

EMPIRE
COMPANY LIMITED



Q3 F2022 Earnings

March 10, 2022

Third Quarter Highlights

- Earnings per share of \$0.77, an increase of 16.7% compared to \$0.66 last year.
 - Management believes net earnings for fiscal 2022 will be higher than the COVID-impacted prior year.
- Same-store sales excluding fuel decreased by 1.7% compared to elevated sales last year.
 - Same-store sales grew 8.3% over fiscal 2020.
- Gross margin, excluding fuel, increased by 41 basis points.
- EBITDA margin increased by 50 basis points.
- Investments and other operations increased due to higher equity earnings from Crombie REIT.
- Project Horizon strategy on track. Material Horizon value will continue to be earned in fiscal 2024 and beyond.
- Company's four e-commerce platforms experienced combined sales growth of 17% versus prior year.
 - Increase was primarily driven by the acquisition of Grocery Gateway and continued growth of Voilà.
 - Employee testing at CFC 2 in Montreal completed this week; phased transition of customers from IGA.net to Voilà par IGA has begun.
- Free cash flow of \$551 million, an increase of 75% compared to last year.
- Substantially completed F22 buyback target; 6,378,983 shares repurchased to date for total consideration of \$248.8 million.

Third Quarter Financial Summary

	Quarter 3	
	Actual	Last Year
Sales	\$7,377.3	\$7,018.7
<i>Same-store sales, excluding fuel</i>	(1.7%)	10.7%
Gross Profit	\$1,892.7	\$1,803.9
<i>Gross margin</i>	25.7%	25.7%
Selling and Administrative Costs	\$1,613.9	\$1,508.2
<i>Selling and administrative margin</i>	21.9%	21.5%
EBITDA	\$597.5	\$533.5
<i>EBITDA margin</i>	8.1%	7.6%
Earnings per Share	\$0.77	\$0.66
Free Cash Flow	\$551.5	\$315.7
Capital Expenditures	\$159.5	\$207.1

- **The Company expects that same-store sales will continue to be negative for the remainder of fiscal 2022 as industry volumes decrease compared to the unusually high COVID-19 driven sales levels 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 the effect of sales mix changes between banners and increasing fuel sales.
- The industry is experiencing cost inflationary pressures, particularly related to cost of goods sold. Although it is difficult to estimate how long these pressures will last, the Company is focused on supplier relationships and negotiations to ensure competitive pricing for consumers.
- The industry is experiencing supply chain challenges primarily related to labour shortages caused by COVID-19. Although it is difficult to estimate the duration of these challenges, management remains focused on, where necessary, utilizing alternative sourcing options and does not expect significant adverse impacts to its supply chain.
- The Company expects continued improvements in the results of Voilà's Toronto based e-commerce site as volumes increase and efficiencies improve. At the same time, Voilà will also incur additional costs as the Montreal facility begins operations and the Calgary and Vancouver facilities are commissioned.
 - The combination of improving results in Toronto, increasing costs in Montreal, Calgary and Vancouver, 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 represent the highest net earnings dilution for the Voilà program. Future earnings will be impacted primarily by the rate of sales growth.
- Management continues to expect the Company will achieve its three-year Project Horizon strategy targets.
- The Company expects that due to significant positive impacts on sales related to COVID-19 in fiscal 2021, same-store sales growth rates in fiscal 2022 are expected to be negative. Management believes that net earnings for fiscal 2022 will be higher than the prior year.
- During the third quarter, the cost of maintaining safety and sanitization measures was approximately \$5.0 million (2021 – \$19 million).

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 the Company's Own Brands Portfolio
- Provide Best in Class Customer Personalization

2) Building on cost and margin discipline

- Drive Non-Merchandising Sourcing Efficiencies
- Continue to Build 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.

- The Company is on track to generate a compound average growth rate in earnings per share of 15% over Project Horizon's three-year timeframe.

For additional information on the strategy, please click [here](#) to view Empire's Management's Discussion and Analysis for the quarter ended January 29, 2022.

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

While Project Horizon is on track to achieve its targets by the end of fiscal 2023, the benefits will not stop then. Certain initiatives launching in fiscal 2023 that are largely focused on store optimization and customer experience will primarily benefit fiscal 2024 and beyond. These benefits will be incremental to those realized from the ongoing program of store renovations, conversions and new builds.

Project Horizon – Discount West Expansion



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 seven FreshCo locations in Alberta during the third quarter and one location subsequent to the end of the quarter. The Company expects to open another two locations in the remainder of fiscal 2022, for a total of 40 locations by the end of the fiscal year. This is in line with management’s expectations of opening 10 to 15 FreshCo stores in Western Canada during fiscal 2022.

As at March 9, 2022:

38 stores open and operating:
<ul style="list-style-type: none">• 16 in British Columbia• 10 in Alberta• 6 in Manitoba• 5 in Saskatchewan• 1 in Northern Ontario

2 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 third quarter, the Company:

- Expensed \$5.6 million (2021 – \$16.4 million) in store closure and conversion costs related to Farm Boy and FreshCo conversions.
- Engaged in lease termination transactions which resulted in \$11.1 million of other income (2021 – \$ nil).

Project Horizon – Voilà Timeline

January 22, 2018:

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

ocado®
GROUP



December 10, 2020:

- Location of CFC #3 announced in Calgary, Alberta
- Early CFC 1 Voilà operating metrics:
 - Weekly on-time delivery score 98.6%
 - Fulfilment of 99.6%
 - Net Promoter Score of 87 (vs industry best-in-class target of 70)

November 19, 2021:

- Now have an e-commerce option available for customers in every province.

voilà

June 22, 2020:

- Voilà by Sobeys launches for GTA customers.

September 15, 2020:

- Launched curbside pickup service, starting in Nova Scotia.

January 26, 2022:

- Ocado announces new innovations, including next generation robots and grids, to be considered for future CFCs⁽¹⁾.

February 7, 2022:

- Location of CFC #4 announced in Greater Vancouver Area, British Columbia.

March 7, 2022:

- Voilà par IGA launches for Quebec customers.

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.



(1) For more information on Ocado's announcement and a replay of their event, please click [here](#).

Project Horizon – Store Network Optimization

- Empire plans to renovate approximately 30% of its store network over the course of Horizon (three years).
- The Company invested \$159.5 million in capital expenditures in the third quarter 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	Q3
20	21	19	28	88	22	45	34

IGA Extra Québec



Empire's Executive Committee



Michael Medline
President &
Chief Executive Officer



Pierre St-Laurent
Chief Operating
Officer



Vivek Sood
Related Businesses



Matt Reindel
Chief Financial
Officer



Michael Vels
Chief Development
Officer



Simon Gagné
Chief Human
Resources Officer



Sandra Sanderson
Marketing



Doug Nathanson
General Counsel &
Corporate Secretary



Mohit Grover
Innovation,
Sustainability &
Strategy



Danielle Amirault
Chief of Staff &
Strategy



Sarah Joyce
E-commerce



Mike Venton
Discount Format



Bonnie Birollo
Retail Operations



Luc L'Archeveque
Merchandising
Grocery & Community



Mark Holly
Real Estate



Bruce Burrows
Chief Information
Officer



Jacquelin Weatherbee
Communications &
Corporate Affairs

Disclaimers

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 Company's expectations of the duration and further impact of COVID-19 on the business, supply chain, and consumer behaviour, including that for the remainder of fiscal 2022 it will incur selling and administrative expenses to respond to COVID-19 consistent with the third quarter, which may be impacted by the emergence of additional COVID-19 variants, future shutdowns or eased public health restrictions due to COVID-19 and safety precautions and transitions required;
- The Company's expectation that labour shortages will not have further significant impact on supply chain challenges in the fourth quarter, which may be impacted by the duration of the circumstances;
- The Company's expectation of the impacts of cost inflationary pressures, which may be impacted by supplier relationships and negotiations and the general economic environment;
- The Company's expectations that fiscal 2023 will achieve growth of same-store sales, which may be impacted by the effects of COVID-19, including changes in consumer buying behaviour;
- The Company's expectations that fiscal 2022 net earnings will be higher than prior year, which may be impacted by the effects of COVID-19, including changes in consumer buying behaviour;
- The Company's expectations regarding the timing and amount of expenses relating to the completion of any future CFCs, which may be impacted by supply of materials and equipment, construction schedules and capacity of construction contractors;
- The Company's expectations regarding the plans to expand its Voilà Curbside Pickup service, which may be impacted by COVID-19, future operating and capital costs, customer response to the service and the performance of its technology provider, Ocado;
- 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 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.

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 the fiscal 2021 annual MD&A. For additional disclosure on the geopolitical risk related to the situation in Ukraine, please refer to the "Risk Management" section of Empire's MD&A for the quarter ended January 29, 2022.

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 third quarter ended January 29, 2022.