FINAL TRANSCRIPT

**Empire Company Limited**

**Third Quarter 2025 Conference Call**

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## PRESENTATION

**Operator**

Good morning, ladies and gentlemen, and welcome to the Empire Third Quarter 2025 Conference Call. At this time, all lines are in listen-only mode.

Following the presentation, we will conduct a question-and-answer session.

If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, March 13, 2025.

And I would now like to turn the conference over to Katie Brine. Thank you. Please go ahead.

**Katie Brine**

Thank you, Ina. Good morning and thank you all for joining us for our third quarter conference call. Today, we will provide summary comments on our results and then open the call for questions. This 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 morning are Michael Medline, President and Chief Executive Officer; Matt Reindel, Chief Financial Officer; and Pierre St-Laurent, Chief Operating Officer.

Today's discussion includes forward-looking statements. We caution that such statements are based on management's assumptions and beliefs and are subject to uncertainties and other factors that could cause actual results to differ materially. I'll 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**

Thanks, Katie. Good morning, everyone.

Before I jump into the quarter, I want to take a few moments to talk about the other announcement we made earlier this morning.

I never like to see a valued colleague leave the fold, but when they have made the decision to retire, I can only feel a sense of happiness for that person. And after six years with the Company, the last four as Chief Financial Officer, Matt Reindel, will be retiring.

As you all know, Matt has been an incredible partner in helping drive Empire's turnaround. He played a critical role in helping our business navigate the challenges brought on by the pandemic while also guiding us through a period of high inflation and interest rates with both rigor and a passion for the business. He has been instrumental in building the foundation for our ongoing success. He will be missed by all of us at Empire, but he will, fortunately, be around for a little while longer.

We are fortunate to have found a great new CFO. In May, we will welcome Costa Pefanis as Executive Vice President and Chief Financial Officer.

Costa is an experienced and immensely capable leader who spent 19 years with Leon's Furniture Limited and was most recently with Green Infrastructure Partners. He will play a critical role in helping drive Empire's results in the years to come. We are grateful that Matt has agreed to stand for a number of months to work closely with Costa and ensure a seamless transition.

On to the business. Q3 was the latest in a string of quarters where we continued to see improving momentum in our results. Same-store sales have strengthened for the last four quarters, and we continue to show increased discipline in managing our margins.

But the numbers at face value do not tell the full story. While SG&A is slightly higher than Q3 last year, a large part of this increase is due to the accounting for long-term, share-based incentives, which Matt will give you more details on shortly. So, it was an even stronger quarter than it looks like at first glance.

Today, we will focus on three topics: our Q3 results and market trends, a quick update on our e-commerce business, and an update on the current volatile environment.

First, our results and Q3 market trends.

Our food sales grew 3.1 percent this quarter with same-store sales of 2.6 percent. This was supported by stronger top-line performance in our full-service banners and continued performance in our discount banner. Both of these channels continue to grow faster than their respective markets. And in bricks and mortar, the gap between full-service and discount same-store sales continued to reduce this quarter.

We're seeing positive same-store sales across all of our regions and all of our business units.

Last quarter, you may recall we saw smaller declines in the average basket size. This quarter, for the first time since Q1 F'24, we see growth in our year-over-year basket size, which is a big step in the right direction. And with regards to inflation, adjusting for the temporary tax break on select goods, our internal inflation is below the low CPI food inflation purchased from stores.

In the previous two quarters, we said that we started to see green shoots and early indicators that customers are returning to more favourable and predictable shopping behaviours. We continued to see these trends come to life and improve in Q3 where we saw outsized growth in our fresh department, which indicates customers are starting to trade up from non-fresh to fresh products and, importantly, a decline in promotional penetration.

Gross margin continued to improve this quarter, driven by operating efficiencies and a strong focus on executing with excellence in our stores.

Margin improvement of 43 basis points was consistent with last quarter. As I've said in the past, this is not due to one silver bullet; it is many small but meaningful actions that continue to benefit us over time. We have now made significant advancements in our stores in areas like shrink and, also, through the ongoing deployment of space productivity and across our supply chain.

Collectively, these initiatives have enabled us to become more efficient and more nimble, which is of even greater importance in this current environment.

Overall, we delivered adjusted EPS of $0.62, which was consistent with prior year. While this may look like a flat quarter at first glance, we actually delivered better results in our core operations, which Matt will touch on in greater detail shortly.

And now for a quick update on our e-commerce business.

We had total e-commerce sales growth of 72 percent, generated by strong double-digit growth in Voilà and a strong start to our partnerships with Instacart and Uber Eats, which, as of two days ago, are now across the country.

Voilà has seen its results improve every quarter this year. Shifting the team's attention to focus on our operational CFCs and improving profitability was the right move.

Our new customer acquisition strategies, in tandem with the cost reduction initiatives across our delivery and CFC operations, are beginning to deliver real results on both our growth profile and on the bottom line.

We are pleased to continue to see overall Canadian e-commerce penetration grow, and the interplay between Instacart and Uber Eats with Voilà has proven to be highly complementary. We are excited by the growth potential of our e-commerce business and believe we have the right assets in place to effectively serve this growing market.

All right. Now for the current environment. Since we spoke to you in December, there has been a significant rise in unpredictability in our operating environment with the political shifts in the US and tariffs, and it is unclear how this will play out over the next several years. While we have a strong plan to deal with the direct impacts of retaliatory tariffs, we don’t want to downplay the risks that exist.

The uncalled-for tariffs and the retaliatory tariffs represent a real threat to the Canadian economy. Uncertainty and volatility have been recurring themes over the last five years through events like COVID, high inflation, high interest rates, and natural disasters, and we have continued to get better at executing in these types of environments. Through all this, our main focus has always been protecting and continuously enhancing the value we offer to our customers, and this remains true today.

Let’s talk about tariffs in more detail.

Unlike many Canadian companies, Empire is not directly impacted by US tariffs, and our industry is fortunate to be in a much stronger position than many others. However, retaliatory tariffs impact us in three ways: they drive us to reduce reliance on US sourcing, put pressure on our suppliers, and may result in a weaker Canadian dollar.

First, on US sourcing. In a normal environment, averaged across the year, approximately 12 percent of our products in dollars come from the US, and retaliatory tariffs would, in theory, lead to higher import costs on these items.

However, this 12 percent number has been decreasing over the last year and will continue to as we shift our supply to meet our customers' growing demand for Canadian and non-American products.

American products we are selling as a percentage of our total sales are rapidly dropping. We have heard loud and clear from our customers that they want Canadian products. Fortunately for us, supporting and promoting Canadian products is part of our DNA. We've moved quickly to further elevate our local strategy, making it easier for customers to make informed choices about Canadian products.

As well, over the years, we, as a company, have developed a much larger and diversified source of supply to proactively manage threats such as natural disasters or product shortages in geographic regions.

Now, we have developed good alternatives in nearly every category.

Our most challenging category to mitigate the threat of retaliatory tariffs is produce where, in Canada, in the winter, we do not always have viable alternatives. We could see an impact here, either through increased costs or reduced assortment, if the product is no longer competitive on our shelves over time.

However, our suppliers have been good partners in helping us to mitigate the potential impact so far. Our supplier partners with US-based production are directly impacted by retaliatory tariffs. This puts pressure on them, and, as a result, they may be looking to pass these increased costs on. Some have begun to test our position on this.

We're navigating a period of uncertainty, and we are focused on ensuring that reactionary or unnecessary costs are not passed on to customers. We're managing this short to midterm through fair but often tough discussions with our suppliers, and we've been pleased to see many of our suppliers proactively coming to the table with solutions.

A great example is Lindt. Last week, they announced publicly that while historically 50 percent of their chocolates in Canadian stores come from their US factories and the rest from Europe, by the summer of 2025, 100 percent of Canada's supply will come from Europe.

As well, in speaking to some of our other suppliers, many do not see the benefit of trying to pass on tariff costs right now for two reasons. First, they do not want their product to become less competitive on our shelves as a result of higher prices. And second, the backdrop is too volatile right now with the on-again-off-again approach to tariffs. Instead, they are focused on thoughtful solutions like looking at alternate sources of supply for input materials or alternate locations for manufacturing.

Like us, our suppliers are working hard to minimize the impact to customers. Our national sourcing team is working closely with our suppliers while we are also continuing to further diversify our supply. At the end of the day, we all want to remain competitive and are working toward the same goal, protecting the value we deliver to customers.

Another factor we're keeping a close eye on is the US dollar. This is an inherent risk we face doing business with companies outside of Canada. Since many of our suppliers both in the US and internationally transact in US dollars, shifts in exchange rates and a weakening Canadian dollar do have some impact. However, this isn't an overly material risk for us at this point in time, and we have a hedging program in place to help mitigate any short-term fluctuations.

Ultimately, the biggest risk for us is not actually in our own business, but the impact on the Canadian economy as a whole. I do not want to downplay this. A weakened consumer environment will hurt the retail sector as a whole. We do not know what will happen yet, but we feel as prepared as possible with the right team to manage through this current environment.

Now looking ahead. While we don't make it a habit to talk about the quarter we're currently in, we feel we owe it to you to give some insight in these especially volatile times.

As I mentioned earlier, we have been well positioned in supporting Canadian products for some time. Even before tariff tensions began escalating, we have seen sales of Canadian products outpace our overall sales growth, and while it is still early days, we are now seeing this pick up further, especially since implementing new store signage and shelf labels to help customers find Canadian products.

As well, when we look at Q4, quarter we're in right now, today we're about halfway through our quarter, and from an overall top-line perspective, we see similar momentum to Q3. Quarter-to-date sales are off to a solid start.

Now before I hand it over to Matt, I want to close by saying that while we are operating in strange and unpleasant times and you would think it would be easy to have a doom-and-gloom mentality, it has been truly incredible to see Canadians come together. This is a strong and proud country, and, as always, pulling together, we can weather any storm.

And with that, over to Matt.

**Matt Reindel**

Thank you, Michael. Good morning, everyone.

I will provide some details on our Q4 performance and then our expectations for the remainder of the year. And then we'll open it up for your questions as normal. So, let's focus on Q3 first.

Consumer behaviour continued to gradually improve, and combined with strong execution on our initiatives, we delivered another quarter of solid financial performance. The highlights were improving top-line momentum and continued gross margin expansion.

Q3 adjusted EPS was $0.62, which was flat year over year. However, other income and share of earnings from equity investments was $11 million lower than last year. When you exclude these items from both years, our adjusted EPS was $0.03 higher than last year.

Our food same-store sales was 2.6 percent in Q3, which was 70 basis points higher than last year, and 80 basis points higher than Q2.

We continue to see sequential same-store sales improvement in both full-service and discount, and across all regions. And as Michael mentioned earlier, we also see continued momentum halfway through Q4.

Our gross margin rate, excluding fuel, increased by 43 basis points versus last year, which is stronger than expected given the tough year-over-year comparisons.

Similar to recent quarters, gross margin expansion stemmed from disciplined management and in-store efficiencies such as improved shrink. While we are trending higher than this in fiscal '25, our medium-term expectation continues to be delivering 10 to 20 basis points of gross margin expansion per year.

Now let me talk to SG&A. In Q3, after excluding adjusting items in both years, SG&A dollars grew by 4.2 percent year over year. However, this growth was mainly due to the accounting for our share-based, long-term incentive programs, which was impacted by our share price appreciation and vesting level.

Our SG&A rate, when excluding adjusting items, was 26 basis points higher than last year. The benefits from our cost reduction initiatives may not manifest themselves in a straight line. And quarter to quarter, we may be impacted by factors that are beyond our control, such as the impacts of the share-based, long-term incentive program I just mentioned. So, while the increase in SG&A of 4.2 percent was a little higher than we would have liked in Q3, we remain confident in the cost-control measures that we've put in place.

Our other income and share of earnings from equity investments came in as expected, being $11 million lower than last year, reflecting lower gains on disposals and our investment in Scene+, which was impacted by increased member participation and higher redemption of its loyalty program points.

For fiscal '25, while we continue to expect our pretax aggregate contribution from other income and share of earnings from equity investments to be in the range of $135 million to $155 million, we do expect to be at the higher end of that range.

Our effective tax rate for Q3 was 27 percent, which was higher than the 24 percent we had last year. The revaluation of tax estimates pushed our tax rate higher this year but had the opposite impact last year.

For fiscal '25, excluding the effects of any unusual transactions or differential tax rates from property sales, we continue to estimate that our effective income tax rate will be between 25 percent and 27 percent.

Our balance sheet remained strong, driven by solid cash generation and disciplined capital spend.

In Q3, our CapEx was $188 million, mainly on store renovations, construction of new stores, and IT investments. We remain on pace to spend $700 million on CapEx in fiscal '25 with approximately 50 percent of this investment being spent on store renovations and new stores.

Our share buyback program is on track towards the $400 million intention for fiscal '25, and, as of this week, we've repurchased 8.6 million shares for a total consideration of $340 million.

So to cap it off, we're very pleased with our Q3 performance where we delivered improvements across many key financial metrics.

Now before I hand the call back to Katie, let me say a few words about my retirement. Firstly, I very much appreciate those kind words from Michael earlier, so thank you for that. I must say that leaving Empire will be bittersweet. I've thoroughly enjoyed my time, and I'm very proud of what we've been able to accomplish over the past six years, particularly the sustainable platform we've built for the future. But as we come to the end of our current three-year strategic plan and begin planning for the next cycle, this is the right time for me to step aside and allow Costa to come in and partner with Michael. So, I'm really looking forward to seeing what the Company will deliver moving forward.

And with that, I'll hand the call back to Katie for your questions.

**Katie Brine**

Great. Thank you, Matt. Ina, 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 *, followed by the 1 on your telephone keypad. And should you wish to cancel your request, please press *, followed by the 2. If you're using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from the line of Irene Nattel from RBC. Please go ahead.

**Irene Nattel** — RBC

Thanks and good morning, everyone. Before I ask my question, congratulations, Matt. We will definitely miss you. Happy to hear that you're going to be around for a little while.

As for my question, wondering about the encouraging signs that you're seeing in terms of consumer spending behaviour, basket up. Can you talk about the composition of the basket? Item count categories? And whether you're seeing any offsetting - still signs of sort of more caution?

**Pierre St-Laurent**

There are many indicators of trending in the right direction year over year. So yes. Same-store sales. But we're particularly pleased with the growth we have in fresh, which is one of our strengths. So fresh is growing faster, but it's growing in every category right now.

Basket size is growing. People are shopping less stores. They are back to more natural behaviours. It's not natural to shop many stores when you have good offers and good value in the store you're shopping. So, this is a good sign.

So, transactions continue to be up, but the biggest thing is basket size, and units per basket is going up. And the biggest growth is coming from fresh.

**Michael Medline**

Yeah, Irene. It’s a good answer by Pierre, and I just want to add to your last part of your question, we’re not seeing any warning signs at this point. In fact, if we didn’t read the newspapers and watch TV, we wouldn’t know anything was going on when we look at our numbers. We continue to see the momentum we saw in Q3 and the green shoots that we’ve been predicting for 18 months. We’ve now been seeing them four quarters in a row, and so far this quarter, things are normal. And we’re not seeing any cautious behaviour other than, as I said, customers are checking the label to see where things are made.

**Irene Nattel**

That’s really interesting. Thank you.

And then just one other question, if I may. On the e-commerce side, great to see the increase in volume coming through the partnerships. What is your loyalty data telling you at this point about any conversion from, let’s say, Instacart and Uber Eats into Voilà? Thank you.

**Matt Reindel**

That’s a great question. And as you know, the key piece of our strategy moving forward is to take as many of those immediacy-based customers and convert them onto Voilà.

I would say it’s probably a little early, Irene. As excited as we are about the opportunity and the increased sales that this immediacy-type business is giving us, we’ve really just started. So, we do need some time to get our feet under the table and begin to mine the data and start to convert those customers over to Voilà. So, I would say it’s really too early.

**Irene Nattel**

Understood. Thank you.

**Operator**

Thank you. And your next question comes from the line of Chris Li from Desjardins. Please go ahead.

**Chris Li** — Desjardins

Hi. Good morning, everyone. Please let me add my congratulations to you, Matt, and all the best as you begin the next new chapter of your life.

Michael, thanks so much for all your comments about sort of the impact on tariffs. My first question is if you assume the tariffs go kind of full impact on April 2nd, how quickly and broadly will we see high inflation through the grocery store? And what I'm trying to sort of ascertain is like is it going to be more gradual in a manner where maybe the consumers can manage it? Or do you expect kind of really a big spike right off the bat from an inflation perspective, assuming if the tariffs are full impact on April 2nd? Thank you.

**Michael Medline**

Pierre, you're very close to this point.

**Pierre St-Laurent**

Yeah. So, as Michael said in his introduction, it's good to remind everyone that our exposure to US products is around 12 percent annually. So this is not the biggest portion of our sales, and it's declining. Every week, we are seeing a rapid decline of US product sales. So our exposure will continue to reduce over time.

And we are in winter, and I guess summer is coming. So our exposure will continue to decline over the next few quarters.

So right now, US products are in decline, and this is without tariffs being implemented. So imagine what will happen if we have to increase prices – and to be clear, this is not our intention so far. These US products will be 25 percent more expensive. I don't think people are interested in paying 25 percent more for US product right now.

So we feel pretty good. And like Michael said, in most categories, we have alternatives for Canadian or non-US products. And these alternatives are offered at a reasonable price or an even lower price than the corresponding US product. So we feel pretty good.

And over the last several years, including in produce, we've developed a very diversified source of supply for produce around the world for obvious reasons. So even in produce, the team feels really, really good about finding alternatives and working with suppliers to avoid any potential inflation.

And, again, our U.S. exposure is 12 percent on an annual basis. This has been declining through the last 52 weeks, and it's declining right now, very quickly. And summer is coming, and people are not interested to pay 25 percent more for US products.

**Chris Li**

Okay. No. That's very helpful. Thank you. And my other question is just on e-commerce. As you mentioned, Voilà continues to post very solid double-digit growth. Your competitors are also posting solid growth as well. So my question is, just based on your data, is Voilà maintaining or growing market share?

And, also, secondly, I just want to confirm that the losses in Voilà are continuing to improve on a year-over-year basis. Thanks.

**Pierre St-Laurent**

Yes. E-commerce penetration is growing, like Matt said. Same-store sales at Voilà is growing. We are focusing on our active CFCs, and we're seeing the benefits of this approach.

I think it was the right decision to focus on the three CFCs that we have right now. And we are very pleased with the same-store sales performance. We're also very pleased, with the efficiencies and the improvement that we're seeing on the bottom line. The team is doing an amazing job to optimize everything without compromising sales growth. And we're very, very pleased with the progress we've made so far this year.

And with the partnership so far, and like Matt said, it's early days. We just launched in Quebec and Atlantic Canada two days ago. But so far, we're not seeing cannibalization. And we're seeing continued growth in same-store sales at Voilà.

So this is the situation or market. Matt, do you have something else to add?

**Matt Reindel**

Yeah. And just to confirm, Chris, for your second point, yes. All CFCs are improving their financial performance. Their losses are decreasing. So as we've said in many IR meetings now, Voilà is accretive to our business, starting in F25.

**Chris Li**

Okay. Perfect. And sorry. Just maybe one quick follow-up just because you mentioned the third-party partnerships.

I know it's still very early for you guys, but I'm wondering. As the third-party e-commerce revenues continue to grow, how much of the pressure do you think they would have in terms of fees on your SG&A expenses? Do you expect, on an EBITDA basis, you'll more than offset by just a higher basket on the gross profit? So maybe on an EBITDA basis it's neutral. Yeah. Just thinking about the pressure on SG&A expenses as the third-party revenues continue to grow.

**Matt Reindel**

Yeah, I mean, it's a good question, Chris. Unlike Voilà, where we know that we are making losses, on this immediacy-type business, we make money from day one. So this is immediately accretive to our business. Of course, we have to pay some commissions. So the profitability is not as high as it is for a regular purchase in a store, but it is immediately accretive to earnings per share from day one.

**Chris Li**

Perfect. Thanks and all the best.

**Matt Reindel**

Thank you, Chris.

**Operator**

Thank you. And your next question comes from the line of Tamy Chen from BMO Capital Markets. Please go ahead.

**Tamy Chen** — BMO

Hi. Good morning. Thanks for the question. I wanted to go back to your comments on the quarter to date, fiscal Q4. So you've had a couple of quarters of sequentially improving comps, which has been great to see. When you talk about this momentum that has continued so far in Q4, I just wanted to clarify, are you continuing to see your comps so far this quarter accelerate sequentially like it has the last couple of quarters? Is that what you mean specifically by the momentum?

**Michael Medline**

Yeah. That's a good question and a good try, but I've got to be careful what I say, obviously. And what I wanted to say because we are getting so many questions about what's going on with the current unpleasantness is that we're experiencing solid and consistent results.

So I don't want to comment any more than that. I just wanted to give our owners, our investors, a sense that, so far, they don't have much to worry about.

**Tamy Chen**

Okay. Got it. Fair enough. And I have another question on e-commerce here. So from what you can see in the industry, would you say the growth in this channel here for the industry is more in that immediacy?

And with respect to Voilà, like can you remind us, is there any way for Voilà to be able to service itself that immediacy? Or it cannot, and your focus is to just try to convert those Uber and Instacart customers to Voilà, which is not immediacy?

**Matt Reindel**

Great question, Tamy. I mean let me cover both and Pierre can chime in if he would like.

But so first of all, in terms of the growth, we're seeing growth in both parts of the sector. So there's growth in the immediacy segment and there's growth in what I would call the Voilà segment. So we're seeing growth in both, which is great news.

And then in terms of could Voilà service the immediacy, the answer is yes and no. Yes, in that with our technology, we could service immediacy through the Ocado delivery platform. But it's not really set up to do that. So when we set up that business, it's based on a much bigger basket. It's based on a full shop. And that's really where the efficiency of that model comes from.

So what we're in now is a nice, sweet spot where we're letting Voilà look after the full basket with a much bigger basket size and the immediacy covers a smaller basket size and that kind of immediate need for delivery. So yeah. Right now, we're happy to leave both operating in isolation.

**Tamy Chen**

Great. Thank you.

**Operator**

Thank you. And your next question comes from the line of Vishal Shreedhar from National Bank. Please go ahead.

**Vishal Shreedhar** — National Bank Financial

Hi. Thanks for taking my question. Just with respect to the volatility that you referenced in your prepared remarks at the beginning of the call, I'm wondering how Empire is thinking about maintaining or creating some sort of flexibility to adjust to whatever the backdrop may present. So I know it could be pressure on the consumer or pressure on inflation or both. And this is at a time when population growth is slowing and certainly industry square footage growth is increasing.

So just as you look at this volatile time period, and granted, you've operated through a few of those different types of volatility time periods, how do you think about this and being able to preserve that financial framework that you've set up?

**Michael Medline**

That's a great question. And first of all, I don't like predicting the future, especially in these kinds of times, but I don't think it's going to be our business, which is highly, highly affected by all this. We'll be affected, but we'll be able to roll with the punches. And I think the industry will too, to be honest with you.

So the bigger worry is if or when there's going to be more of an impact on the Canadian economy from this, first of all, from the uncertainty, let alone any real by-products of this. And I think we've shown in the past that we're, as you said, we're really good at that. But even in times of where it's the winds in our sails, which it may not be, by the way, we can navigate.

I like the strategy we have right now in terms of being able to grow our business and be very safe going forward. We've never seen historical cash generation like this, because we've changed the way we do business and we're better operators now. We're better executors. And I believe that there are advantages to being a Canadian-based retailer, which keeps the money in our country and that many Canadians will appreciate that.

So although no one likes these volatile and uncertain times, we'll be strong like this country is strong. And every day you open your phone, there's new news. If you reacted to every piece of news out there, you'd be whipping along. You wouldn't even be able to operate a business anymore. We don't do that. We're going to be calm and strong like the rest of this country. And I think that we're going to do pretty well through this. But we have to acknowledge these are strange times.

**Vishal Shreedhar**

Thank you for that colour. And just shifting to shrink, wondering how that is evolving. And in particular on the US-based products, are you seeing that shrink magnify? Is that a headwind?

**Pierre St-Laurent**

Well, no. It's very early days, but we're not seeing any shrink from US products right now. And, overall, into this quarter, we continue to improve shrink, which is good for our margin. But it's not only that. Like we said at the beginning, it's one of the elements. And it's an area of focus to continue to deliver good margin and continue to reinvest in good pricing.

So shrink continues to improve, but we're not seeing any particular change in the US products so far.

**Vishal Shreedhar**

Thank you.

**Operator**

Thank you. And your next question comes from the line of Michael Van Aelst from TD Cowen. Please go ahead.

**Michael Van Aelst** — TD Cowen

Hi. Good morning. Thank you. And happy retirement, Matt, when that day does come.

I wanted to touch on a few of the items that were already brought up, but a little differently, though. First of all, very impressive growth on the e-commerce. But if we assume your e-commerce penetration is about 4 percent or so, would this mean that pretty much all your same-store sales growth is coming from e-commerce at this point?

**Michael Medline**

No, no, it's mostly the same-store sales growth is coming from our bricks and mortar by quite a margin. So no. And offline, I think, Matt, you could talk to Michael about this.

**Matt Reindel**

Yeah. I mean just to echo that. Even if you excluded all of the Uber and Instacart sales, like the entirety of it, our same-store sales would still be about the same as it was in the previous quarter. So it's giving us a bump, but it's the core business that's really generating the improved momentum.

**Michael Van Aelst**

Okay. All right. Yeah. We can handle that offline. Thank you.

And then you're Scene+ loyalty costs that are in Investment and Other, so that increase that we saw, was some of that an accounting adjustment and others higher redemption rates? Or is that all something that we should expect to continue going forward?

**Matt Reindel**

No. It's not something you should expect to see going forward. So, basically, as one of our peers did with their loyalty program, what we are seeing in these current times is very high member participation and very strong redemption rates. By the way, that's a really good thing for our loyalty program. That's exactly what we want is high member engagement.

But when you actuarially determine your loyalty liability, you're using assumptions, and those higher redemption rates means a higher redemption assumption. So that's basically what that was for us because we don't consolidate Scene. Our investment in Scene is an equity investment. We have a 33 percent ownership in that program. So we take 33 percent of the profits and loss of that entity every year into our P&L.

So when that loyalty liability was revalued based on the latest assumptions on redemption, then we take our share of that adjustment. So it's not something that we would expect to see every quarter. It's something that we saw just in Q3.

**Michael Van Aelst**

Okay. Perfect. And then last question is on the tariff impact on produce. I know even product that comes up from Mexico or sometimes in South America, like it's coming up through the US many times. To your understanding, is the tariffs would still be applied to product coming from Mexico, for example, through the US and to Canada?

**St-Laurent**

It's a bit complex, but the simple answer is no. When it's coming from a different country than the US, we don't have to pay a tariff on it. And as you said, we have a good source of supply in South America, in Europe, in North Africa. So yes. Produce is an area where we have more exposure to. But again, it's a small portion of total sales. As we said, 12 percent here today on US product including produce, and it's going down rapidly. So I don't have the exact number for produce, but produce is a portion of it. But when you look at total sales, it's marginal. But it's not only the tariff situation who impact the produce inflation. It's the US dollar.

All the transactions are traded in US dollars. So US dollars are having an equal impact or maybe more sometimes than the tariff on produce inflation.

**Michael Van Aelst**

Okay. Thank you. Just last question. Can you update us on your square footage growth ambitions for both fiscal '25 and fiscal '26?

**Matt Reindel**

Yes. As we said recently, I think we're targeting approximately 1.5 percent-square footage growth. Again, as we finish kind of the meat of our renovation cycle, we can start to allocate a little bit more capital away from renovations towards new stores. It's not a massive change, but it's a notable change. So 1.5 percent, and that's a net number. Right? So we still have some locations that we might close like in convenience and liquor. There are some tangential stores we might close. So it's a net number. But 1.5 percent is a good number for a couple of years.

**Michael Van Aelst**

And is that the case in fiscal ’25? Or will that kick in in fiscal ‘26?

**Matt Reindel**

No. It really starts in fiscal ‘26. We will have a small increase in ‘25, but it’s more in ‘26.

**Michael Van Aelst**

Perfect. Thanks very much.

**Matt Reindel**

Thanks, Michael.

**Operator**

Thank you. And your next question comes from the line of Mark Petrie from CIBC. Please go ahead.

**Mark Petrie** — CIBC

Yeah. Good morning. I’ll echo my congratulations to you, Matt, and wish you all the best on your next chapter.

First, just on gross margin, hoping you could talk a little bit more about the trends that you’ve seen there and specifically the promotional penetration that you called out now sort of falling year over year. Do you attribute that entirely to sort of the market and the consumer? Or were there some shifts in your tactics or execution that would have contributed to that?

**Pierre St-Laurent**

No. Our execution is very consistent, very good discipline over the last few quarters. We continue to see that discipline, very good promo mix management, very good usage of promo optimizations tools that we implemented years ago, and the team is working really well with it. But as we said, the promo penetration is going down slightly, which is good for pressure on margin. So it's one element, but it's not the only element.

As we said earlier, the mix of sales is improving because we're selling more fresh products than grocery product. We're having less shrink. The TPR is lower than it was at the same time last year. And there's continuous discipline and execution in merchandising and in-store. So it's a lot of things.

A little bit on customer behaviour. They are back to more natural behaviour compared to last year at the same time. But it's a combination of many small things.

**Mark Petrie**

Okay. Understood. That's helpful. Thank you.

And I wanted to also ask about sort of price gaps between full service and discount channels overall. Do you think these have shifted over the last year at all?

And I know you don't talk about regions, but I'm interested to hear any sort of specific comments about the Quebec market just given that's not a market where you have a discount presence. And so just wondering if you've seen the market evolve with regards to price gaps.

**Pierre St-Laurent**

The gap is declining. And it's an area of focus for us. There are two elements that we have to consider when we look at it. There's the effective price index and the regular price index. So we're very competitive on the effective price index.

We’re very pleased with our performance with promotional. And if you look at what we’re doing right now in different markets, we are providing a guarantee of lower prices with the verified price. So this is very good. So we’re very, very competitive in full service stores versus discount with our verified price promise to customers.

So we’re looking at regular prices, but we’re also looking at everything together including promotions, which is called the effective price index. And the gap with discount is declining because we know that value is important for customers.

**Mark Petrie**

Thanks for those comments. Maybe just to follow up quickly. Does that approach in Quebec affect the promotional penetration at all? Or is that sort of a separate piece of what would be impacting that?

**Pierre St-Laurent**

No. I think in full service, we have a consistent approach across the country.

**Mark Petrie**

Yeah. Okay. Understood. Thanks very much. All the best.

**Michael Medline**

Thanks, Mark.

**Matt Reindel**

Thanks, Mark.

**Operator**

Thank you. And your next question comes from the line of John Zamparo from Scotiabank. Please go ahead.

**John Zamparo** — Scotiabank

Thank you. Good morning. I'll add my congratulations to you, Matt, and all the best in your next chapter.

I wanted to come back to the same-store sales performance subsequent to the quarter. And I wonder in the context of whether you think the theme of buying Canadian is positively benefitting Canadian retailers and not just Canadian CPG brands. So in other words, do you believe you've seen increased market share over the past couple of months? Or is the same-store sales performance more a product of a relatively resilient consumer or the internal efforts you're putting forward?

**Michael Medline**

It's a good question, but it's so early. I don't want to say anything a trend or go overboard on anything. But I think a lot of it is I don't want to take away from the execution that you're seeing. You've seen that quarter after quarter now at Empire. So I'm not taking away from that. But I do think that there could be some tailwind for Canadian retailers as opposed to those retailers that are seen as not Canadian.

But early days and we'll see. And I wouldn't want to overstate it at this point.

**John Zamparo**

Mm-hmm. Okay. Understood.

**John Zamparo**

On food inflation. I wonder what kind of increases you're seeing from your largest vendors. And is it fair to expect an uptick in inflation solely from that factor or if its wage contracts that were agreed to in the past couple of years? Is it fair to expect an increase in inflation just from those rather than the impact of the US dollar or tariffs?

**Pierre St-Laurent**

It’s a bit tough to predict. But if we remove the highly volatile situation with tariffs, our estimate is an inflation around 2 percent. And when we look at this conversation we are having with suppliers right now, when we avoid the conversation on tariffs and we’re looking at regular cost increases or whatever, we are in that range right now. And the quantity of cost increases is in a more normal range right now.

So this is why we feel comfortable to say we’re in a range of 2 percent inflation next year without tariffs.

**John Zamparo**

Okay. Got it. That’s helpful. And then lastly for me, on the cost side, can you remind us of the cost initiatives that you have underway and whether they might contribute meaningfully over the next one to two years? In the past, you’ve referenced a few related to the supply chain or better execution. I wonder if you can add some more colour there.

**Matt Reindel**

Sure. I mean the three big initiatives we had on the cost reduction initiatives were supply chain, goods not for resale, and the organizational restructuring.

So the restructuring is done. The benefits of that were taken in fiscal 25. On goods not for resale, we have taken some of the benefits in F’25, but there’ll be more to come in fiscal 26. And I would also say that the fantastic work that’s been done by the strategic sourcing team will continue. Again, it’s one of these gifts that keeps on giving. We’ve built muscle there to make sure that we continually challenge all of our costs and negotiate our costs to make sure we’re bringing those costs down. So that should be something that continues to give benefits.

Perhaps the biggest one is supply chain. We've said this before that this is a mixture of short, medium, and long-term opportunities. Some of the short-term you can do quickly. You renegotiate your line rates, your costs. You negotiate costs out of your existing contracts. So some of that can be short term.

The more medium term when we start talking about things such as freight and service or how we can optimize our network is all medium term.

And then longer term you can really look at how you're set up across the whole country in terms of logistics and the number of DCs and the investments in automation and things like that.

So yeah. Supply chain is a big opportunity for us, and we should continue to talk about that every quarter because there's a whole series of initiatives that will deliver value short, medium, and long-term.

**John Zamparo**

I'll leave it there. Thank you very much.

**Matt Reindel**

Thanks, John.

**Operator**

Thank you. And we have a follow-up question from Mark Petrie from CIBC. Please go ahead.

**Mark Petrie**

Yeah. I just wanted to ask about the e-commerce growth. What's your sense of the overall market growth in online grocery? And do you get the sense that it's accelerating or stable or decelerating?

**Michael Medline**

It was pretty stable there for a while. In the last quarter or two, we've seen acceleration in the e-commerce penetration in the market. And it's good acceleration. I'm not doing a jig yet, but it's certainly improving. And we expect it to continue to improve. And that's obviously part of the reason we're seeing better results out of our three CFCs.

**Mark Petrie**

Yeah. Understood. Okay. Thanks for that.

**Michael Medline**

Great questions today. Thank you.

**Matt Reindel**

Thanks, Mark.

**Michael Medline**

Thanks to everyone today.

**Operator**

Thank you. And there are no further questions at this time. I would now hand the call back to Ms. Katie Brine for any closing remarks.

**Katie Brine**

Great. Thank you, Ina. 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 fourth quarter fiscal 2025 conference call on June 19th. Talk soon.

**Operator**

Thank you. And this concludes today's call. Thank you for participating. You may all disconnect.