

**Empire Company Limited****Second Quarter 2026 Conference Call**

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## **PRESENTATION**

### **Operator**

Good morning, ladies and gentlemen, and welcome to the Empire Second Quarter 2026 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 require immediate assistance, please press \*, 0 for the Operator.

This call is being recorded on Thursday, December 11, 2025.

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

### **Katie Brine**

Thank you, Ludy. Good morning and thank you all for joining us for our second 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](http://empireco.ca). There is a short summary document outlining the points of our quarter available on our website as well.

Joining me on the call this morning are Pierre St-Laurent, our new President and Chief Executive Officer, and Costa Pefanis, Chief Financial 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 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 Pierre St-Laurent.

**Pierre St-Laurent**

Thanks, Katie. Good morning, everyone.

I'm pleased to be speaking with you today for my first quarterly earnings call as CEO. I've spent my career at Empire in multiple roles, most recently as COO, working closely with our stores and teammates to serve customers.

As a company, we have been on an incredible journey that has included the transformation period of Project Sunrise and Horizon, managing through the COVID-19 pandemic, tariffs, and continuing to grow our business and deliver strong results through ongoing market volatility over the last few years.

Over the last month, the executive leadership team and I have had the pleasure to travel the country and visit teammates coast to coast. We are very proud of what we saw. Empire is in excellent shape today and operating very well. Teammates have a strong collaborative dynamic, and we have significant opportunities ahead of us to capture.

Before I get into the details of the quarter, I'd like to take this opportunity to thank Michael on behalf of the entire Empire team for his energy and leadership over the last nine years. He led us through a significant transformation and helped us navigate the unprecedented headwinds of global pandemic and the worst inflation in four decades. And personally, he continually gave me opportunity to take on

more responsibility and see more of the Company, so that I'm now very well prepared to step into the CEO role.

Turning into our Q2 results, this was a solid quarter for Empire. Excluding other income and share of earnings from equity investments, our core business improved by 12.5 percent over last year. Same-store sales picked up momentum in line with our expectations, and we continue to deliver sustained gross margin growth. Our core operations delivered strong operating income.

I'll focus on three topics today: our Q2 results and market trends, the current environment, and our strategic priorities. This update will focus on the core business performance, removing the noise from timing of other income, which Costa can speak to in more detail shortly.

First, our results and market trends. Food sales grew 3.4 percent this quarter, with same-store sales growth of 2.5 percent. Our full-service stores continue to grow, supported by our commitment to provide value across all of our formats. In fact, our full-service same-store sales grew by more than 2 percent this quarter. I hesitate to give that level of detail, but for this quarter only, I wanted to set the record straight when it comes to our full-service performance. It is a healthy business with a lot of room to grow. Our discount business also continued to perform well, gaining market share in its respective channel in Q2, supported by strong top-line growth and very strong operating income.

This quarter, we saw volatility in the market with some positive signs, as well as ongoing uncertainty. We are encouraged to see increasing customer traffic and basket size in stores, as well as a relatively typical and manageable promotion penetration trend. Overall, the Canadian customer continued to be very resilient, but value focused. And for us, offering value to customers across all formats has become a normal course of business for our team.

Gross margin continued to improve this quarter, driven by operational efficiencies and disciplined execution in our stores, such as enhanced inventory control initiatives. Although strong margin improvements in our retail operation were partially offset by the mix impact of higher wholesale distribution sales, we are pleased with a combined margin improvement of 14 basis points, excluding fuel. Excluding this wholesale mix impact, gross margin improvement would have been more than 20 basis points in Q2.

Overall, Empire delivered an EPS of \$0.69 during the second quarter. This result is stronger than it appears when we unpack the details. Last year, Crombie had higher equity earnings, driven by remeasurement gains on property sales, as well as some noise in our second quarter results, due to the necessary lockout of one of our distribution centres in Alberta and timing of Genstar's earnings. As you know, Genstar is a residential real estate development company we hold an interest in. Costa will speak more to this shortly. When we exclude these items, you see that the underlying performance of our core business continues to be very strong.

The reported CPI for food purchased from stores was 3.7 percent this quarter. Internally, we were well below this CPI number. Comparing CPI to our internal inflation is not an apples-to-apples comparison. Our internal inflation is based on all item sales across the entire period, which would be more than 30,000 SKUs weighted items per quarter, while StatsCan focuses on approximately 200 items checked at point of time only. We also use third-party inflation report to understand the overall trend in the food industry, and this source confirms that our internal inflation is in line with the industry, and both measures are below CPI food inflation. We are also seeing more cost increases requests from suppliers, consistent with our peers, but it remains well under control.

Lastly, a brief update on our strategic priorities. As you get to know me, you will learn that I'm always looking for where we can improve. In both my personal and professional life, I'm driven by performance, that sense of accomplishment you feel when you achieve an objective that was previously deemed unattainable.

While we have good momentum across the business today, there are many areas where we can drive greater results. We have made a number of critical investments over the last several years in stores, technology, and strategic projects, and there is a lot of opportunity ahead of us to realize the full potential of these investments.

We are halfway through the last year of our three-year strategic plan, and that means a lot of the efforts we've put in are just starting to deliver results. Over the next few quarters and beyond, our focus will be squeezing every drop of juice and realizing the full value of these investments. We are also developing a refreshed strategic plan that will guide our priorities longer term. And I won't be sharing all of the details today, but I can say that we are obsessed by four key areas: customers, stores, growth, and cost control. This focus will drive our business forward, supported by great teammates.

Wishing everyone a safe and happy holiday season. And with that, I'll turn it over to Costa.

### **Costa Pefanis**

Thank you, Pierre, and congratulations again on your very well-deserved appointment. I look forward to working with you for many years to come. Good morning, everyone. We'll first look at our financial performance during the quarter. I'll provide a few comments on other income expectations and capital allocation expectations, and then we'll open it up to your questions.

In Q2, adjusted EPS was \$0.69, \$0.04 lower than last year. But if you look behind this headline number, we delivered solid operational performance. Last quarter, we provided our expected quarterly cadence for other income and share of equity earnings. The implication was that in Q2 fiscal 2026, we would be up against very strong real estate-related earnings. As you saw in our results today, real estate-related contribution was \$31 million lower compared to last year. When excluding these earnings streams in both years, our core operations delivered year-over-year adjusted EPS growth of 12.5 percent. This is a testament of our strong in-store execution across our retail network.

Turning to the top line, we delivered Q2 food same-store sales of 2.5 percent, a bounce back from Q1. And as Pierre noted earlier, this was achieved through relatively stronger results in our full-service banners. In addition, and more importantly, we delivered total food sales growth of 3.4 percent, which was above and beyond our same-store sales. This additional sales growth largely reflected new wholesale contracts, with a portion also coming from increasing contribution from our new store expansion program. We anticipate contribution from both wholesale and new stores to continue growing in the quarters ahead.

In Q2, our gross margin rate, excluding fuel, increased by 14 basis points versus last year. This was a result of disciplined execution and targeted efficiencies in our stores, including initiatives aimed at inventory control and reducing shrink, as well as better promotional mix. Serving as partial offsets this quarter were the mix impact of higher wholesale distribution sales and the margin impacts from the Rocky View lockout, which was about \$0.01, split across gross margin and SG&A.

As we've discussed in the past, we strive to deliver stable gross margin expansion of 10 to 20 basis points per year. When you look at it from a quarter-to-quarter basis, there may be variability that stems from quarterly specific items that may push us above or below this medium-term target. And this



also impacts year-over-year comparisons in subsequent periods. Overall, I'm very happy with the consistency that we're delivering with our margin expansion initiatives.

In Q2, SG&A, excluding depreciation and amortization, grew by 4.6 percent, and the SG&A rate, excluding depreciation and amortization, increased by 34 basis points. I want to call out a few puts and takes here. We had some benefits from our LTIP given the share price declining through the quarter. However, this was more than offset by a few notable items that continued for a few quarters.

SG&A growth stems from our business investments, including investments in stores, technology, and projects, as well as business expansion. In addition, SG&A was also impacted by higher retail and supply chain labour costs. Lastly, we also had some one-time impacts from the lockout at the Rocky View distribution centre and retirement arrangement expenses. Overall, I'm happy with our sequential improvement in SG&A dollars. The Company continues to focus on extracting the full benefit from our investments and exploring cost-reduction strategies to improve operating leverage.

And before you ask, this does include our continuous review of our e-commerce strategy. When Mohit Grover took on leadership of our e-commerce business in July 2023, he was tasked with improving overall profitability. Since then, we've ended our mutual exclusivity with Ocado, which allowed us to partner with Instacart and Uber Eats. We paused CFC 4 to focus on driving volume and performance at our three active CFCs, and we've seen good results from these actions. But we continue to look for ways to improve profitability as the size and growth of the Canadian grocery e-commerce market remains smaller than we had originally anticipated.

Other income and share of earnings from equity investments was about \$31 million lower on a year-over-year basis and was slightly below our guidance provided on the Q1 quarterly call. This was mostly due to timing of certain transactions within our share of earnings from equity investments. This shortfall will be made up in the second half of fiscal 2026. As such, we are maintaining guidance for this real estate-related income at the lower end of our range of \$120 million to \$140 million. We expect the quarterly cadence in the second half to be as follows: 23 percent in Q3 and 35 percent in Q4. As usual, if there are shifts in timing of certain transactions, we will provide an update next quarter.

Our effective tax rate for Q2 was 26.4 percent versus 26.1 percent last year. This year's tax rate was slightly higher due to the revaluation of tax estimates, not all of which are re-occurring, while last year's tax rate was slightly lower, due to benefits from non-taxable capital items. For fiscal '26, excluding the effects of any unusual transactions or differential tax rates on property sales, we continue to estimate that our effective income tax rate will be between 25 percent and 27 percent.

Now onto capital allocation. Our Q2 CapEx totalled \$205 million, mainly due to renovations and construction of new stores, investments in advanced analytics technology, and other technology systems. We remain on pace to spend \$850 million on CapEx in fiscal 2026, with approximately 50 percent of this investment being allocated to store renovations and new store expansion. Our share buyback program is on track, and we expect to complete our \$400 million plan for fiscal 2026. As of this week, we have repurchased 3.7 million shares for a total consideration of about \$195 million.

And this quarter, we re-entered the debt capital markets with a \$300 million three-year note bearing interest at a fixed rate of 3.1 percent. This is the first time we've come to market since 2014, and we were very pleased with the response to this offering.

To sum it up, we delivered strong adjusted EPS growth in the core business, which benefitted from solid top-line growth, continued margin expansion, sequential SG&A improvement, and execution of our NCIB. We remain focused on achieving our long-term adjusted EPS growth target as set out in our financial framework.

And with that, I'd like to wish everyone a wonderful holiday season filled with meaningful time with loved ones.

I'd like to pass the call back to Katie for your questions.

**Katie Brine**

Thank you, Costa. Ludi, you may open the line for questions at this time.

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## Q&A

### Operator

Thank you. And, ladies and gentlemen, we will now begin the question-and-answer session. To ask a question, you may press \*, followed by the number 1 on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press \*, followed by the number 2.

One moment, please, for your first question. And your first question comes from Vishal Shreedhar with National Bank Financial. Please go ahead.

### Vishal Shreedhar — National Bank Financial

Hi. Thanks for taking my questions. I just wanted to get context from you, Pierre, on if we should anticipate any changes in the business now that you're taking it over. I know you're reviewing your strategic plan, but is there anything in the interim that we should expect to increase focus or decrease focus on?

### Pierre St-Laurent

That's a good question. Like I said in my introduction, we're focusing on delivering the full value of the investment we've made over the last couple of years is my focus, short term.

As I also said, longer term, we will focus on where I believe it matters the most. I mean, focusing on being relevant for customers, first and foremost, very, very important; helping stores to better serve customers, make their lives simpler.

I'm passionate about growth, but profitable growth. And I think we have to continue to be very disciplined with costs. So if we're disciplined with cost, we're growing, we're relevant for customers, and we make stores' life easier, I think the best days are yet to come for us and our customers.

**Vishal Shreedhar**

Okay. Thank you for that. And appreciate the comments that you gave in your opening remarks regarding your CFCs and Voilà. So, Pierre, I just wanted to get your perspective on that, just given the shifts in the industry from Kroger, how you see this business evolving. Is it something that you see with a CFC as an integral part for Empire going forward? Or do you think store-based delivery is the way for now? Any perspective would be appreciated.

**Pierre St-Laurent**

Yeah. I'll ask Costa to answer your question, and I will complete if it's necessary.

**Costa Pefanis**

Thanks, Vishal. I think where I'd like to start is that when we made the decision to partner with Ocado, we knew that it would be a long-term plan. It's a marathon more than a sprint.

And given that our grocery commerce penetration hasn't grown at the rate that we had expected, we've been constantly looking at ways to improve our profitability and our overall e-commerce business. We ended the mutual exclusivity of Ocado. We paused CFC 4. We've entered the marketplace with partnerships, with third parties. All these things are for us to address where we can see cost savings within the Voilà business, but also to look at the e-commerce business more broadly.

So I would say that at this point in time, as we continue to work on this moving forward, we will provide more updates as necessary. But our focus has been consistently in those areas I've mentioned, and we consistently look to perform going forward.

**Vishal Shreedhar**

Thank you.

**Pierre St-Laurent**

To complete what Costa just said, Voilà is a very good platform to serve customers. When you look at KPIs, it's very good. Fulfilment, NPS; it's a great technology.

The thing we learned in e-commerce is multichannel. At the beginning, we were all in with Voilà. Right now, we decided to end the exclusivity to be part of the third-party business, and we're very pleased that there's no cannibalization. It's different—I would say, a different purpose for customers, immediacy versus planned trips.

So the way we look at the e-commerce business right now is we're looking at it multichannel, more than ever, and we want to make sure that we are leveraging every single channel to improve sales, to improve our market share at a very profitable level.

So this is our focus, and we have a lot of room ahead of us. We're focusing on it, and we're confident that we will end in a good place for customers and for shareholders.

**Vishal Shreedhar**

Thank you. Thanks.

**Operator**

And the next question comes from Chris Li with Desjardins. Please go ahead.

**Chris Li — Desjardins**

Hi. Good morning, everyone. Just maybe a quick follow-up to the Voilà question. I just want to see if you're able to confirm, just in terms of the profitability or the losses of Voilà, is that continuing to improve year over year right now for that business?

**Costa Pefanis**

Yeah. So, Chris, thanks for the question.

We're focused on ensuring that the benefits that we're getting from all these initiatives continue to improve our overall business. When Pierre mentions the way that we're looking at this business, it's a holistic approach. We haven't paused any of our initiatives. We continue to drive efficiencies in our business. We're focused on the highest-impact cost-saving opportunities, and that means we're trying to optimize across the entire network.

So we're continuously looking to identify areas that give us the levers that are necessary in order to drive business with our customers more effectively. So there hasn't been a change to that strategy. We continue to push forward. And I believe that with the team that we currently have in place and the aspects of how we're looking at driving these cost initiatives going forward, we're in the right spot.

**Chris Li**

Okay. That's helpful.

**Pierre St-Laurent**

And the answer, Chris, is yes. On a comparable basis, we're making improvements in the bottom line for the Voilà business. So, we're more efficient. We are working more together, getting more synergies with the rest of the business. We're seeing progress. But again, a lot of room to improve, and we're focusing on it.

**Chris Li**

No. That's helpful. And are you able to share with us just roughly what is the e-commerce penetration for Empire?

**Pierre St-Laurent**

I don't think we used to share this number, and we're not sharing this, for competitive reasons.

**Chris Li**

Okay. No, that's fair. And then, Pierre, maybe another line of question I wanted to explore with you. Obviously, competition is top-of-mind right now. I want to get your thoughts on in terms of what you're seeing in the marketplace right now. What are your expectations? Are you seeing any notable differences in terms of intensity between regions and banners? Thank you.

**Pierre St-Laurent**

Overall, quarter to quarter, I don't see major changes. So, value focus for customers is a big trend. And as I said in my introduction, it's normal course of business for us to provide more value to customers in all of our formats, and we're doing well. We just have to see our same-store sales number in all formats. We're very pleased with how relevant we are with customers, and there's always room for improvement.

As I said, we are seeing higher basket size, higher transactions, which is a good sign. On promotional, the penetration is relatively stable and, in fact, there's an improvement year over year in this quarter. But again, from quarter to quarter, we can see variances, but it's into a range that it's highly manageable. I don't see more promotional penetration right now. And in fact, as I said, year over year, it's an improvement.

But again, there's a lot of real estate activity. We're very pleased with what we're doing right now. We have our own strategy. We're very disciplined. We see a lot of opportunity to grow with all of the formats we have. As you can see, we have higher top-line growth than same-store sales. Our plan over the next year is opening more new stores when it makes sense.



With all of our formats, we strongly believe that our portfolio of brands is a great asset for us because we're going to open discount stores because we have a lot of white space in discount, of course, based on our penetration in discount right now. But we also have an opportunity to grow our full-service business, our Farm Boy business, our Longo's business, our Foodland business because, again, it's a strain to have multiple formats to be relevant in every single market.

So we remain disciplined. We remain confident. And we feel that we have a lot of room to grow. We're focusing on the right format for the right market.

**Chris Li**

Great. Thanks very much and happy holidays, everyone. Thank you.

**Pierre St-Laurent**

Thank you.

**Operator**

And the next question comes from Irene Nattel with RBC Capital Markets. Please go ahead.

**Irene Nattel** — RBC Capital Markets

Thanks, and good morning, everyone. Thank you for all the commentary, very helpful. And sort of a few questions coming out of that.

First of all, you said, Pierre, that your passion about profitable growth and one of the four areas with which you are obsessed is costs. Can you outline for us where you might see the biggest opportunity to improve your run rate on certain types of costs?

**Pierre St-Laurent**

Good question. Thank you for asking it.

So as I said, we made a lot of investment in the past, so one-time investments in many different areas of the business, in stores, in technology, in different strategic programs. So we took the cost, but now it's time to deliver the benefits, and we strongly believe that if we're focusing on delivering benefits on the investments we've made, we will grow sales, and we won't have to spend more money. So the focus on delivering the expected outcomes we're looking for when we made these investment is what we have to focus on.

So this is an example but, again, there are many different areas in the organization we can be more nimble. And again, if it's not to be better—to give more value to customers, if it's not to help stores to better support customers and interaction and customer service, if it's not to grow, we have to question ourselves on every single dollar we spend.

Discipline. Discipline is the key word. As you will know me in the future, I'm a disciplined person in my personal life and my professional life, and I'm a big fan of less is more, focused, disciplined, and deliver on our commitments.

### **Irene Nattel**

Thank you. And just, if you had to give yourself sort of a score on 1 to 10 on where the organization is today versus where you would like to see it, would you be able to?

### **Pierre St-Laurent**

That's a good question I did not anticipate. I'm tough with myself, and I think if I give you a number, people won't like me. So I won't share this number with you.

**Irene Nattel**

Fair enough, Pierre. Fair enough. And just a different question but, again, following on some of your commentary. So this year, this quarter, we saw 2.5 percent same-store sales, 3.4 percent total food sale growth, in part because of the new wholesale partnerships. Is this an area that you would like to pursue to a greater degree? Would you like to be doing more partnerships? How much incremental capacity do you think that you could handle in your supply chain? Thank you.

**Pierre St-Laurent**

We have a lot of capacity. We have three fully automated RSCs. Again, the thing is, we did sign a wholesale contract, so that means we have capacity. So I'm not worried about capacity in our supply chain network. I don't think we need major investments to grow in the next couple of years.

However, optimizing our supply chain, it's very, very important because it's a big component of our SG&A. So we have to make sure supply chain will remain very, very efficient, and we're always looking at improving the network. We made recent investment in Alberta in automation. We're looking at improving our network in Atlantic Canada right now.

So we have multiple projects ahead of us to continue to improve the supply chain. But to your question related to the capacity right now, we have the capacity to grow, no doubt.

**Irene Nattel**

That's great. Thank you. And wishing you best of luck and looking forward to seeing that discipline, or seeing that score move up next year.

**Pierre St-Laurent**

Thank you. You, too.

## **Operator**

And the next question comes from Étienne Ricard with BMO Capital Markets. Please go ahead.

## **Étienne Ricard — BMO**

Thank you and good morning. Pierre, given you're now in the CEO seat, how do you think Empire's footprint could be different a few years from now, both in terms of banners, but also from a geography perspective?

## **Pierre St-Laurent**

I hate averages. So I've been involved in real estate many years in my career. I'm a big fan of looking at growth - market by market. And again, because we have multiple banners, that is helping us to, I would say, seize all the opportunities in every single market.

So we are going to grow more, I think, in terms of square footage, because we believe we have room to grow. As I said before, we are underdeveloped in discount. So we will grow discount. We have a lot of the white space in discount.

But we won't just focus on discount because there's other markets where it's not a discount market, and there's more opportunity to grow our Farm Boy, our Longo's, our Foodland. We're going to open a new Foodland in a few weeks from now. We did open new IGAs recently. And we just opened a Longo's. We did a conversion to a Farm Boy recently with a lot of success.

So we will add square footage, but we'll be very disciplined. We're not growing square footage to grow square footage. We're growing square footage to gain market share in a profitable way. This is our responsibility to shareholders. And I think you will see more square footage growth than in the past.

In our capital investment, I think, on the capital investment we're making at store level, you will see a shift on new stores. We'll be more efficient in our renovation. We believe that we can renovate more stores, less costly. And we will reshuffle that investment into new stores in a profitable way.

So it's all little tweaks but make a huge difference in our business. I'm a big fan of saying that retail is detail. And it's in very many small details will make a huge difference. And this is an example in real estate. The tweaking we're trying to do right now will be very profitable over time for us.

**Étienne Ricard**

Interesting. And in what markets do you think you could have a greater presence?

**Pierre St-Laurent**

Oh, everywhere. We see a lot of opportunity right now in Quebec. We are seeing a lot of opportunity in Ontario. Our market share can improve in Ontario. We have very good market share in Atlantic. We are investing money in Atlantic to stay relevant in this market and to have very nice stores for our customers.

Western Canada, we will continue to expand our FreshCo business there. We're around 50-ish stores in Western Canada. We said that we want to go up to 65, and we're on track for that. And I think, over the next couple of years, we will find other opportunities to continue to grow.

But it's across the country. It's not in just one region. But again, it's nice to see—we don't have the same market share region by region. We don't have the same penetration banner by banner. This gives us the opportunity to grow more than if we have only one banner, and we are in only one market. There's a lot of room to grow. And I like real estate. I like growing. Right now, there's a lot of opportunity for consolidation in the market, and we're looking to continue to grow.

**Étienne Ricard**

Thank you very much, and happy holidays.

**Pierre St-Laurent**

Thank you. You, too.

**Operator**

And the next question comes from John Zamparo with Scotiabank. Please go ahead.

**John Zamparo — Scotiabank**

Thank you very much. Congratulations to you, Pierre.

**Pierre St-Laurent**

Thank you.

**John Zamparo**

I want to start on SG&A. It seems like there are a lot of areas to invest in. You called out several of those this quarter. But it also seems like there's many initiatives underway to get costs down at the same time. So I wonder how this shakes out on a net basis over the next year, particularly in light of the stock-based compensation levels over the past year. So presumably, you're targeting SG&A growth below the pace of food sales growth, and I wonder when you anticipate you might get there.

**Costa Pefanis**

John, it's Costa here. Thanks for the question. It's a very good question because, internally, it's a very high priority for us. Pierre's answer to the previous question around growth will be very meaningful for us if we can drive our leverage around fixed costs. We have many areas of our business. We highlighted supply chain. We're highlighting the areas of technology where we've made lots of investments.

Am I going to give you a specific number and a specific timeline today? The answer is no. Am I going to give you colour around what we're trying to achieve over the next few quarters? Yes. And that's to continue to drive absolute dollars down. Because as we grow across the various parts of our business, we're going to naturally see leverage. Right? As we grow wholesale, we'll see leverage. That's not enough for us. We want to reset where we think our run rate should be on our core business.

And that's where we're going to continue to put pressure on ourselves, from the tone at the top, and put pressure on the various leaders in the business to have that accountability that we've constantly had, but with a renewed focus across the board as we go into our budgeting season, and as we go into our strategic planning sessions.

**John Zamparo**

Okay. Thank you for that. And sticking with the cost subject, but moving up to gross margin, I think in the prepared remarks, you'd referenced an enhanced inventory control initiatives—or initiative. I wonder if you can unpack that a bit. It seems like an ongoing area of emphasis or focus for Empire. So can you share what is incremental about this program versus prior initiatives? And just what this plan entails?

**Pierre St-Laurent**

It was an example we gave, like we gave different examples in the past on promo optimization, on shrink management, on promo mix management. So, in this quarter, the impact of improvement came from inventory control. Again, it's not a straight line of improvement. It's a daily management focused on gross margin. It's multiple little things. Private label penetration, if we are delivering more penny profits with private label, it's another area that we're looking at to improve gross margin.

So there's many small initiatives that, when we look at everything, we're confident that we'll continue to grow our margin in a range of 10 to 20 basis points. But it's multiple little things.

Again, retail is detail. And in gross margin, there's no better example than managing gross margin with all the small things and disciplined execution and good control. And now we have good tools. We did invest a lot of money in algorithms to help us to optimize the space, to optimize promotion.

So it's investment we've made in the past that we will continue to derive benefit from. So in the next quarter, maybe the big improvement will come from promo optimization. And the next one will be, maybe—the bigger thing will be probably private label penetration.

So it's a lot of little things. So in the last quarter, we're pleased with the progress we've made in inventory control. It was another area that we believe we can do better. And we will continue to focus on a lot of small initiatives, continue to improve, and to deliver on our commitment to grow margin by 10 to 20 bps over time.

**John Zamparo**

Understood. And then one last one. I wanted to come back to the store mix at Empire and appreciate the commentary on different formats and channels and opportunities for growth.

When you think about the prior strategic plan, conversions to discount were an important part of that plan. And particularly given what looks like, call it mid-single-digit, same-store sales growth in discount this quarter, I wonder how you think about the potential for a meaningful number of conversions to discount as part of your next strategic plan.

**Pierre St-Laurent**

Most of the conversions have been done in discount. So the unprofitable full-service stores have been converted, as of today, in discount. So most of the growth in discount will come from new stores. So this is the big change compared to the last three years.



And this is good news because we will expand square footage. We will grow market share faster with this approach than the one we had before. It was the right one to have before. I think it was the right decision to make. We made the right decision. We're pleased with the progress we're making.

In our same-store sales in Western Canada, we introduced a new brand, and we're very pleased with the response we have over there. And this is why we will continue to open new stores in Western Canada and in Ontario. So this is the big change compared to the last three years.

**John Zamparo**

Okay. Thank you for the colour. I'll pass it on. Happy holidays.

**Pierre St-Laurent**

Yep.

**Operator**

And the next question comes from Michael Van Aelst with TD Cowen. Please go ahead.

**Michael Van Aelst — TD Cowen**

Hi. Good morning and welcome, Pierre. So a few questions to follow up on. First of all, the new wholesale contracts that you're taking on. Are any of those being executed through the Voilà CFCs? Or are they all through your normal DCs?

**Pierre St-Laurent**

Good question. We asked that question to ourselves at the beginning. No, the type of products and I think—we have many wholesale contracts. We had many in the past. So this is not a new business for us. It's a business that we're running for many years. We have long-term customers on wholesale. It's just matter of, this year, we have the opportunity to sign new contracts and replace with the new contracts we did sign.

We are looking at other opportunities to continue to grow. We like it because it's not big gross margin, but there's no cost, almost no cost, except the supply chain cost. We have no SG&A to handle. So we are using our existing assets, and we have capacity right now. So it's good, complementary business for us.

It's good relationships also because, sometimes, when we do an wholesale contract, we have to look at the assortment and, sometimes, we're seeing opportunity to consolidate our volume together. So there's margin expansion possible when we have good partnerships, not just distributing, but building strong collaboration and partnerships with wholesale customers. It's sometimes very interesting. So this is what we expect to do going forward. And this year, we have tailwinds on the wholesale business.

**Michael Van Aelst**

Good. I'm not sure if I missed it, but. So is any of it going through Voilà?

**Pierre St-Laurent**

Oh, no. No, it's not. It's very different. We're serving stores. We're not serving customers. So we're serving wholesale brands that we don't own. So Voilà is a customer fulfilment centre. It's not a distribution centre. So Voilà is built to deliver customer orders and not store orders.

With our supply chain, it includes automated facilities to deliver store orders, and it's very efficient. We've been in this business for many years. We have been the first to invest in automation, and we're very pleased with the result. We have three big facilities in the country, and we're leveraging that a lot. So yes, the automated facilities are used to serve those wholesale customers.

**Michael Van Aelst**

Okay. Thank you. And then your gross margin expansion. So up 14 basis points, still very good, but it has fallen from like roughly 30 to 70 basis points, excluding fuel, the last seven quarters, I believe. So what are you cycling off of? Is it the shrink improvements that are starting to normalize now? Or is there something else?

**Pierre St-Laurent**

There's no one thing. The biggest thing is the discipline in the promo mix management, promo penetration. This is the most important thing, in my opinion. But promo optimization tools we have in place, shrink management, being more sharp with inventory control, it's very important. It's multiple little things.

And to your comments, and as I said, so the wholesale contract, we have lower margin. So this is—we said that in the introduction. It's 14 basis points, but when you remove the wholesale business, it's above 20 basis points. So there's a—the mix of sales is impacting that gross margin rate. It's like when we have higher fresh sales and grocery sales, this is good for the margin rate.

And the other thing is, as a reminder, we grew margin over the last 28 quarters. So I think we did a pretty good job on margin. In some quarters we improved by 50, 60, 80 basis points.

The best—I don't expect—this is what we said that before. We are expecting 10 to 20 basis point improvement over time because of that. Because we are at a level now, we are not anticipating 100 basis points improvement, but 10 to 20 with the initiatives we have in place and the efficiencies of promo mix management and the competency of our team in merchandising and in-store, we believe that the 10, 20 is highly achievable.

**Michael Van Aelst**

Okay. Great. And then just final question. You talked earlier about being halfway through your three-year strategic plan and that your benefits are starting to come through now, and you're focusing on this in the short term. You highlighted the cost-control initiatives, and you talked a little bit about the store and new store opportunities. What else would fall into a big bucket in those areas where you think you can reap some more benefits from that three-year plan?

**Costa Pefanis**

Michael, it's Costa here. And I think, when we talk about those four areas, that's framing it not only for the external audience, but it's also framing it within our company across the board. So growth, to us, a lot of that's going to come down to improving sales productivity in various locations, using our banners to drive incrementality. We opened up a Farm Boy location down the street from an existing one, and we saw immediate increases to sales. I mean, those are the opportunities that we're constantly looking at.

But I think, from my perspective, it also comes down to capital allocation and the ability to identify areas of the business where we can grow, potentially through joint ventures, acquisitions, things that are going to give us a lever for the future.

**Michael Van Aelst**

Great. Thank you very much, and happy holidays to everybody.

**Pierre St-Laurent**

Thank you.

**Operator**

And the next question comes from Mark Petrie with CIBC. Please go ahead.

**Mark Petrie — CIBC**

Yeah. Good morning. Thanks. Most of my topics have been covered, but I wanted to just ask. Wholesale, obviously, is an example of leveraging your assets. Curious to hear about other opportunities you might see today to do that. Thinking about things like retail media or potentially other opportunities in your supply chain, I know these aren't necessarily new to you. But where do you stand on these today? And is that an area that you expect to put more attention to?

**Costa Pefanis**

Definitely. Mark, it's a great question because as we look at evolving—again, going back to the growth—we want to have areas of our business that we can put more investment into if it makes sense. Right? This isn't just growth for the sake of growing. It's being able to leverage our existing asset base.

We are in the retail media business. We have put investment into people. Right? It's very important that we have the right people driving this business forward. We continuously are looking for better ways to do that business. And technology is a big part of that. Right? Leveraging our various investments and our existing technology's going to be a very big catalyst for us, having the ability to drive further utilization of our assets on our supply chain. These are the kinds of discussions that are going to be very important for us to be able to reduce our net expense.

**Mark Petrie**

Okay.

**Pierre St-Laurent**

That's a good point on retail media. It's an area where we see a lot of opportunity to grow. We're new in this business, but it's a lot of growth ahead of us. So this is very interesting. Like Costa said, supply chain is doing a good job on using transport as a service, but there's room to grow also there. And the team is focusing on it.

So we're new in those businesses. Not new, but we are underdeveloped, I would say that. And this is interesting because this will help the overall financial equation. It's additional growth. The investment is made. And we just have to capture the benefit and focus on it.

But this is why I like to say that we did a lot of good investment in the past. And we just have to focus on those investments and squeezing the juice, and in many different small places that will make a huge difference when we combine everything together.

**Mark Petrie**

Yeah. Understood. Okay. Thanks for that. And I guess, just to bring it back to the quarter very specifically, food retail EBITDA was down slightly. Obviously, cost control is a major area of focus. Is that the lever that you need to pull in order to get that back to positive territory? Or how should we sort of think about that result with the quarter and sort of the run rate going forward?

## **Costa Pefanis**

Absolutely, Mark. I think that that's the key part to this. Even though we were very happy with the way that our core business performed in the quarter, that's going to be the key for us to be able to continuously improve. Closing that gap and being able to drive that food EBITDA margin is what drives the engine.

## **Pierre St-Laurent**

But the good news is the toughest things are delivering sales growth in a profitable way, having good control on our margin, because we rely on customer behaviour and things like that. On those two fronts, we're very pleased on what we achieved.

The cost is a self-inflicted thing. So we can focus on it, and we can have results very quickly if we're focusing on it. But the element that is tougher to do, we're doing well there. So this is why we're optimistic. This is why, when we travelled the country and we spoke to our teammates, who are very energized. The decision the board made to do the succession internally, is a big act of confidence that we're doing well, we're moving in the right direction, and they expect that we'll continue in this direction.

And that gives a lot of energy to our teammates, and this is why we're optimistic for the future. The collaboration across the country is just amazing. I was there, let's say, seven, eight years ago when we were four different regions. We were working by ourselves in our region. Now it's unbelievable. All best practices are shared across the country with all our banners, with all our formats. This is how retail should work, and I'm a big fan of collaboration between functions. But now, we're ahead of it. We're collaborating regionally, nationally, and by function, and by format.

So this is very nice to see, to see the energy. That gives me a lot of energy. I think you can feel it. And now, we have to focus and deliver on it.

**Mark Petrie**

Yes. Excellent. Okay. Thanks for all the comments. Congrats, Pierre, on the appointment, and happy holidays.

**Pierre St-Laurent**

Thank you.

**Operator**

And we have no further questions at this time. I would like to turn it back to Katie Brine for closing remarks.

**Katie Brine**

Thank you, Ludi. We appreciate your continued interest in Empire. If there are any unanswered questions, please contact me by email. We look forward to having you join us for our third quarter fiscal 2026 conference call on March 12th. Happy Holidays.

**Operator**

Thank you. And, ladies and gentlemen, this concludes today's conference call. Thank you all for joining. You may now disconnect.