Q3 F2020
Earnings Call

March 12, 2020

CEO's Direct Reports

Michael Medline
President &
Chief Executive Officer

Pierre St-Laurent
Chief Operating Officer, Full Service

Vivek Sood
Related Businesses

Mike Venton
Discount Format

Sarah Joyce
E-commerce

Michael Vels
Chief Financial Officer

Simon Gagné
Human Resources

Sandra Sanderson
Marketing

Doug Nathanson
General Counsel & Corporate Secretary

Vittoria Varalli
Sustainability, Chief of Staff, Office of the CEO

Mohit Grover
Innovation & Strategy

Third Quarter Highlights

- Same-store sales excluding fuel increased by 0.8%; two-year stacked of 4.1%
- Adjusted earnings per share of $0.46 compared to $0.27 last year.
  - Current year includes negative impact of IFRS 16 ($0.02 per share) – see slide 6
  - Prior year includes labour buyout and store closure costs ($0.12 per share) – see slide 5
- Gross margin increased by 20 basis points.
- Project Sunrise on track
- 13 FreshCo stores open and operating in B.C. and Manitoba.
  - 4 additional stores to open in fiscal 2020 in B.C.
- 31 Farm Boy stores operating in Ontario
  - Company has opened 5 stores since the acquisition on December 10, 2018 and announced an additional 7 locations
- Repurchased 1,519,829 shares in the quarter for a total consideration of $48.0 million
  - Reached $100 million target
- Voilà, Empire's industry leading grocery e-commerce platform is on track to test and soft launch in the GTA in Spring 2020

Third Quarter Financial Summary

	Quarter 3	
	Actual [1][2]	Last Year
Sales	$6,395.2	$6,247.3
Same-store sales, excluding fuel	*0.8%*	*3.3%*
Internal food inflation	*2.2%*	*1.8%*
Gross Profit	$1,557.7	$1,511.7
Gross margin	*24.4%*	*24.2%*
Selling and Administrative Costs (adjusted)[3]	$1,352.6	$1,439.4
Selling and administrative margin	*21.2%*	*23.0%*
Adjusted EBITDA	$426.9	$218.3
Adjusted EBITDA margin	*6.7%*	*3.5%*
Adjusted EBITDA margin, excluding the impact of IFRS 16	*4.7%*	*3.5%*
Adjusted Earnings per Share	$0.46	$0.27
Free Cash Flow[4]	$283.1	$179.2

(1) Empire's results for the third quarter and year-to-date ended February 1, 2020 include Farm Boy operations. All metrics, including same-store sales, include the consolidation of Farm Boy operations.

(2) Certain financial metrics were impacted by the implementation of IFRS 16 in the third quarter of fiscal 2020. See slide 6 for additional details.

(3) This excludes the adjustments made during the third quarter for intangible amortization associated with the Canada Safeway acquisition and Business Acquisition costs.

(4) The Company revised the definition of Free Cash Flow in Q4 F19. Amounts have been restated to reflect the revised definition. See the "Non-GAAP Financial Measures & Financial Metrics" section of Empire's News Release for the third quarter ended February 1, 2020.

Discount Expansion

EMPIRE COMPANY LIMITED
Sobeys inc.

OVERVIEW

DISCOUNT EXPANSION TO WESTERN CANADA

Sobeys expects to convert up to 25% of its 255 Safeway and Sobeys full service format stores in Western Canada to its FreshCo discount format. The Company continues to be on track to open approximately 65 locations within the initial five-year time frame.

22 FreshCo locations have been confirmed:

- 13 stores are open and operating as at March 11, 2020:
  - 11 in British Columbia ("B.C.")
  - 2 in Manitoba
- 4 additional stores are expected to open in fiscal 2020 in B.C.
- 5 stores are expected to open in fiscal 2021:
  - 4 in Saskatchewan
  - 1 in B.C.

Of the 13 stores operating as at March 11, 2020, two were opened subsequent to the end of the quarter.

As at March 11, 2020, five full service format stores in Western Canada remain closed pending conversion to the FreshCo discount banner, and four will close for conversion in the fourth quarter of fiscal 2020.

All FreshCo stores in Western Canada and Ontario are branded with the new, evolved FreshCo image which offers customers a strong discount and value experience.

STORE CLOSURE, CONVERSION AND LABOUR BUYOUT COSTS

In the prior fiscal year, provisions totalling $45.0 million ($0.12 per share after tax) quarter were recognized in the third quarter related to store conversions and labour buyouts.

Of the $45.0 million, $6.1 million was reversed in the second quarter, fiscal 2020.

IFRS 16 Impact

EMPIRE COMPANY LIMITED
Sobeys inc.

IFRS 16

OVERVIEW

- IFRS 16 intends to align the presentation of leased assets more closely to owned assets.
- Impact of the standard has been reflected in the financial statements for the third quarter and year-to-date of fiscal 2020.
- This standard will not impact Empire's strategy, business operations, or cash flow generation.
- The adoption of IFRS 16 had a material impact on balance sheet classifications.
- The Company expects that the adoption of IFRS 16 will not have a material impact on fiscal 2020 EPS.

INCOME STATEMENT IMPACT

13 Weeks Ended

($ in millions, except per share amounts)	Feb. 1, 2020	Feb. 2, 2019	Change	Impact of IFRS 16[1]	Change (excl. IFRS 16)
Operating income	**$235.0**	$110.0	$125.0	$40.0	$85.0
Adjusted operating income	**$239.5**	$119.8	$119.7	$40.0	$79.7
EBITDA	**$426.9**	$214.6	$212.3	$127.6	$84.7
Adjusted EBITDA	**$426.9**	$218.3	$208.6	$127.6	$81.0
EBITDA margin	**6.7%**	3.4%	3.3%	2.0%	1.3%
Adjusted EBITDA margin	**6.7%**	3.5%	3.2%	2.0%	1.2%
Finance costs, net	**$68.5**	$24.6	$43.9	$46.2	$(2.3)
Net earnings[2]	**$120.5**	$65.8	$54.7	$(4.5)	$59.2
Adjusted net earnings[2]	**$123.7**	$72.9	$50.8	$(5.6)	$56.4
Adjusted EPS (fully diluted)	**$0.46**	$0.27	$0.19	$(0.02)	$0.21

39 Weeks Ended

($ in millions, except per share amounts)	Feb. 1, 2020	Feb.2, 2019	Change	Impact of IFRS 16[1]	Change (excl. IFRS 16)
Operating income	**$787.5**	$458.1	$329.4	$133.3	$196.1
Adjusted operating income	**$801.2**	$483.3	$317.9	$133.3	$184.6
EBITDA	**$1,364.6**	$769.4	$595.2	$389.8	$205.4
Adjusted EBITDA	**$1,364.6**	$776.1	$588.5	$389.8	$198.7
EBITDA margin	**7.0%**	4.1%	2.9%	2.0%	0.9%
Adjusted EBITDA margin	**7.0%**	4.1%	2.9%	2.0%	0.9%
Finance costs, net	**$210.1**	$70.4	$139.7	$139.7	-
Net earnings[2]	**$405.7**	$265.2	$140.5	$(4.6)	$145.1
Adjusted net earnings[2]	**$415.6**	$283.5	$132.1	$(7.9)	$140.0
Adjusted EPS (fully diluted)	**$1.53**	$1.04	$0.49	$(0.03)	$0.52

BALANCE SHEET IMPACT

Adjustments to opening balances resulting from the initial adoption of IFRS 16:

As at May 5, 2019	($ in millions)
Asset increase (decrease):	
Prepaid expenses	$(43.4)
Current loans and other receivables	53.6
Non-current loans and other receivables	519.0
Other assets	(7.3)
Property and equipment	(22.3)
Right-of-use assets	3,800.7
Intangibles	(126.7)
Deferred tax assets	127.3
Total assets	**$4,300.9**
Liabilities and equity (increase) decrease:	
Current provisions	$7.4
Long-term debt due within one year	6.5
Lease liabilities due within one year	(424.4)
Long-term provisions	23.7
Long-term debt	22.6
Long-term lease liabilities	(4,569.6)
Other long-term liabilities	164.4
Deferred tax liabilities	36.5
Retained earnings	432.0
Total liabilities and equity	**$(4,300.9)**

(1) Reflects the impact of changing accounting standards from IAS 17 to IFRS 16 in the first quarter of fiscal 2020.
(2) Attributable to owners of the Company.

Disclaimers

Forward-Looking Information

This document contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize Empire Company Limited's ("Empire" or the "Company") financial position and understand management's expectations regarding the Company's strategic priorities, objectives and plans. These forward-looking statements may not be appropriate for other purposes. Forward-looking statements are identified by words or phrases such as "estimates", "plans", "predicts", "anticipates" and other similar expressions or the negative of these terms.

These forward-looking statements include, but are not limited to, the following items:

- The Company's expectations regarding the impact of Project Sunrise, including expected cost savings and efficiencies, the expected timing of the realization of overall and fiscal 2020 in-year incremental benefits, and the expected $50 million overachievement of the initial $500 million target which could be impacted by several factors including the execution and completion of category resets, time required by the Company to complete the project as well as the factors identified under the heading "Risk Management" in the fiscal 2019 annual MD&A;

- The FreshCo expansion in Western Canada, including the Company's expectations regarding future operating results and profitability, the amount and timing of expenses, and the number, location, feasibility and timing of construction and conversions, all of which may be impacted by construction schedules and permits, the economic environment and labour relations; and

- The Company's expectations regarding the implementation of its online grocery home delivery service which may be impacted by the timing of launching the business, the customer response to the service and the performance of its business partner, Ocado Group plc.

By its nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made. For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of Empire's fiscal 2019 annual MD&A. For additional disclosure on the recent outbreak of coronavirus COVID-19, please refer to the "Risk Management" section of Empire's MD&A for the third quarter ended February 1, 2020.

Non-GAAP Financial Measures & Financial Metrics

There are measures and metrics included in this earnings call presentation, such as adjusted EBITDA, adjusted earnings per share, same-store sales and free cash flow that do not have a standardized meaning under generally accepted accounting principles ("GAAP") and therefore may not be comparable to similarly titled measures and metrics presented by other publicly traded companies. The Company includes these measures and metrics because it believes certain investors use these measures and metrics as a means of assessing financial performance.

For a more complete description of Empire's non-GAAP measures and metrics, please see Empire's MD&A for the third quarter ended February 1, 2020.