

Empire Company Limited

First Quarter 2024 Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Empire First Quarter 2024 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 need immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, September 14, 2023.

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

Katie Brine

Thank you, Joanna. Good afternoon and thank you all for joining us for our first quarter conference call. Today we will provide summary comments on our results and then open the call for questions.

The call is being recorded, and the audio recording will be available on the Company's website at empireco.ca.

There is a short summary document outlining the points of our quarter available on our website.

Joining me on the call this afternoon are Michael Medline, President and Chief Executive Officer; Matt Reindel, Chief Financial Officer; Pierre St-Laurent, Chief Operating Officer; and Doug Nathanson, Chief Development Officer and General Counsel.

Today's discussion includes forward-looking statements. We caution that such statements are based on management's assumptions and beliefs and are not subject to uncertainties and other factors

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 factors.

I will now turn the call over to Michael Medline.

Michael Medline

Good afternoon, everyone. Fiscal '24 is off to a good start. This quarter, we delivered positive top-line growth while maintaining strong control over margins. We also advanced our key strategic priorities, including making several executive leadership changes to enable our go-forward plans.

Despite the market volatility we continue to face, the strong results delivered in Q1 exemplify our team's ability to consistently execute, regardless of the macro environment.

I'm going to keep my comments short and to the point, as I believe our first quarter results speak for themselves. I'll focus on three topics today: our Q1 results and key market trends; an update on our strategic priorities, including the recent leadership changes, Scene+, and Voilà; and the release of our Sustainable Business Report.

First, our results and market trends. Our sales, excluding fuel, grew 4.8 percent this quarter, with same-store sales of 4.1 percent. This was supported by stronger top-line performance in our full-service banners, as well as continued double-digit sales growth of our discount banner.

Our internal inflation was well below CPI, reaching the lowest rate we've seen in 17 months. We have positive indications this trend will continue. For example, in non-fresh categories, we implemented approximately one-third of the value of cost increases in Q1 versus the prior year.

Nonetheless, the reality is that we continue operating in uncertain times with high market volatility, rising interest rates, and inflationary pressures. Customers are continuing to adapt their purchasing behaviours in this environment, including trading down to cheaper alternatives and buying on promotion.

Not surprisingly, in Q1, we saw greater uptake from customers of our flyer and in-store promotions in both our full-service and discount banners.

Our team remains focused on providing the best value and offering to customers, including growing our value-size offering, increasing the number of products with Scene+ member pricing, and expanding our Own Brand's assortment this quarter, which continued to outpace the market with double-digit growth.

This quarter, we improved gross margin by 19 basis points, highlighting the discipline of our team while driving top-line growth. With our solid sales performance and margin control, we delivered a 46-basis-point increase in adjusted EBITDA margin and an adjusted EPS of \$0.78 in Q1.

I'll move now to an update on our strategic priorities. With our turnaround era complete, we began fiscal 2024 focused on ensuring we are set up to deliver against our renewed strategic priorities.

As part of this effort, we made several executive leadership changes in Q1. We placed a number of talented leaders into key new roles. This team will play a pivotal role in helping drive the next phase of Empire's growth as we enhance our stores-first focus.

An update on another key strategic priority, Scene+. Just over a year ago, we launched Scene+ in Atlantic Canada and, at the time, the program had approximately 10 million members. Today, we have successfully completed our national rollout and Scene+ has grown to over 14 million members. We have

seen our active loyalty members increase over 30 percent this year, and program awareness and affinity continue to grow.

Through this partnership, Scene+ has become the second-largest loyalty program in Canada and is not done yet. In August, Scene+ welcomed Home Hardware to the program.

On to Voilà. This quarter, we successfully launched our CFC3 in Calgary and seamlessly integrated Grocery Gateway into Voilà. We are pleased to now be offering Sobeys, Farm Boy, and Longo's products across Ontario.

Grocery Gateway customers have quickly embraced Voilà, with strong repeat order rates and customer conversions exceeding targets. We continue to see strong customer retention rates and order frequency across all of our CFCs, which helped contribute to our CFCs gaining national market share this quarter.

Moving to my last topic. In July, we released our third annual Sustainable Business Report. We are the first grocer in Canada to have our Scope 1 and 2 near-term climate targets validated through the Science-Based Targets initiative.

As part of our commitment to continuous improvement and transparency, we also published our inaugural Task Force on Climate-Related Financial Disclosures-aligned report.

And with that, over to Matt.

Matt Reindel

Thank you, Michael. Good afternoon, everyone. I'm also going to keep my comments short before we open it up to your questions.

Frankly, our adjusted results are very straightforward, driven by a quarter of strong, consistent execution. We're happy with our Q1 results with an adjusted EPS of \$0.78, which is \$0.07 higher than last year.

But before we talk about our performance, let me walk you through the items we excluded from our adjusted results, as they were significant in Q1 and affected operating income, EBITDA, net income, and earnings per share.

Firstly, we excluded the gain from the sale of our Western fuel business, which was completed on July 30th. This transaction resulted in a pre-tax gain of \$91 million, which is reported in other income. After taxes, the gain was \$71.5 million or \$0.28 of earnings per share.

Secondly, we excluded expenses associated with our continuing plans to optimize our organization and improve efficiencies. In Q4 last year, we started with the merger of Grocery Gateway into Voilà. In Q1, we began looking at our organization, and throughout fiscal '24 we'll be incurring costs associated with these plans. In Q1, we incurred costs of \$9.7 million pre-tax. After tax, these costs were \$7.1 million or \$0.03 of earnings per share.

Lastly, we excluded a small amount of cyber insurance recoveries that we received this quarter. The vast majority of our claims are now with our insurers for their review. These are complex claims, and we continue to expect additional recoveries throughout fiscal '24.

These three adjustments reconcile our reported earnings per share of \$1.03 to our adjusted earnings per share of \$0.78.

Now let's turn to our financial performance for the quarter. We delivered same-store sales of 4.1 percent, which reflected stronger performance from our full-service banners and continued momentum in discount. Voilà experienced a sales increase of 7.2 percent compared to the same period last year.

Our gross margin rate, excluding fuel, grew by 19 basis points versus last year. Last quarter, I noted that we were starting to benefit from lower supply chain costs, and these trends continued in Q1, which was a contributor to our gross margin expansion in the quarter.

Our SG&A rate was 75 basis points higher than last year, but showing an improving trend from Q4. As I've detailed before on these calls, the higher SG&A dollar spend was mainly due to planned investments in business expansion, such as Farm Boy, Voilà, and FreshCo, but this quarter, also higher retail labour costs, partially offset by improved leverage from our higher sales.

Operating income from the Investments and Other Operations segment was \$6 million lower than last year, as a result of lower equity earnings from Crombie REIT, partially offset by higher development income. And as Michael mentioned, our adjusted EBITDA margin was 46 basis points higher than last year.

Our effective income tax rate was 27.5% in Q1. The Q1 tax rate was higher than the statutory rate, primarily due to some revaluation of tax estimates, not all of which are recurring, partially offset by non-taxable capital items.

Excluding any unusual transactions or differential tax rates on property sales, we continue to anticipate the fiscal '24 effective income tax rate will be between 25% and 27%.

Our balance sheet remains solid, driven by strong free cash flow generation and strong discipline on capital spend. We continue to strategically allocate our free cash flow to deliver the largest impact to our business.

In Q1, our CapEx totalled \$124 million, mainly spent on investments in store renovations, construction of new stores, investments in advanced analytics technology, other technology systems, and our Voilà CFCs.

As of this week, we have repurchased approximately 3.3 million shares for a total consideration of \$115 million.

And with that, I'll hand the call back to Katie, and we'll open it up for your questions.

Katie Brine

Thank you, Matt. Joanna, you may open the line for questions at this time.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. If you would like to withdraw your question, please press *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys.

First question comes from George Doumet at Scotiabank. Please go ahead.

George Doumet — Scotiabank

Yeah. Good afternoon, Michael and Matt. Congrats on a good quarter. Can you help us dissect that strong same-store sales number a little bit? How did conventional perform? How much of that was

aided by the Scene redemption activity? How much of that was aided by a competitor strike, perhaps a temporary closure of some of the locations in Quebec? Maybe, if you can just help us get a sense of that sustainability of that number on a go-forward basis?

Michael Medline

I would—first of all, thanks for saying that about our quarter, but the person who deserves most of the thanks, he's going to answer it, which is Pierre, so.

Pierre St-Laurent

All right. Thank you for your question. Most of the progress we saw in our same-store sales came from the continuous strong transaction count in our full-service business. So Q4 was good, Q1 continued to be strong.

But the biggest improvement is in the basket size. In our full-service business, our basket size is back to where it was last year at the same time, so major improvement in our full-service business. So we continue to have higher transactions, and now we are seeing improvement in our basket size. That's the main reason why same-store sales have improved during the quarter.

Concerning the strike, it did not touch the quarter at all, that's in the next quarter.

Michael Medline

And next quarter, it's de minimis. We have 1,600 grocery stores.

Pierre St-Laurent

It did not affect our Q1 same-store sales at all.

George Doumet

Okay. And I guess on Scene+ redemption and maybe some closed locations from another competitor in Quebec?

Pierre St-Laurent

No. We continue to progress on penetration with Scene+, it's better than expected and way above plan. The conversion has been very smooth. Honestly, for a change of that size, very minimal disruption.

We added new promotional tools with Scene+. Member pricing is resonating a lot with customers right now, and we're pleased with that because it gives benefits to our best customers. We really like the response from our customers on the new Scene+ program so far. Everywhere in the country, it's consistent across provinces, regions and banner, including discount, which is new for them.

George Doumet

Okay. And on Scene specifically, just following up on that, on the press release, you mentioned a next-generation recommendation engine. Can you maybe talk a little bit about what that means, what that can do, and how, I guess, ultimately, that can translate to higher top line and margins?

Michael Medline

Yeah. You guys used to ask me sports stuff. You don't ask me that anymore, but if there's a baseball game—although my Jays are struggling—this would be the first inning.

And we got—so this is an unbelievably powerful engine we now have in loyalty, which is making a difference, like Pierre said. But what we're referring to, and we shouldn't use so much jargon, in our press releases, is personalization. And we are early innings, first inning of a baseball game there in terms of being able to use that, although it's starting, and we're making some progress.

It is such an upside for us, as we go forward, to be able to use the data, be able to serve our customers better. But I apologize for what we wrote, I had to actually think about it for a second, what that meant, so. But thanks for asking about it.

George Doumet

Okay. And this is the last one for me. And I know this is maybe a left-field question, but on the unlikely event that we maybe see deflation next year, just wondering how our strategy would change, if at all?

Michael Medline

Please, for Canadians' sake, let's see the price—let's see inflation stop and a little deflation happen. We're so busy combatting inflation every day, I'm not sure we have a whole plan on how to deal with the deflation, but I think, Pierre, you've thought about it a little bit and we've talked.

Pierre St-Laurent

Now, we expect the inflation rate to continue to go down, especially when we cross last year's peaks in inflation. While we continue to see cost increases, they are not at the same magnitude as last year. Like Michael said in his opening remarks, something around a third of what we had last year at the same time, but with fewer in number and lower in magnitude. And we crossed very high inflation rates from last year, so I expect to see a lower inflation rate in the coming months; so that's what we expect.

But the market is so volatile. Every time there's an announcement, we are seeing customer behaviour changing. We need to keep our eyes on the ball and monitor that. We're not trying to predict, it's very tough to predict, but the trend is in the right direction for us, and we are seeing positive results in our same-store sales and transaction counts.

George Doumet

Okay. Great. Thanks for your answers.

Operator

Thank you. The next question comes from Irene Nattel at RBC Capital Markets. Please go ahead.

Irene Nattel — RBC Capital Markets

Thanks and good afternoon, everyone. Just following up on George's questions, with respect to Scene+, can you explain to us the types of personalized promotions you're offering now? And where you want this go—where you want to take this? And then also, what is the current attachment rate, or the percentage of your transactions that now have loyalty attached to them?

Michael Medline

Yep. I'm going to ask Pierre to answer the first one, but he's going to be very cautious in terms of, first of all, we don't want to tell competitors what we're doing.

But the second one is we're basically already at the same level we were, prior to Scene+, already in terms of penetration, what we call penetration. That's what you're referring to.

Irene Nattel

Thanks.

Pierre St-Laurent

Now personalization is something that I think everybody can read about in different articles. We have better visibility on what our customers are buying or not buying in our network, and we'll offer them promotions and products that we believe will meet their needs. So it could vary a lot, depending on if they are a family? A single person?

We have a wide range of data that we are using now, and we are learning from it. We are already starting to do personalization at a low scale. We are piloting a lot of things - the merchandising and loyalty

teams are learning every day. We continue to see progress with personalization, and it's where we need to go.

The market will move from mass promotions to personalization, and it's exactly how we should manage it going forward. We see a lot of potential of switching gradually—consciously, but gradually from mass to personal.

Irene Nattel

That's very helpful. Thank you. And then just on a different topic, in terms of labour, obviously, we all see what's going on as Canadians try and cope with very high cost of living. Do you have any significant contracts that are coming for renewal this year?

Michael Medline

Hi. It's Michael. Thanks for the question, Irene. Yeah. We have many labour agreements every single year coming due. We just have so many, and this grocery industry's highly unionized. So any given year, we have a lot. And remember, last year, we unfortunately had the first strike we've had in a long time at the Terrebonne facility, and we were able to come to a fair agreement with our teammates and get through it without really impacting customers at all.

And so there's a bunch coming up. They'll be in the news, I'm sure, and usually, we settle them. We are fair but, as you can guess, we don't take an unreasonable deal.

Irene Nattel

Understood. Thank you.

Operator

Thank you. The next question comes from Mark Petrie at CIBC. Please go ahead.

Mark Petrie — CIBC

Yeah. Good afternoon. I wanted to just ask about gross margin and just taking a look at the trends, excluding fuel. You guys have been delivering gains for quite some time, but Q1 moderated from what we saw last year. I assume it's just partly a reflection of the gains already being embedded in the business. But can you just discuss any other drivers? I know you called out efficiencies in supply chain, but any elaboration would be great.

Matt Reindel

Yeah. Thanks for the question, Mark. Yeah. So it's a very fair observation. During the past six years, we've been able to expand our gross margin significantly, but that was Horizon, and now we're at the point now where we have a very strong, sustainable, stable business, so it's not as easy to significantly increase the margin.

There's a couple of things to call out. Number one is that you'll notice our gross margin is not going down. And what that tells you is that all of those initiatives that we've delivered over the past six years were sustainable and continue to deliver that same level of performance. So that's number one, and that's the most important one.

Number two is, yeah, we still continue to expand our gross margin, so 19 basis points for the quarter, some of which was driven by supply chain. And we have other initiatives coming in gross margin, but the days of having those massive increases in gross margin are probably behind us.

What we are looking to do now, of course, is to have the right balance between top-line sales and improving the underlying performance of the business, which was reflected in gross margin. So that's kind of what our expectation is, moving forward.

In addition, what we should see is a mixed benefit as our full-service business continues to get better and get stronger. So we should get a mixed benefit on gross margin too. I hope that gives you enough colour.

Mark Petrie

Yeah. Yeah. It does. And maybe just further on that, on the sort of topic of mix and, specifically, fuel, I don't know if there's anything you can help us with just with regards to the impact of the divestiture in Western Canada in terms of impact on sales, EBITDA, or even just margin rates.

Matt Reindel

Well, it's not going to have a significant impact. It wasn't a big piece of the business. We can give some details offline. But particularly with regards to gross margin, let's not forget that fuel is a very low-margin business. So it will have a small impact on gross margin but nothing worth calling out.

Mark Petrie

Yeah. Okay. And then, Pierre, just I guess on a related question, just with regards to SKU count, is there anything sort of notable there? Is that relatively stable? Are most of the changes there sort of fully flowed through? And then, just from a supplier perspective, any change in terms of product availability? Or what you're seeing with regards to SKU count or innovation from your supplier partners? Thanks.

Pierre St-Laurent

That's a good question because it's key for us in our full-service business, the assortment. And the thing we are seeing over the last couple of months and quarters, is an improvement from our suppliers to bring back the assortment that we're looking for – which is key for our differentiation.

And we're seeing improvement on service levels in what we call OTIF (on-time in-full) in the industry. Meaning suppliers are filling our orders and are more on time. We are seeing improvement in

service levels and the SKU count is almost back to where it was pre-pandemic. There are some categories that we are still working on, but it's just a matter of time.

The thing I'd like to also mention is that we continue to expand our assortment in Own Brands. In the next year, we expect to expand our assortment in Own Brands because it's resonating a lot with customers right now. Our Own Brands continued to overperform the market. We continue to deliver solid margins with our Own Brands. And it's another element that contributed to our performance overall on both sales and margin. So we're almost back to pre-pandemic, and we will expand our assortment in Own Brands going forward.

Mark Petrie

Okay. That's excellent. Thanks for all the comments and all the best.

Matt Reindel

Thank you, Mark.

Operator

Thank you. The next question comes from Tamy Chen at BMO Capital Markets. Please go ahead.

Tamy Chen — BMO Capital Markets

Thanks. Pierre, I wanted to go back to the same-store sales. You said that the biggest driver is the basket coming back to essentially the last-year level. And I was wondering if you could maybe opine a bit on what's driving that? Because your competitors are saying that discount just continues to be strong, and the trade-down behaviour is still very much in play but, clearly, what you're seeing is shoppers to your full-service. They're bringing some more of the basket back to there. So like what do you think might be driving that? Like what's going on there? Because we seem to be getting a little bit of a mixed messaging on both sides.

Pierre St-Laurent

Okay. That's a good question. We continue to see a difference between discount and full service. So that's true. However, to explain our performance in our full-service business, I'd like to thank our merchandising and operations teams. They have been very good at showcasing the value that we can offer to customers in periods such as what we are dealing with right now.

So, in terms of promotions, we adjust our promotions. The promo mix is well under control. We are very competitive with our promotions. We are able to manage it through different promotional tools. We are promoting larger sizes, Own Brands, - the value proposition. I think that it's a combination of many tactics that drive the basket, and they do their magic. It's a lot of small things that drives this improvement in my opinion.

Plus, I think customers are adjusting their budgets. And again, I just want to call out that, again, our customers remain in our stores. We continue to have strong transaction counts in our full-service banners across the country. They did trade down, for obvious reasons, but we have been able to showcase the value that we can offer outside normal behaviours and normal purchasing patterns. So that's where the improvement is coming from.

Tamy Chen

Okay. Interesting. So I know you said earlier that promotional penetration is elevated naturally because the consumer is looking for deals. But how about promotional intensity? How would you characterize that?

It sounded like, from your answer to my question just now, maybe your intensity has gone up. Or are you saying you're—it's not necessarily, on an absolute level, promotional intensity has gone up but, rather, you're being a bit more finesse and strategic about your promotions in the full-service channel?

Pierre St-Laurent

I don't see major changes in intensity. The thing we know and the thing we are seeing with customer behaviour—and it's not a surprise here—but people are looking more for deals. Our job is to offer them good deals. And maybe there's some deals that aren't as good as others, but I think the team has been able to find the right deal for the customer's needs.

And yes, we are seeing more promo penetration, but not more intensity. And the promo penetration is for obvious reasons, as I said, but they have been able to balance all of it and adjust their promotional plans to the customer's needs. That's all what I can say, but there's pressure on promo for sure, but not on the intensity.

Tamy Chen

Okay. Got it. That was it for me. Thank you.

Matt Reindel

Thanks, Tamy.

Operator

Thank you. The next question comes from Michael Van Aelst at TD Cowen. Please go ahead.

Michael Van Aelst

Hi. Good afternoon. Wanted to ask you about Scene+ to date as well, since you've covered a lot of things that I was going to ask. But, yeah now that you've got Scene in Ontario for about a year now, and you've got it across different formats, can you provide some insight as to how your customers are shopping multiple banners?

And then, as the customers look to or can at least consider going more back into those conventional banners, what kind of tools or what kind of strategies you might be using to keep them within your own ecosystem?

Pierre St-Laurent

First of all, we introduced Scene+ in our discount banner less than a year ago. So it's fairly new. Ontario is also new; it's not even a year. We launched Ontario in November last year. It's early days, but we know that people are shopping multiple channels, e-commerce, full-service, discount, Longo's, Farm Boy. And we are offering all those brands at Voila. We want to keep customers in our ecosystem of brands, and now we have the tools with Scene+ to measure that and to act accordingly. So it's early, but definitely, that's the intention - to keep our customers in our ecosystems of brands.

Matt Reindel

Michael, if you remember, we talked about how when we introduced Scene as being the umbrella over kind of the omni-channel experience. So what we want is our customers shopping each of those different channels that they're shopping in an Empire channel, and the hook that keeps them there is Scene, so having that loyalty program over all of our banners and channels.

So, I mean, it's early days, but that's obviously what the intention is, and we're starting to make progress in that regard.

Michael Van Aelst

Okay. And then, at this point in time, is it too early to see if this—if the umbrella is keeping them within your ecosystem as they start to change banners or segments of the market?

Michael Medline

Yeah. I mean, it's so early. I don't want to extrapolate. I said before, we're really, really happy with the Scene program, but I don't want to extrapolate from as little history and data as we have, and then I have to come back to you and tell you it was better or worse or whatever.

I think that we obviously have a way better view of our customers than we've ever had before, but I'm not going to pretend we know everything they're doing at all times yet.

Michael Van Aelst

All right. Sounds good. You sold your, whatever, 15 percent or so of your gas stations. I'm wondering what the plans are for the rest of those stations. And are there other assets that you might be looking to divest that you might consider noncore?

Matt Reindel

Yeah. I mean, I think our answer on this is consistent. Our fuel stations in the West were nonstrategic in that they didn't have a big convenience store attached to them. They were literally just a fuel site. Our fuel stations in the East have come with a much more refined and substantial convenience store, so it's a much more kind of strategic piece of our business.

So right now, we have no plans to divest of that piece of the business. Yeah. That's it.

Michael Medline

And for other assets, no, I think we're happy at the moment with our mix of assets.

Michael Van Aelst

All right. Thank you.

Matt Reindel

Thanks, Mike.

Operator

Thanks. And the next question comes from Vishal Shreedhar at National Bank. Please go ahead.

Vishal Shreedhar — National Bank

Hi. Thanks for taking my questions. With respect to the customer changes that you indicated or suggested that would happen several quarters ago that are happening, I think you suggested that when inflation stabilizes, you anticipate your conventional banners to gain some momentum; we're seeing that in the results. I'm wondering if you're seeing the same thing in your e-comm business. And if not, maybe, what's causing that difference?

Michael Medline

I'll talk just generally, and then Pierre will talk —Voilà reports to him now. Yeah. I think we called it pretty well when we came out—what was it, nine months ago? And we talked about that we were seeing was—we had a strong belief, as inflation abates, we're going to do, really, much better. I think it was a little tiny bit slower than we would have liked to see for Canadians and for our business.

And I'd say that nothing's a straight line. Right? It's choppy. The consumers are skittish out there. But the line, the trend, the momentum is exactly what we called. It's a tiny bit slower, I think, than we would have liked, and.

But Pierre's right to say before, we're not economists. We're not in the government. The government knows everything. We don't know everything. But I think we called it pretty well right, and we are becoming cautiously optimistic that the consumer is going back to their previous behaviours, and that inflation is going to greatly fall in grocery. I can't call every other industry, but we know grocery okay.

Vishal Shreedhar

And just on the Voilà piece of that?

Pierre St-Laurent

Yeah. So Voilà itself, in the last quarter, grew market share, so we're pleased with that. Customer metrics continue to be strong. Summer is traditionally soft, and we are seeing customers back right now, because back to school, fall, et cetera, and we added SKUs at CFC 1.

We just launched CFC 3 in Calgary, so with fall and cold weather and better assortment. We'll continue on this trend to grow market share with Voilà. It's the best infrastructure to go after the e-commerce business, and we continue to believe in that strongly.

Vishal Shreedhar

Okay. Thank you for that. And regarding Voilà, after the next CFC launches, is that it for substantial infrastructure investments for Voilà? And if so, then what would be the next steps to add accelerant to that business, so that the sales are where you'd want them to be?

Michael Medline

Yeah. That's pretty well the last step at this time. At the same time, I believe at some point, we're going to—Voilà's going to be booming, and it may justify more investment, or we'll fill up CFC 1 and we'll need some more. Those are really good problems if that occurs. But after Vancouver, that's it, and then—and so that the capital's invested, I'd say 95 percent, 99 percent. We might do a few a spokes here. That's about it. What will it cover?

Vishal Shreedhar

Yeah.

Michael Medline

Katie – what percentage of the population will those four cover now?

Katie Brine

Ninety percent of the e-commerce spend.

Michael Medline

Ninety percent, so. Which is pretty good, four sheds, ninety percent of the population. And everything you look at, strategically, shows that this is going to grow. It's grown slower, perhaps, over the last couple of years than we would expect it, but I think we're in good shape.

Vishal Shreedhar

Okay. And after that fourth CFC is installed, and is it a period of time after which the exclusivity fades? And if it is, can you just remind me on how that works?

Michael Medline

I have a confidential document I'm not allowed to share, but I think you know us well enough that we like exclusivity for a long, long time. So that's all I'll say.

Vishal Shreedhar

Thanks. Thanks for your time.

Pierre St-Laurent

Thanks.

Michael Medline

Thanks, Vishal.

Operator

Thank you. And the last question comes from Chris Li at Desjardins. Please go ahead.

Chris Li — Desjardins

Hi. Good afternoon, everyone. I'll just maybe start off with follow-up questions on the basket size getting stronger. Just wondering if there are certain categories that are helping that growth. And I know in the past we've talked about fresh was one category where you saw more trade at the beginning, but there's only so much frozen and canned food that people can eat. So as inflation moderates, is that sort of one category that stands out that you're seeing that basket being stronger?

Pierre St-Laurent

It's a good question. I don't have the number in front of me by category, but one thing I can say is where we saw the biggest trade-down was in fresh categories. So it's where people had made cost cuts in - but now we are seeing adjustments and we are seeing fresh sales going up.

Again, I think there's something, also related to the efficiency of our promotions and the relevancy of our promotions that helps bring back fresh sales. But yes, I think because fresh has been more impacted by trade-downs, it's fair to assume that part of the progress we've made has been from fresh, because non-fresh has remained consistent, even in peak levels of inflation.

So people may trade down but, overall, non-fresh categories remain strong in sales and in tonnage versus non-fresh. So I think progress is mostly coming from fresh categories.

Chris Li

Okay. That's helpful. Maybe and really, the question is, I'm not sure, if you look at your own internal data, are you seeing any notable slowdown in restaurant sales these days as consumers looking, obviously, to save money? And if that is the case, is that benefitting your sales? And is that—do you think that's one of the reasons that you're seeing stronger same-store sales?

Pierre St-Laurent

I think it's a fair assumption. People will adjust their budgets and cut restaurants. Not for everybody – again, I like working with averages. Every customer has different priorities, and I respect that. But yes, we are seeing good momentum in fresh categories like deli and HMR. People are coming back to our counters, and it's a very good option to manage their budget when they don't want to cook at home. And we have an amazing assortment in HMR because of our full-service presence across the country.

So I think it's a fair assumption that this fall the restaurant business could have some challenges, but we're there to meet customer demands for sure with our assortment.

Chris Li

Okay. No, that's great. And maybe have a follow-up question is on food inflation. As you know, last week, Kroger in the US noted that the pace of disinflation is occurring at a faster rate than they originally expected. When we look at Canada, at least the Stats Can number, it seems like inflation is slowing, but it's very moderate.

Michael, based on your internal data, are you seeing something over the horizon that would suggest that maybe the pace of slowing inflation can accelerate in the coming months? Are you seeing anything of that sort, similar to what Kroger is seeing?

Michael Medline

I'll preface it by saying I'm not an economist, but everything we're seeing is a slowing inflation rate in Canada. We hit the lowest—we've hit the lowest inflation rate last quarter and in recent periods that we've seen in 17 periods, and we continue to see that trend. I'd say if you look back a year, I would have thought it would be lower than this.

And I did say in my script that our inflation is quite a bit lower than what's being reported in CPI, so. And I only know us, but that's what we're seeing. So yeah, we've been bitten so many times lately that we get a little scared of saying anything, but I think we're heading in the right direction.

Chris Li

Gotcha. Okay. And then my last question is—I apologize if you've mentioned this already. Just wondering if you can comment on your same-store sales. How is it trending, sort of fiscal Q2 today? Is it similar to what you achieved in Q1?

Michael Medline

No, we're not going to talk about the quarter we're currently in. It's just—I don't think it's the right thing to do.

Chris Li

Okay. That's fair. At least I tried. Thanks a lot, guys. All the best.

Matt Reindel

Good try, Chris.

Michael Medline

Good try. And the train is coming through Pictou, so you might not even be able to hear us soon.

Chris Li

Thanks.

Operator

Thank you. There are no further questions. I will turn the call back over to Katie Brine for closing comments.

Katie Brine

Great. Thank you, Joanna. We appreciate your continued interest in Empire. If there are any other unanswered questions, please contact me by phone or email. We look forward to having you join us for our second quarter fiscal 2024 conference call on December 14th. Talk soon.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.