the store level. For store level, it's clear who's accountable for what. And this is so important. They know who they have to talk to if there's something related to customers or to stores. So the accountability is very, very clear and the structure is aligned on the strategy. And I spoke about my four obsessions and the structure is aligned on it, so I think we will accelerate things by having clear accountability.

We saw opportunity to combine functions to have one lens to see at customers and the chief customer officer is responsible to focus on customers from multiple channels, and this is key for us because we have to be aligned, we have to make sure that we're not replicating things for nothing. We're looking for simplification, optimization, and clear accountability.

So I'm very pleased. Again, we have very strong people internally. We have a strong succession plan. We send really, really good signals internally with the confidence we have in our people. So energy is very high right now and I'm very pleased to see that. We have 130,000 teammates across the country and if the energy is there across the board, we'll have good results.

Étienne Ricard

I believe your chief customer officer is on the line. What are some key focus areas in terms of the marketing strategy and the customer outreach approach?

Pierre St-Laurent

Thank you for asking. I will ask him to answer the question. I trust him 100% on his answer.

Luc L'Archevêque

Hi, everyone. Don't expect a massive transformation. All the things that we are working on right now are the right ones. We bring customer value. We're focused on the needs of the customers. Just expect from us to leverage more of what we have today and be a little bolder on how we go to market.

Étienne Ricard

Thank you, team.

Pierre St-Laurent

You're welcome.

Operator

Your next question comes from Irene Nattel from RBC Capital Markets. Please go ahead.

Irene Nattel

Thanks, and thank you for taking the follow-up question. We've now heard the word pharmacy twice on this call and that's probably two times more than we've heard on any call in a really long time, so can you talk a little bit more about what you're thinking about pharmacy? Is this sort of more standalone under the Lawtons banner? Is this more adding pharmacies to food stores? Yeah. Please.

Pierre St-Laurent

Okay. Good question. We did focus on the core in the last seven, eight years. Pharmacy was not our primary focus. And in the changes I've made in the structure, I intentionally brought a focus on pharmacy to the executive leadership team, because we believe that putting a bit more focus and love into this business, there are benefits to capture. And to your point, in efficiencies, in focus, in relevancy with customers, and in growth, and we see potential growth. We have an interesting baseline and we can build on it.

So we see the opportunity, but I see a lot of opportunity personally, but again, we will grow in a profitable way and there's a lot of optimization we see. And Doug Nathanson, our new chief pharmacy officer, spent the week with the pharmacy team last week and he came with a lot of exciting ideas to grow and improve profitability of this business.

Irene Nattel

So again, just to sort of come back to the question, when you talk about grow, are you talking about, you mentioned within new stores, so do you see growth potential for the Lawtons banner?

Pierre St-Laurent

I see growth everywhere, my 34 years in the business, but I will give a little more time to Doug. He has been appointed two weeks ago. And in Q4 I think we'll have more to share in terms of strategy for the entire stuff we're looking at in terms of where we see growth, where we see potential in the future, but I can tell you that pharmacy will be a component of it. Stay tuned until Q4.

Irene Nattel

Thank you.

Operator

Your next question comes from Vishal Shreedhar from National Bank. Please go ahead.

Vishal Shreedhar

Hi. Thanks for taking my follow up. Relating to growth, Pierre, how does this new management team think about acquisitions and what kind of areas should we think about acquisitions then if it's a focus?

Pierre St-Laurent

It's market-by-market opportunity. And we have a very strong balance sheet, but again, we will use that capacity diligently with discipline. We're always open for growth. Again, transformation is behind us. We did invest a lot of money to fix the business, the business is solid right now, and it's our intention, the leadership team, to grow that business on this strong foundation. Small and large acquisitions. I like growth. I've been involved in real estate many years in my career. I'm passionate about growth. And in our business, if we don't grow, we decline, so to get the operating leverage on all the investments we've made in the past. So we strongly believe in potential on many different fronts. We gave many examples this morning on retail media, on discount, in pharmacy, in full service, in optimization, in M&A. So again, the focus is on driving the business is no more on the transformation.

Vishal Shreedhar

Thank you.

Operator

Your next question comes from Chris Li from Desjardins. Please go ahead.

Chris Li

Thank you. Just maybe a quick clarification question. Costa, when you mentioned two thirds of those Voilà savings will be in SG&A, I think like depreciation is part of SG&A, I believe, so can you share with us like how much of that would be more like cash expense versus non cash?

Constantine (Costa) Pefanis

Yeah, largely cash.

Chris Li

Largely cash. Okay. Thank you.

Operator

And there are no further questions at this time. I will turn the call over back to Katie for closing remarks.

Katie Brine

Thank you, Julie. We appreciate your continued interest in Empire. If there are any unanswered questions, please contact me, and we look forward to having you join us for our fourth quarter fiscal call on June 18th. Thank you.

Operator

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