

EMPIRE
COMPANY LIMITED



Q4 F2022 Earnings

June 22, 2022

Fourth Quarter Highlights

- Earnings per share of \$0.68 compared to \$0.64 last year.
- Same-store sales excluding fuel decreased by 2.5% compared to COVID-elevated sales levels last year.
- Excluding fuel, gross margin increased by 17 bps.
- EBITDA margin increased by 10 bps.
- Announced new loyalty strategy; Scene+ rollout to begin in Atlantic Canada in August 2022.
- Project Horizon growth plan on track; second year successfully completed.
 - Project Horizon initiatives focused on loyalty, store optimization and customer experience will also benefit fiscal 2024 and beyond.
- Company's four e-commerce platforms sales increased by 12% versus prior year.
 - Increase was primarily driven by the continued growth of Voilà and the acquisition of Grocery Gateway.
 - Rollout of CFC 2 was completed subsequent to the end of the quarter; Voilà par IGA now services over 100 municipalities from Gatineau to Montreal to Quebec City.
- Strong cash flows, announced early redemption of notes.
- Annual dividend per share increased 10%.
- Repurchased 6.4 million shares (\$249 million) in fiscal 2022, an increase of 55% over fiscal 2021.
- Intention to repurchase \$350 million of shares in fiscal 2023.
- Capital investment program for fiscal 2023 expected to be approximately \$800 million.

Fourth Quarter Financial Summary

	Quarter 4		Full Year 2022	
	Actual	Last Year	Actual	Last Year
Sales	\$7,841	\$6,920	\$30,162	\$28,268
<i>Same-store sales, excluding fuel</i>	(2.5%)	(6.1%)	(2.1%)	5.6%
Gross Profit	\$2,004	\$1,796	\$7,660	\$7,199
<i>Gross margin</i>	25.6%	25.9%	25.4%	25.5%
Selling and Administrative Costs	\$1,711	\$1,521	\$6,476	\$6,004
<i>Selling and administrative margin</i>	21.8%	22.0%	21.5%	21.2%
EBITDA	\$586	\$514	\$2,331	\$2,144
<i>EBITDA margin</i>	7.5%	7.4%	7.7%	7.6%
Earnings per Share	\$0.68	\$0.64	\$2.80	\$2.60
Free Cash Flow	\$49	\$187	\$811	\$685
Capital Expenditures	\$273	\$232	\$767	\$679

- The Company expects same-store sales will grow in fiscal 2023.
- Margins will continue to benefit from Project Horizon initiatives and other operating improvements.
- The industry continues to experience cost inflationary pressures, particularly related to cost of goods sold and fuel.
 - Although it is difficult to estimate how long these pressures will last, the Company is focused on offering competitive pricing for customers.
- The industry continues to experience supply chain challenges primarily related to labour shortages.
 - Although it is difficult to estimate the duration of these challenges, management remains focused on utilizing all possible sourcing options and does not expect significant adverse impacts to its supply chain.
- The Company expects continued improvements in the results of Voilà's Vaughan based e-commerce site as volumes increase and efficiencies improve. At the same time, Voilà will also incur additional costs as the Montreal facility continues to ramp up operations and the Calgary and Vancouver facilities are commissioned.
 - The Company expects fiscal 2023 net earnings dilution for the Voilà program to marginally improve over fiscal 2022 as the Vaughan Customer Fulfilment Centre ("CFC") is expected to reflect positive EBITDA towards the end of its third year of operations.
 - The ramp up of the Montreal facility is expected to have higher costs in the first half of fiscal 2023 with improving results in the remainder of the year.
- Management continues to expect to achieve its three-year Project Horizon targets and that associated benefits will continue into fiscal 2024 and beyond, including initiatives launching in fiscal 2023 that are focused on loyalty, store optimization and customer experience.
- During the fourth quarter of fiscal 2022, the cost of maintaining safety and sanitization measures was approximately \$6.0 million (2021 – \$19.0 million) and are included in selling and administrative expenses.



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 at least 15% over Project Horizon's three-year timeframe, based on trailing twelve-month EPS at Q3 F20 as a proxy for fiscal 2020 (last quarter before COVID-19 impact).

For additional detail on Project Horizon please click [here](#) to view Empire's Management's Discussion and Analysis ("MD&A") for the fiscal year ended May 7, 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.

In fiscal 2022, earnings continued to be positively impacted by Project Horizon's strategic initiatives, including promotional optimization and data analytics, the continued expansion and renovation of the store network, and strategic sourcing efficiencies.

These initiatives will continue to deliver benefits in fiscal 2023 and 2024, and additional benefits are expected from strategic initiatives launched more recently as part of Project Horizon, including the Company's new loyalty program, *Scene+*.

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 banner.

The Company opened three FreshCo locations in Alberta during the fourth quarter, for a total of 12 new stores opened in Western Canada in 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 June 21, 2022:

40 stores open and operating:

- 16 in British Columbia
- 12 in Alberta
- 6 in Manitoba
- 5 in Saskatchewan
- 1 in Northern Ontario

4 stores are expected to open in Alberta in fiscal 2023.

The Company expects to have 44 FreshCo stores open in Western Canada by the end of fiscal 2023.

Store Closure, Conversion and Lease Terminations

During the fourth quarter and fiscal year ended, the Company:

- Reversed \$9.1 million in accrued store closure and conversion costs primarily related to Farm Boy and FreshCo conversions (2021 – \$1.1 million). As a result of these reversals, the net fiscal 2022 store closure and conversion expense was \$8.8 million (2021 – \$29.5 million).
- Recorded other income of \$23.6 million and \$47.0 million, respectively (2021 – \$ nil and \$ nil) due to lease termination transactions.

Project Horizon – Voilà Timeline

F2018 January 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.



F2020 May 2019 – CFC #2 announced in Montreal.



F2021 June 2020 – Voilà by Sobeys launches for GTA customers.

September 2020 – Launched curbside pickup service, starting in Nova Scotia.

December 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)



F2022 November 2021 – E-commerce option available for customers in every province.

January 2022 – Ocado announces new innovations, including next generation robots and grids, to be considered for future CFCs⁽¹⁾.

February 2022 – Location of CFC #4 announced in Greater Vancouver Area, British Columbia.

March 2022 – Voilà par IGA launches for Quebec customers.

April 2022 – Voilà by Sobeys expands to Ottawa via Spoke facility.



F2023 May 2022 – Voilà par IGA rollout completed, now services 100+ municipalities from Gatineau to Montreal to Quebec City.

- CFC #2 progressing well; increasing weekly order volume, strong customer experience metrics including on-time delivery & fulfilment.

(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 \$273 million and \$767 million in capital expenditures for the quarter and fiscal year ended May 7, 2022, respectively, including renovations and construction of new stores, Voilà CFCs, FreshCo locations in Western Canada, and investments in advanced analytics technology and other technology systems.
- In fiscal 2023, capital spending is expected to be approximately \$800 million, with approximately half of this investment allocated to renovations and new stores.
 - Four FreshCo stores will open in Western Canada and Farm Boy and Longo’s will open four and two stores, respectively.
 - Will invest approximately 25% of capital spending on advanced analytics technology and other technology systems.

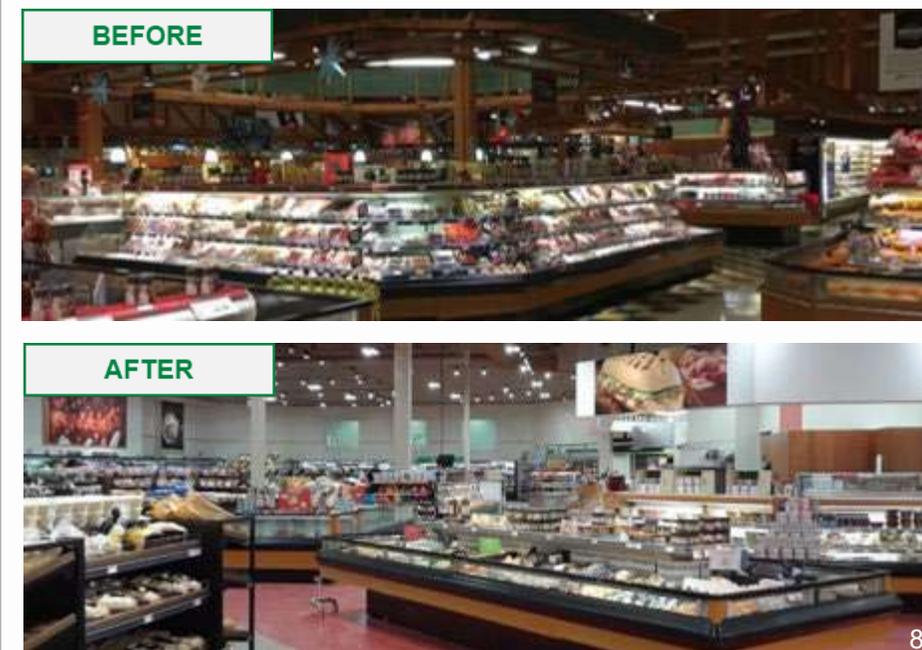
Number of locations Renovated/Converted

F21	F22				
Total	Q1	Q2	Q3	Q4	Total
88	22	49	40	21	132

Sobeys Steinbach, Manitoba



IGA Extra Brossard, Quebec



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
Chief Merchandising
Officer



Mark Holly
Real Estate



Bruce Burrows
Chief Information
Officer



Jacquelin Weatherbee
Communications &
Corporate Affairs

Disclaimers

Forward-Looking Information

This document 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 resource capacity to execute and the time required by the Company to complete the initiatives;
- The Company's plans to repurchase for cancellation Class A shares under the normal course issuer bid which may be impacted by market and economic conditions, availability of sellers, changes in laws and regulations, and the results of operations;
- The Company's expectation of the impacts of cost inflationary pressures, which may be impacted by supplier relationships and negotiations and the macro economic environment;
- The Company's expectation that labour shortages will not have further significant impact on supply chain challenges, which may be impacted by labour force availability;
- The Company's expectations that fiscal 2023 will achieve growth of same-store sales, which may be impacted by the duration and impact of COVID-19 on the business, supply chain and consumer behaviour;
- The Company's expectations that fiscal 2022 will reflect the highest net earnings dilution for the Voilà program and that fiscal 2023 net earnings dilution will be marginally better, expectations which may be impacted by future operating and capital costs, customer response and the performance of its technology provider, Ocado;
- The FreshCo expansion in Western Canada, and Farm Boy and Longo's 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 construction schedules and permits, the economic environment and labour relations.
- The Company's estimates regarding future capital expenditures, which may be impacted by operating results, impacts of COVID-19 and the economic environment; and
- The Company's expectations regarding the timing and amount of expenses relating to the completion of any future CFC, which may be impacted by supply of materials and equipment, construction schedules and capacity of construction contractors.

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 2022 annual MD&A.

Non-GAAP Financial Measures & Financial Metrics

There are measures and metrics included in this news release 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 May 7, 2022.