

# Letter to shareholders



Fiscal 2014 was a remarkable year for Empire. In November 2013, we completed the largest investment in the Company's history — the \$5.8 billion acquisition of Canada Safeway. The year also marked the introduction of Sobeys' *Better Food for All* movement – the most exciting stage yet in the evolution of our full service format.

From the privatization of Sobeys in 2007 until today, Empire has consistently increased its focus on the businesses we know best – food retailing and related real estate. Our focus continued in fiscal 2014 with the acquisition of Canada Safeway, the sale of Empire Theatres and the consolidation of the Empire and Sobeys senior management teams. Today, Empire Company Limited is essentially a pure play food retailing and related real estate company with 99.9 percent of total sales and 97.1 percent of total assets attributable to these businesses.

The events of the past year solidified our position as a leading national food retailer. With the Canada Safeway acquisition, we secured a leading market share position in Western Canada, including the fast-growing Alberta market.

Equally important, Safeway is a leader in the full service segment of the food retailing industry, which lies at the heart of our own growth strategy. Sobeys and Safeway are highly compatible in terms of strategic objectives and corporate culture, with a clear focus on excellence in fresh food and a commitment to exceptional customer service through highly engaged employees. We share many other strengths including high-quality management, committed employees, rigorous cost control, and the popular AIR MILES® rewards program and private label programs. We are delighted with the talent and

enthusiasm of our new colleagues at Safeway and we are excited that they are equally pleased to be part of our organization. We have much to learn from each other and this process is well underway.

Among the measurable benefits of the acquisition are \$200 million in expected annual run-rate cost synergies and earnings accretion that will be realized as we integrate our operations over the next three years. We are on track and committed to realizing these synergies, on time and on target. Our ability to take full advantage of this opportunity is due in no small part to the talent and engagement of our employees and to the investments we have already made in Sobeys' modern and scalable distribution network and IT infrastructure.

The key to success has always depended on differentiating ourselves with value, product and service that is most meaningful to our customers, while remaining competitive on price. The launch of our second major platform for growth in fiscal 2014 – *Better Food for All* – will play a critical role in helping us achieve this commitment.

Our recent experience and research have shown that while most Canadians would like to eat better food than they currently do, they are concerned that healthy and appetizing meals are too costly, too difficult to manage, and too time consuming to prepare.



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Overwhelmed by the choices, our customers are looking for leadership and solutions from people they trust. **Better Food for All** was born from this understanding. Much more than a tagline, it expresses Sobeys’ new purpose to be Canada’s Better Food Destination by helping Canadians Eat Better, Feel Better and Do Better, every day.

Launched in September 2013 with the assistance of chef and food campaigner Jamie Oliver, **Better Food for All** has received an enthusiastic welcome from our customers. They have noticed the fresh-market environment, the delicious restaurant-quality prepared meals, the abundance of naturally and responsibly sourced foods, and the knowledgeable and enthusiastic employees who are trained to make the **Better Food for All** experience come alive in our stores every day.

To date, eight new concept stores that reflect the new **Better Food for All** positioning have been opened with many more scheduled for conversion or construction over the next year. Sobeys’ new banner positioning has been accompanied by the introduction of Sobeys *extra* – our next generation of full service format stores. You can discover more about the **Better Food for All** movement and get a taste of the look and feel of our evolving store concept elsewhere in this report.

The other important business we know and understand, is food-related real estate. More than 50 years ago Frank H. Sobey began realizing the advantage of owning the grocery stores he operated. Today, this continues through the ownership of real estate by Sobeys as well as our 41.6 percent interest in Crombie REIT.

Sixty percent of the real estate acquired by Sobeys in the Canada Safeway acquisition (net of store divestitures) is located in Western Canada's four largest metropolitan areas, with a high proportion in expensive-to-replicate, high-density locations that are highly complementary to Sobeys' store network.

Crombie REIT also benefited substantially from the Canada Safeway acquisition through the sale-leaseback transaction in which 70 Safeway locations were sold to Crombie REIT for \$991 million. As a direct result of the impact of the Canada Safeway acquisition, Crombie REIT achieved investment-grade status, which has significantly improved its access to capital and financial flexibility. We are excited to continue to participate in Crombie REIT's growth story through our equity-accounted ownership interest.

As for the year ahead, we expect the continuation of intense price competition and a highly promotional environment in the Canadian food retailing industry.



**The real key to success in our business comes from understanding what matters most to our customers and delivering a differentiated shopping experience that builds strong and enduring relationships. *Better Food For All* ensures our customers experience the best food retail shopping environment in Canada.**

Within this market reality, we will continue to offer competitive pricing and maintain our market share. Our ability to do so has been greatly strengthened by the investments we have made over the past few years to secure efficiencies and drive costs out of our business while strengthening business processes. Such efforts continued in fiscal 2014 with the completion of our SAP rollout in Québec and at Thrifty Foods, and the opening of our second automated distribution centre. During the next three years, these investments will be leveraged through the integration of the Safeway business.

As we've said before, being competitive in the markets we serve is just the price of admission in Canada's food retailing industry. The real key to success in our business comes from understanding what matters most to our customers and delivering a differentiated shopping experience that builds strong and enduring relationships. ***Better Food for All*** represents the latest step in this process but our customers will continue to see a similar spirit of customer-focused innovation across all of our full service banners and other retail formats.

In closing, I would like to thank the Board of Directors for their continued stewardship of our Company. In particular, I would like to acknowledge the significant contributions of former President and CEO Paul Sobey, who

retired in fiscal 2014 and whose guidance and insight have been greatly appreciated during the transformative events of fiscal 2014. In addition, I would like to extend our appreciation and best wishes to Rob Sobey, who retired as President and CEO of Lawtons Drugs, as well as Stuart Fraser and all the other employees of Empire Theatres for their contributions to our success over the years.

Finally, I would like to thank our management team and the more than 125,000 employees of Empire and its subsidiaries, franchisees and affiliates, for their hard work, dedication and focus on building a stronger platform for long-term value creation.

Sincerely,

(signed) "Marc Poulin"

**Marc Poulin**

President and Chief Executive Officer  
Empire Company Limited

June 26, 2014

### Strategic Priorities

At Sobeys, we always put the customer first while ensuring process and operational excellence. OUR KEY PRIORITIES are:

- Successful integration of Canada Safeway
- *Better Food for All* – A compelling full service offering and shopping experience
- Securing efficiencies through process harmonization and optimized distribution
- Employee training and engagement to deliver best-in-class customer service and loyalty
- Continued intelligent investment and innovation

