

EMPIRE
COMPANY LIMITED



Q2 F2022 Earnings

December 9, 2021

Second Quarter Highlights

- Earnings per share of \$0.66 compared to \$0.60 last year.
 - Two-year EPS growth up 29.4%, adjusted for the Crombie REIT unusually large property disposal (\$0.06) in Q2 F20.
- Same-store sales excluding fuel decreased by 1.3% compared to higher COVID impacted sales last year.
 - Two-year same-store sales growth of 6.8%.
- Company's four e-commerce platforms experienced combined sales growth of 33%.
 - Excluding Grocery Gateway, growth was 1.8%.
 - Increase is primarily driven by continued growth of Voilà, partially offset by COVID-19 related declines from IGA.net and Thrifty's due to the stabilization of consumer buying behaviour.
- Excluding fuel, gross margin increased by 72 basis points.
- Free cash flow of \$129.5 million – 72% growth over last year.
- Project Horizon strategy on track.
- 42 FreshCo locations in Western Canada confirmed; 33 stores open and operating as at December 8, 2021.
- 42 Farm Boy stores open as at December 8, 2021.
- \$189.6 million of shares repurchased to date.

Second Quarter Financial Summary



	Quarter 2	
	Actual	Last Year
Sales	\$7,318.3	\$6,975.4
<i>Same-store sales, excluding fuel</i>	<i>(1.3%)</i>	<i>8.7%</i>
Gross Profit	\$1,850.8	\$1,751.1
<i>Gross margin</i>	<i>25.3%</i>	<i>25.1%</i>
Selling and Administrative Costs	\$1,554.2	\$1,462.6
<i>Selling and administrative margin</i>	<i>21.2%</i>	<i>21.0%</i>
EBITDA	\$565.2	\$513.4
<i>EBITDA margin</i>	<i>7.7%</i>	<i>7.4%</i>
Earnings per Share	\$0.66	\$0.60
Free Cash Flow	\$129.5	\$75.2
Capital Expenditures	\$188.6	\$120.7

The Company and the industry continue to be affected by the novel coronavirus (“COVID-19” or “pandemic”). Recent relaxation of COVID-19 restrictions by government agencies has increased levels of food consumption outside of the home and related reductions in grocery industry volumes. Management expects to see these trends continue as vaccination rates increase and COVID-19 restrictions are relaxed. As restrictions ease, consumers are expected to shop more frequently and at more grocery stores. However, the Company does not expect grocery consumer behaviour to return fully to pre-pandemic levels for the foreseeable future. As economic activity increases and travel restrictions reduce, fuel volumes have increased and will likely continue to do so during the remainder of fiscal 2022.

- **During the second quarter, the cost of maintaining safety and sanitization measures was approximately \$8.5 million (second quarter of fiscal 2021 – \$14 million).**
 - For the third quarter and the remainder of fiscal 2022, it is expected the Company will continue to incur selling and administrative expenses related to maintaining safety and sanitization measures, and other COVID-19 related costs consistent with the second quarter.
- **The Company expects that same-store sales will continue to reduce in the remainder of fiscal 2022 as industry volumes decrease compared to the unusually high COVID-19 driven sales impacts in fiscal 2021.** Margins will continue to benefit from Project Horizon initiatives, other operating improvements and the addition of Longo's. These benefits could be partially offset by effects of sales mix changes between banners and the impact of increasing fuel sales.
- The Company expects improvements in the results of its Toronto based e-commerce site as volumes continue to increase and efficiencies improve. At the same time, Voilà will also incur additional costs as the Montreal facility begins operations and the Calgary facility is commissioned.
 - The combination of improving results in Toronto, increasing costs in Montreal and Calgary, and additional store pick e-commerce locations is expected to reduce Empire's fiscal 2022 net earnings by approximately \$0.25 to \$0.30 per share (fiscal 2021 – \$0.18).
 - The Company expects that fiscal 2022 will reflect the highest net earnings dilution for the Voilà program as the Toronto site is expected to begin to reflect positive EBITDA results towards the end of its third year of operations.
- When announcing the Project Horizon strategy, management estimated an increase of \$500 million in EBITDA over the three-year period, excluding COVID-19 impacts. At that time, based on the 12-months ended February 1, 2020, management further indicated that they expected earnings per share to generate a compound average growth rate of at least 15% over the Project Horizon timeframe. Due to significant positive impacts on sales and earnings related to COVID-19 in fiscal 2021, growth rates in fiscal 2022 for same-store sales and net earnings are expected to be lower. **However, management continues to expect the Company will achieve its three-year Project Horizon strategy targets, and growth of same-store sales and net earnings in fiscal 2023.**

Three-year growth strategy for core business expansion and e-commerce acceleration.

Management targeting an incremental \$500 million in annualized EBITDA, driving an improvement in EBITDA margin of 100 basis points by fiscal 2023.

To be achieved through:

1) Growth in market share

- Invest in Empire's Store Network
- Improve Store Space Productivity
- Win Canadian Grocery E-Commerce
- Grow Empire's Private Label Portfolio
- Provide Best in Class Customer Personalization

2) Building on cost and margin discipline

- Drive Non-Merchandising Sourcing Efficiencies
- Continue Merchandising Sourcing Efficiencies
- Invest in Best-in-Class Analytics to Improve Customer Value Proposition
- Optimize Supply Chain Productivity
- Improve System and Process



Benefits are expected to ramp up over the three-year period with the largest benefits reflected in year three.



Large portion of benefits are expected to be achieved through initiatives related to store productivity, private label, store renovations, and new stores.



Management believes that the Company can continue to grow faster than its key competitors, improving EBITDA margin by another 100 basis points on a higher sales base.

- Expected to generate a CAGR in EPS of at least 15% over the three years.

For additional information on the strategy, please click [here](#) to view Empire's Management's Discussion and Analysis for the quarter ended October 30, 2021.

After the first year, Project Horizon is on track and benefits are in line with management's expectations. **In fiscal 2021**, Project Horizon benefits were achieved from the expansion and renovation of the Company's store network, the addition of new stores, improvement in store operations and merchandising from data analytics along with continued efficiencies gained through strategic sourcing initiatives. Benefits were partially offset by the planned investment in the Company's e-commerce network.

In the second quarter of fiscal 2022, earnings continued to be positively impacted by strategic initiatives, including the continued expansion and renovation of the store network, promotional optimization, data analytics and strategic sourcing efficiencies. Management expects these initiatives will continue to drive the majority of benefits through the remainder of fiscal 2022.

Project Horizon – Discount Expansion West



OVERVIEW

DISCOUNT EXPANSION TO WESTERN CANADA

Empire expects to convert up to 25% of the 255 Safeway and Sobeys full-service format stores in Western Canada to the FreshCo discount format.

The Company opened one FreshCo location in Western Canada during the second quarter and three locations subsequent to the end of the quarter. The Company expects to open another seven FreshCo sites in Alberta in the remainder of fiscal 2022, for a total of 40 locations open in Western Canada by the end of the fiscal year.

As at December 8, 2021:

33 stores open and operating:

- 16 in B.C.
- 6 in Manitoba
- 5 in Saskatchewan
- 5 in Alberta
- 1 in Northern Ontario

7 stores are expected to open in Alberta in the remainder of fiscal 2022

2 stores have been announced and are expected to open in Alberta in fiscal 2023

STORE CLOSURE AND CONVERSION COSTS

During the second quarter ended October 30, 2021, the Company expensed \$6.0 million (2021 – \$2.4 million) in store closure and conversion costs related to Farm Boy and FreshCo conversions.

Project Horizon – Voilà Timeline

January 22, 2018:

- Sobeys signs agreement with Ocado to bring world's leading online grocery delivery solution to Canada.
- Central Fulfilment Centre ("CFC") #1 announced in the GTA.



December 10, 2020:

- Location of CFC #3 announced in Calgary, Alberta; will deliver to customers in the first half of 2023.
- Early Voilà operating metrics:
 - Weekly on-time delivery score 98.6% (target of 99.6%)
 - Fulfilment of 99.6% (target of 99.6%)
 - Net Promoter Score of 87 (vs industry best-in-class target of 70)

March 10, 2021:

- First CFC #1 spoke⁽¹⁾ location open
- Building construction for CFC #2 complete – Ocado is now building the internal grid.

October 22, 2021:

- Launched curbside pickup service in Saskatchewan.

voilà

June 22, 2020:

- Voilà by Sobeys launches for GTA customers.

September 15, 2020:

- Launched curbside pickup service in Nova Scotia

February 18, 2021:

- Launched curbside pickup service in Alberta.

August 27, 2021:

- Voilà Curbside Pickup now available at select stores in B.C. and Manitoba.

November 19, 2021:

- Launched curbside pickup service in Ontario.

May 9, 2019:

- Announced name and brand for online grocery delivery service in GTA, Ottawa and Quebec – Voilà by Sobeys and Voilà par IGA
- CFC #2 announced in Montreal; will deliver to customers in early 2022.

July 30, 2021:

- Voilà Curbside Pickup now available at select stores in New Brunswick, Newfoundland & Labrador, and P.E.I.



(1) Spokes are cross-dock facilities that allow Voilà to get closer to customers and improve efficiencies at CFCs.

Project Horizon – Store Network Optimization

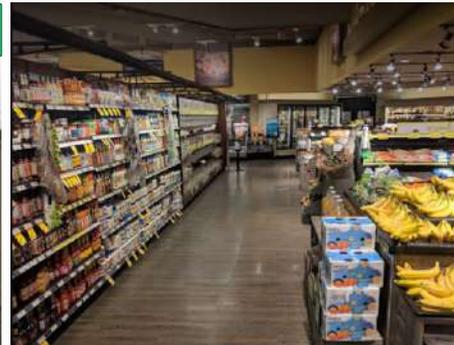
- Over the course of Horizon (three years), Empire plans to renovate approximately 30% of its store network.
- In fiscal 2021, the Company invested \$679.2 million in capital expenditures, in line with management’s previously disclosed expectations of between \$650 million and \$675 million.
- The Company invested \$188.6 million in capital expenditures for the quarter ended October 30, 2021 (2021 – \$120.7 million) including renovations and construction of new stores, investments in e-commerce fulfilment centres, FreshCo locations in Western Canada, and investments in advanced analytics technology and other technology systems.
- In fiscal 2022, capital spending is expected to be approximately \$765 million, with approximately half of this investment allocated to renovations and new stores.

Number of locations renovated/converted

F21					F22	
Q1	Q2	Q3	Q4	Total	Q1	Q2
20	21	19	28	88	22	45

Safeway Brentwood (Calgary, AB) – Converted to FreshCo

BEFORE



AFTER



Sobeys (Orangeville, ON)

BEFORE



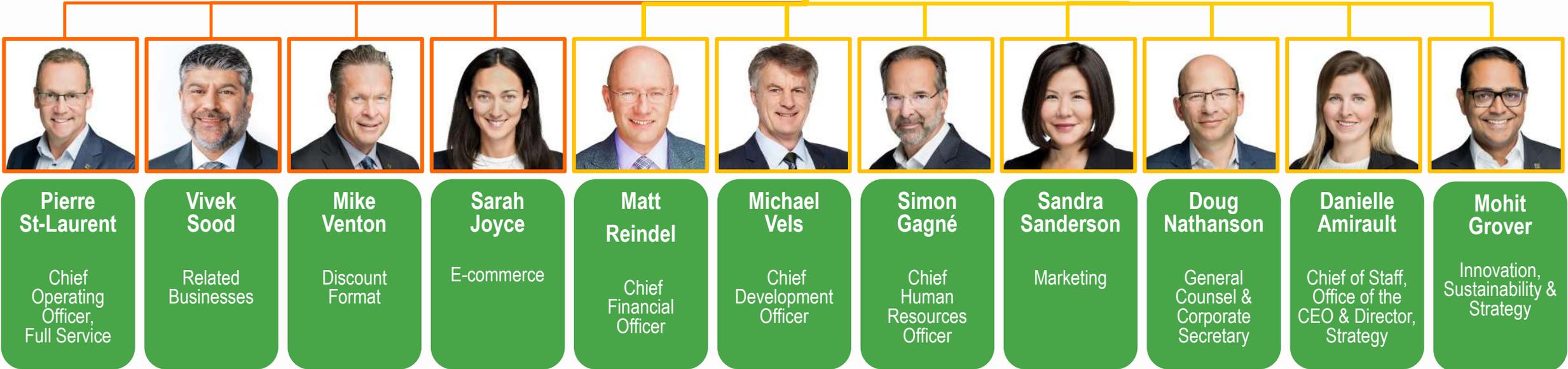
AFTER



CEO's Direct Reports



Michael Medline
President &
Chief Executive Officer



Forward-Looking Information

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

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

- The Company's expectations regarding the financial impact and benefits of Project Horizon and its underlying initiatives, which could be impacted by several factors, including the time required by the Company to complete the initiatives and impacts of COVID-19, including changes in customer behaviour;
- The FreshCo expansion in Western Canada and Farm Boy expansion in Ontario, including the Company's expectations regarding future operating results and profitability, the amount and timing of expenses, the projected number of store openings, and the location, feasibility and timing of construction, all of which may be impacted by COVID-19, construction schedules and permits, the economic environment and labour relations;
- The Company's anticipation that a percentage of food consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores, which may be impacted by future shutdowns or eased public health restrictions due to COVID-19, the speed with which restaurants and hospitality businesses re-open and resume operations, and the ongoing demand for restaurants and hospitality services in the near term;
- The Company's expectations regarding an increase in fuel sales, which could be impacted by future shutdowns and travel restrictions implemented by government authorities;
- The Company's expectation that for the remaining quarters of fiscal 2022 it will incur selling and administrative expenses to respond to COVID-19 consistent with the second quarter, which may be impacted by future shutdowns or eased public health restrictions due to COVID-19 and safety precautions and transitions required;
- The Company's expectations that fiscal 2022 will reflect the highest net earnings dilution for the Voilà program, expectations which may be impacted by COVID-19, future operating and capital costs, customer response and the performance of its technology provider, Ocado; and
- The Company's expectations that fiscal 2023 will achieve growth of same-store sales and net earnings, which may be impacted by impacts of COVID-19 including changes in customer behaviour.

Non-GAAP Financial Measures & Financial Metrics

There are measures and metrics included in this earnings call presentation 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 Management's Discussion and Analysis for the fiscal year ended October 30, 2021.