

FINAL TRANSCRIPT

Empire Company Limited

First Quarter 2017 Results

Event Date/Time: September 15, 2016 — 1:30 p.m. E.T.

Length: 50 minutes

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



CORPORATE PARTICIPANTS

Ken Chernin

Empire Company Limited — Director, Investor Relations

Clinton Key

Empire Company Limited — Interim Chief Financial Officer

François Vimard

Empire Company Limited — Interim Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Mark Petrie

CIBC — Analyst

Peter Sklar

BMO Capital Markets — Analyst

Irene Nattel

RBC Capital Markets — Analyst

Jim Durran

Barclays — Analyst

David Hartley

Credit Suisse — Analyst

Chris Li

Bank of America — Analyst

Michael Van Aelst

TD Securities — Analyst

Vishal Shreedhar

National Bank — Analyst

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

Patricia Baker
Scotiabank — Analyst

Kenric Tyghe
Raymond James — Analyst

Keith Howlett
Desjardins Securities — Analyst

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

PRESENTATION

Operator

Good afternoon. My name is Chris (phon), and I'll be your conference Operator today. At this time, I'd like to welcome everyone to the Empire Company Limited First Quarter 2017 Results. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then 1 on your telephone keypad. To withdraw your question, press the # key. Thank you.

Ken Chernin, Director, Investor Relations, you may begin your conference.

Ken Chernin — Director, Investor Relations, Empire Company Limited

Thank you, Chris. Hello, and thank you for joining us. Our comments today will focus primarily on the financial results of the first quarter of fiscal 2017 ended August 6, 2016. Following our comments we will then be open to your questions.

This call is being recorded in live audio on our website at www.empireco.ca.

Joining me on the call this afternoon are François Vimard, Interim President and Chief Executive Officer, and Clinton Keay, Interim Chief Financial Officer.

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

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

from such statements. 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 Clinton, who will provide a review of Empire's financial results. François will then discuss Sobeys.

Clinton Keay — Interim Chief Financial Officer, Empire Company Limited

Thank you, Ken, and thanks to everyone for joining us today. We released our first quarter results this morning, so I plan to only review the highlights.

Sales for the first quarter of fiscal 2017 decreased by 1 percent from the same period last year to \$6.19 billion.

Same-store sales for the quarter, excluding the negative impact of fuel sales, decreased by 1.2 percent. The year-over-year decline was driven by a decline in traffic, which was partially offset by an increase in the average basket size.

The lower sales relative to the same period last year were the result of a number of factors, including challenges in the West business unit and soft sales trends in most of the store network.

Excluding the negative impact of fuel sales and the retail West business unit, same-store sales increased 0.6 percent. Our internal food inflation for the quarter was calculated at 1.5 percent.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



The factors I just noted adversely impacted gross margin for the quarter, which was \$1.49 billion, or 24.1 percent of sales, down from \$1.52 billion, or 24.3 percent of sales in the same period last year.

EBITDA for the quarter was \$238.3 million, or 3.9 percent of sales, a decrease of \$75.8 million from the same period last year. Adjusted EBITDA for the quarter was \$243.1 million, or 3.9 percent of sales, a decrease of \$82.1 million from \$325.2 million, or 5.2 percent of sales last year.

The decrease in adjusted EBITDA and adjusted EBITDA margin is attributed to our sales challenges, which highly impacted our leverage.

The Company's effective income tax rate for the first quarter of fiscal 2017 was 18.7 percent compared to 26.8 percent in the same period last year. The reduction is attributable to the tax consequences arising from the sale and leaseback of retail properties to Crombie REIT on a tax-deferred basis.

Adjusted fully diluted earnings per share for the quarter was \$0.27 compared to \$0.44 last year. Net earnings net of noncontrolling interest was \$65.4 million, a 39.9 percent decrease. And adjusted net earnings net of noncontrolling interest was \$73.6 million, a decrease of 39.5 percent from the same period last year.

Free cash flow generated for the quarter was \$455.6 million, a \$238.1 million increase over last year, which was largely due to the sale of properties to Crombie REIT in the current fiscal year.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



At the end of the quarter, funded debt to total capital ratio was 34.6 percent versus 39.5 percent at May 7, 2016, and cash and cash equivalents equalled \$280.1 million.

During the quarter, Sobeys repaid \$300 million in senior unsecured notes.

I will now turn the call over to François Vimard.

François Vimard — Interim Chief Executive Officer, Empire Company Limited

Thanks, Clinton, and good afternoon, everyone. In Q1 we continued to experience the effect of the Safeway integration challenges and missteps that we have clearly articulated over the past number of quarters.

These challenges in the West were mainly self-inflicted and more compounded by a weak economy in the West, particularly in Alberta and Saskatchewan.

This quarter we did not see further erosion of our sales in the rest of the country; however, we continued to have tonnage decrease overall as the customer continued to see greater value. This simply reinforced the important work we are undertaking with our pricing structure.

When I assumed the leadership role on July 7th of this year, I outlined three key strategic priorities aimed at stabilizing the business. They are, first, build sales; second, reduce costs; third, focus on store-level execution.

We will build sales through initiatives, such as Simplified Buy & Sell, which is focused on making important structural change in the way we go to business by simplifying, standardizing, and

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

harmonizing the buy and sell structure across the Company with the ultimate goal of strategically improving shelf-price competitiveness across the country.

Those familiar with our industry will understand the scope and complexity of an initiative like this and why we are investing the time and resources to ensure alignment and executional excellence, both internally and with our supplier community.

Less than two weeks ago we launched Simplified Buy & Sell in Western Canada into Sobeys, Safeway, and IGA banners. The launch of Simplified Buy & Sell in the West builds on our lower produce and meat price initiatives we introduced in that market in January of this year.

Our customers in the West will now see a bolder, more extensive lower price commitment extended throughout the store, and find better everyday price in key areas such as grocery, dairy, frozen, and health and beauty products.

Like the Simplified Buy & Sell rollout in Quebec, the shelf-price reductions in the West are supported by extensive in-store and external marketing activity that clearly calls out the price change and highlights our long-term commitment to our customers to provide consistent, better everyday low price in Safeway, Sobeys, and IGA stores across Western Canada.

The launch of Simplified Buy & Sell in Quebec in April was a success in terms of price drop awareness. Initial results are indicating that customers are beginning to shift to a new lower shelf price with a coinciding decrease in promotional penetration.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

We're now focused on long-term sustainment, and we have largely maintained our adjusted price position since we have removed the price up-label in early July. We plan to roll out this in Atlantic Canada and Ontario over the next few quarters.

We have made good progress harmonizing our produce procurement on a national scale, which will enable us to leverage our size and improve the quality, freshness, variety, and assortment of our produce across the country.

Our capital expenditure will be more focused on projects that have a greater direct impact on our customers by improving the offering while not disrupting their shopping experience with major renovations. This will enable us to allocate capital to a greater number of stores, resulting in a broader and more consistent rollout of our new retail program. We anticipate our capital expenditures for the fiscal year to be approximately \$600 million, \$100 million lower than our prior estimate due a more focused approach.

Our cost base is too high given our sales challenges across the country, and therefore it is critical that we optimize our cost structure so that we can reinvest cost savings to drive the top line. We will need to work over the next few months to identify additional cost reductions and improving our efficiency.

These initiatives will be in addition to the previously announced retail support centre consolidated initiative. In this regard, we're continuing with the expansion of our Vaughan, Ontario

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

support centre, and we remain on schedule to start shipping frozen dairy and deli in addition to dry grocery by January 2017. This will coincide with the closure of our Milton facility.

Our Western Canada distribution optimization initiative continued to progress well, including the development of our third automated retail support centre in Rocky View, Alberta. We remain on schedule to reduce the number of retail support centres in Western Canada from 18 to 10 by the fall of 2017.

While on the broader strategic initiative that we have been advancing are vital to the long-term competitiveness of the Company, and will continue to require our attention, over the past 18 months, they have resulted in taking focus away from the store-level shopping experience.

We were too inwardly focused. This is why we are renewing our focus on store-level execution. Our stores are the focal point for everything we do, and we will focus on strengthening the fundamentals at the retail level so we can provide a superior shopping experience for our customers.

The West business unit remains a key component in our long-term success, and we will direct or redirect resources necessary to support the sales recovery in this important part of our business.

We continue to focus on harmonizing the offer between the Sobeys and Safeway banners, and we are beginning to see some traction; however, the overall sales performance in the West remains a significant issue.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



We are confident in our cash flow from operations, coupled with unutilized bank credit facilities provide us the flexibility required to achieve our strategy.

Despite the challenges we are facing in the West, we are confident in our strategy and believe that with proper execution we'll continue to create long-term value for our stakeholders as we have in the past.

We're now happy to respond to your questions.

Q&A

Operator

And at this time, I'll remind everyone if you'd like to ask a question, please press *, then 1 on your telephone keypad.

And our first question is from Mark Petrie with CIBC. Your line is open.

Mark Petrie — CIBC

Hey. Good afternoon. I wonder if you could just talk a little bit more about your learnings from your price action with regards to the Simplified business program in Quebec so far? And what changes did you make to that program, either in the program itself or in how you communicated with customers when you rolled that out West?

François Vimard

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Good question, Mark. The big learning—we learned a few things in Quebec. Clearly, it's critical and it's going to take time for customers to understand the change on the pricing structure. So the messaging and the way you message that to the customer has to be simple. So that's an element we changed in the West, tried to simplify that in the West so when the customer goes across the aisle, it is simpler to understand what we have done.

What we have seen so far in Quebec is the customer reacting on that lower shelf price, and that's where we're starting to see a switch in our regular price promotional mix. And the point here in the West will be to emphasize that even more so the customer understands that faster.

Mark Petrie

Okay. Thanks. And then you cited a highly promotional environment as being pressure on gross margin. I just want to ask you about promotional weights; how you've seen the percentage of goods that you're selling on promo change in the last couple quarters? And I guess maybe just if you could separate Quebec and other markets?

François Vimard

And that's another good question. I can tell you that where we did implement Simplify Buy & Sell, we saw an increase.

Mark Petrie

You saw an increase in promotional...

François Vimard

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Yes. An increase in promotional, yes.

Mark Petrie

Okay. Okay. I'll pass the line for now. Thank you.

François Vimard

Thanks, Mark.

Operator

The next question is from Peter Sklar with BMO Capital Markets. Your line is open.

Peter Sklar — BMO Capital Markets

Thank you. François, your SG&A dollar expense was up considerably from where it had been in recent quarters. Now I think a small part of that would be the additional rent you're paying to Crombie because of the sale and leaseback. But it's jumped quite significantly. So I'm just wondering if you could run through what's going through the SG&A line that has changed? Maybe you're spending marketing dollars on the Simplified Buy & Sell? I don't know. If you could just elaborate, please?

François Vimard

Yeah. So, Peter, I would say you're right. There's a bit of additional rent expense. But there's also we had some additional costs and acquired—created either by impairment of assets or some severance costs we had during the quarter that maybe represents not even a third of that addition and can be (phon) so far that is that.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

And the rest is my fixed costs still continue to go up. If I don't manage that, and with the leveraging I have on the sales side, the deleveraging I have on the sales side, it does affect my percentage. So there's a bit of one-off during the quarter, like I said, created by pure timing of some expenses; maybe a third of it of that additional expenses. But the rest is really created by investment, the material investment we're doing to bring the store execution at a better level, but also because fixed costs continue to increase.

And as long as I don't fix my sales challenge is going to be a challenge in the future. But like I said, Peter, also we also need to identify additional cost reduction to be more efficient on that side.

Peter Sklar

Right. And when you say investment in-store, are you talking about labour hours?

François Vimard

Yeah. Labour hours, or as you know, shelf tag, things like that that are directly to SG&A, and some marketing.

Peter Sklar

Right. Okay. My next question is on the Simplified Buy & Sell, I'm wondering in your experience in Quebec is that until it really gains momentum does that have a negative impact on your gross margin?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



And then secondly, we noticed in your rollout of the Simplified Buy & Sell in the West that you seem to have a new shelf-labelling system where it seems to be four categories. There's price drop; weekly savings; buy more save more; and better rewards. I'm just wondering if that is new, and how that is impacting your margin?

François Vimard

Okay. So two points you're asking me, and clearly the impact of Simplified Buy & Sell, depending where I launch it across the country, will have a definite impact on my margin, and because my price position in all those different regions were at different places. And clearly in the West that's pretty obvious with what you saw and the discussion we had in the past that my price position was even more out of whack in the West than it was in Quebec. So the impact in the West was bigger.

But on the other side, the shelving you're talking about clearly that you saw it's in line with the question Mark asked earlier, which is from the learning we had in Quebec we found that we had to clarify the message to the customer so it's easier for them to understand what we have done. And that's what you saw in the West.

And we're working. We know it's a long-term process, and we have a lot of data coming out of—the POS data coming out of that experience that we have in Quebec and in the West, and we're going to track all of the customer reacting and adjusting according to that.

Peter Sklar

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay. And lastly, I believe you said that your retail inflation was about 1.5 percent for the quarter. I'm just wondering how that is trending as you exit the quarter?

François Vimard

I'll be clear with you: it's trending down.

Peter Sklar

Okay. Thank you.

Operator

The next question is from Irene Nattel from RBC Capital Markets. Your line is open.

Irene Nattel — RBC Capital Markets

Thanks. Good afternoon. Wondering if you could just outline for us some of the key buckets that you're looking at on a go-forward basis in order to reduce your cost structure?

François Vimard

All of them, Irene.

Irene Nattel

Okay.

François Vimard

And I don't want to look cute, I don't want to look be cute, but as you know, we have three big bucket of costs. You have the back office cost, which is all the marketing, the people supporting

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



the business, we have the operational cost at store level, and we have the distribution cost, which are the three key elements.

But we have also all the, I would say, relationships we have with our partners, suppliers, the way we're doing business with them. And as you know and everybody told us, we're a complex partner to do business with. So what I'm saying; we're going to look at all those aspects. We need to simplify our business model.

We need to be simpler to do business with, and that's going to help the job from everybody of all those different buckets so we can reduce costs everywhere. But clearly some have more potential than others, and we'll explain to you when we're ready the plan we have in front of us. But I know we have a tonne of opportunity across the country.

Irene Nattel

And how long do you think it's going to be, François, before you'll be in a position to share more colour and granularity with us?

François Vimard

Give me a bit of time. When it'll be ready I'll give you a sense of that.

Irene Nattel

Okay. Fair enough. And should we also be thinking, just listening to you, that there could be more charges and more costs associated with these initiatives before we get to the cost-cutting part of it?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**François Vimard**

Depending what it is, and you know that, Irene, depending what it is it could. But as I say, it's too early for me to make a call on that.

Irene Nattel

Thank you. I appreciate that. Just wondering if we could go back and talk about the traffic trends across the country; how much of it do you think is you're losing to discount? How much are you losing to other conventional banners? And then also on basket I think you said your basket size is up. So are you seeing additional item count as a result of the Simplified Buy & Sell?

François Vimard

And Simplified Buy & Sell, like we know, it's only in Quebec. So your question was how is the momentum across the country? As you know, we disclose our comp store sales for the Western business and the rest of the business, so you can really see the big difference between the two and where our biggest challenge is.

In the Simplified Buy & Sell in Quebec, the basket size clearly changed, but we had some deflation created by the new pricing. So depending on the mix play it could influence there. So there's many aspects that affect our business. The big answer I can tell you, even if we said that our basket size overall went up, part of it, Irene, was inflation-related. But we're not keeping up with inflation, so we need that basket size to go faster than that.

Irene Nattel

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Understood. So finally, is it fair to say that you also—although sequentially you saw a little bit of an improvement in the traffic trend in Quebec, traffic was still under pressure?

François Vimard

Yeah. And the biggest change we saw so far in Quebec is the mix between our promotion and regular price, which was the intention at the beginning. And like we always said, the first element is to appeal to the customer we already have in our store so they can understand that and then after that providing that to other customers.

Irene Nattel

That's great. Thank you.

François Vimard

Thanks a lot, Irene.

Operator

The next question is from Jim Durran with Barclays. Your line is open.

Jim Durran — Barclays

I just want to stay focused on the sales and margin. So like in the quarter you managed to hold the decline on your consolidated comp store sales number in line with where it was sort of in Q4...

François Vimard

That's...

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

Jim Durran

But you were able to significantly improve the amount of gross margin deterioration in the quarter. I know there's a lot of moving parts here, François, but could you help us understand top line by region? What was getting worse? Getting better to result in essentially a similar outcome? And then on the margin side sort of a similar exercise: like what puts and takes were there to resolve in only a 20-basis-point decline in your gross margin?

François Vimard

So on the sales side that, Jim, as you know, we're already disclosing pretty much a lot of information, so excluding the West the comp store sales were at 0.6, the West was around minus 3.9, and they were minus 3.6 the quarter previously.

Jim Durran

Yeah.

François Vimard

And the Eastern part was plus 0.2. So you see that those two regions, those two big, I would say, aspects across the country were pretty much the same as Q4: a bit better in the East, a bit less in the West, but you see the big difference between the two. And that's the biggest issue we have.

On the margins side, I think what that number is telling you is two things. First, now we are in good control on the margin even in the West. We know the margin, we know how to control it,

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



we know to manage it; the people is well in time and well in control of that margin. And you understand also that the launch of Mosaic for Quebec didn't have too much impact on the margin side because of the mix change. But don't foresee that for the West because I said—like I said, our position in the West is quite different than it was in Quebec, and in the West we could have a bit more pressure on our margin by launching Mosaic.

Jim Durran

Okay. That's helpful. Synergies. I don't think I heard a number with respect to synergies in the quarter. Are we now at a point where we're not going to be talking about that anymore? Or what can you provide us with?

François Vimard

That's pretty much it, Jim. We said that last quarter that we won't talk about synergies anymore. I want to talk about overall cost reduction and not focusing only on synergies.

Jim Durran

Okay.

François Vimard

Because synergy is just an aspect of our costs, and I want the team to focus on everything.

Jim Durran

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay. And then just sort of one maintenance question on the tax rate. Can you give us some guidance as to how you see the tax rate unfolding from here? Given the deferred approach to tax on the Crombie deal?

Clinton Keay

Yeah. We would give—trend out 27 percent as a go-forward.

Jim Durran

So it's a one-quarter event then?

Clinton Keay

Yes.

Jim Durran

Okay. Great. Thank you.

Operator

The next question is from David Hartley with Credit Suisse. Your line is open.

David Hartley — Credit Suisse

Yeah. Hi. Thanks. Just want to kind of circle back to both the gross margin and the SG&A first of all. So if I heard you correctly with responding to Jim that as you roll out Simplified into Western Canada that you do expect that there could be further margin pressure than what you'd see in Quebec on the gross margins. Did I hear that correctly?

François Vimard

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Yeah. And, David, like I said, it's not the perfect science because you know our margin is the generation of mix margin and you mix everything else.

David Hartley

Mm-hmm.

François Vimard

But clearly because our price position, what that was at a different place, clearly we foresee that we should see more pressure on margin. It would all depend how the customer is going to react, but I can tell you that we foresee that in the West there'll be more pressure.

David Hartley

Right. And so the Western Canada would have higher pricing gaps to the East naturally, would it not? And, therefore, that's why you're getting those kind of swings when you're fooling around with the pricing?

François Vimard

I would say it's also the fact that our promotional penetration out West was bigger because of that gap. And so that's the extreme part of it. And so our regular prices were way too out of whack in the West and we had to reshuffle everything. And that's—if you have a chance, go and visit our store out West. That's the best way to understand what we have done.

David Hartley

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Yeah. No, for sure, we've done that. And then so when I—so that's being implemented now, is that right? It's still to come here in the...

François Vimard

In the West it was launched September 2nd.

David Hartley

September 2nd. Okay. Great. And just on the SG&A side, so when I think about SG&A, so you've done a lot of work in Quebec now, and you mentioned some of the buckets where you saw increases in SG&A. How should I think about that increase in SG&A? It sounds like maybe it tails off a little bit as we move forward here in terms of the increases, but perhaps because of the mix with the gross margin impacts you may see out West, the net EBITDA margin, what we kind of saw in the quarter will sustain over the next couple quarters?

François Vimard

I don't give outlook, David, but I think with the information I gave you you can conclude where we're going to be.

David Hartley

Okay. That's fair enough. And just also thinking about the kind of consumer or customer that's coming to your store with this EDLP or more EDLP approach, it's probably changed visitation, as you said, traffic to your store. So is that part of the reason your basket's going up? You're losing

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



kind of cherry-picker customers and that's been the biggest reason for a drop in traffic, but also maybe the biggest reason for an increase in basket?

François Vimard

I would say we—I can't say we lost cherry-picker because the promotional intensity is at the same place. It's more or less our more loyal customers are looking at what we are offering to them and put more product in their basket.

David Hartley

Okay. And final question, just to follow up on Irene's with potential further writedowns and so on. Has the Company given any thought to—further thought to potentially changing the go-to strategy, go-to-market strategy, in terms of store formats, discount, conventional, specialized? Is there any thought given to that? And is that perhaps a driver as to what happens in terms of writedowns and equity value?

François Vimard

Okay. I'm not sure I understand your question, David. There's a lot of elements in your question, but let me try to answer what I understood that's around the format. Clearly we have different format, and discount is part of our portfolio, as you know.

David Hartley

Mm-hmm.

François Vimard

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



We're not ready to say to announce that we're going to launch that in the West.

David Hartley

Right.

François Vimard

We continue to work on our ethnic program, and we're going to have our second channel in Ontario I would say launch in two weeks. But our biggest format is still the full service and that's why we're doing the readjustment on the pricing side to be—to come back to a profitable growth pattern in that banner.

David Hartley

Okay. So not ready to make announcements; stay tuned, right?

François Vimard

Yup, yup.

David Hartley

Got it. Thank you very much.

Operator

The next question is from Chris Li with Bank of America. Your line is open.

Chris Li — Bank of America

Hi. Good afternoon. François, in your opening remarks you mentioned that the DC restructuring initiatives are on track, and I think in the past you've mentioned that when all these

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



initiatives are said and done they'll result in a net reduction of 1,000 positions. Now I think some of that included the consolidation of your HQ in the West. But I just wanted to see if that 1,000 position of net reduction is still what you're targeting?

François Vimard

It is in the same range. As we've said in the past, the consolidating of the two offices in Calgary and Edmonton results in close to 400 people that we had to separate with. And clearly we're going to have impact on our employees at the RFC (phon) level with that new technology for sure.

Chris Li

Okay.

François Vimard

And but we're in the same range as we said before.

Chris Li

And then it sounds like given your time frame you've given on the opening remarks, it seems like most of those DC-related cost savings will be fully realized in fiscal 2018? Is that...

François Vimard

That's what it is. Yeah.

Chris Li

And will we see most of those savings in the operating expense plan? Or would that be more in cost of goods sold?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**François Vimard**

No, it's going to be all SG&A.

Chris Li

Most SG&A. Okay. And then my second question is if you can please comment on the price elasticity of products that are experiencing either this inflation or deflation; are you seeing a corresponding increase in tonnage as prices come down? Or are you seeing more consumers starting to trade up in this environment?

François Vimard

Not yet trading up. Clearly, I think the consumer is still saying that the price is too high because even if we're starting to see deflation—starting even to see deflation in meat in some parts of the country, but if you compare that to the double-digit inflation we had over the past two years, I don't think the customers say it's cheap yet.

Chris Li

Okay. Is it fair to say as you look out next few quarters, I mean it seems like it's really the fresh fruits and vegetables and maybe beef that are going to be facing the most deflationary pressure because they're up against double-digit inflation from a year ago. Is that fair that that's where you expect most of the pressures to come from?

François Vimard

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



I would say that's what we're seeing. As you know, those commodities can fluctuate quite fast, but that at this stage that's what we're seeing.

Chris Li

That's what you're seeing. Okay. And then for your Safeway business, can you just give us an update in terms of your product replenishment? Is your out-of-stock rate now at a level that's satisfactory to you?

François Vimard

Yes. It is. Service level is good. I was visiting a few stores I would say 10 days ago that were in great shape.

Chris Li

Okay. Perfect. Thanks.

Operator

The next question is from Michael Van Aelst with TD Securities. Your line is open.

Michael Van Aelst — TD Securities

Hi, there; so a few questions. First of all, when you look at the same-store sales, if you adjust them for inflation, you're still losing share in the East with the negative same-store sales adjusted for inflation. So is this all outside of Quebec? Or are you actually—are you still losing some share in Quebec?

François Vimard

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



It's quite different by region. And as you know, I don't give information by provinces, but like you said, we still see erosion of our market share in Eastern—in the Eastern part of our business.

Michael Van Aelst

Okay. Well, let me ask it a little...

François Vimard

And maybe, Michael, I can add—and that's what we've said in the past—we have most—the most challenge in the most Eastern part of the country for different reasons. As you know, it's not the same situation as Alberta and Saskatchewan, but Atlantic overall is under pressure also for the consumer side.

Michael Van Aelst

Okay. But you're seeing better trends in Quebec? Otherwise, I'd assume you wouldn't be rolling out Simplified Buy & Sell elsewhere.

François Vimard

You can assume well, Michael.

Michael Van Aelst

Okay. When you talked about the—when you talked about the SG&A increase, you'd mentioned that about a third of it you thought was severance and tied to onetime—more onetime items or timing. Was that adjusted for in the adjusted EBITDA?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

François Vimard

It wasn't.

Michael Van Aelst

It wasn't? Okay. So you—all right. All right. So that we can assume is gone. All right. And then as far as the FreshCo rollout, you talked last quarter about the FreshCo expansion into other markets being top of mind. But is this something that you need to wait for a new CEO? Or a permanent CEO announcement before you can make such major strategic decisions?

François Vimard

Michael, at this stage I can tell you that the Board gave me the full power to do whatever I think is good for the business, and I'll do it. So if I feel I need to do it in the short term, I'll do it.

Right now I think I want to focus the team on the execution of what we're doing out West, and that's the critical piece for me.

Michael Van Aelst

Okay. Thank you.

Operator

The next question is from Vishal Shreedhar with National Bank. Your line is open.

Vishal Shreedhar — National Bank

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Hi. Thanks for taking my questions. Just on the cost savings that you've talked about earlier off the top of your script, are those incremental and they're new relative to those DC savings? Distribution savings that you talked about in the past?

François Vimard

Yeah. That's what I was doing—saying on the call. You're right.

Vishal Shreedhar

Okay. So is that going to be a meaningful bucket? Or is it just too early to even call?

François Vimard

It's too early to call at this stage. But clearly, and you look at my P&L, in SG&A I'm in billions of dollars, and so every aspect in our business is detail. And we need to go into detail, simplify our business, and we can find dollars.

It won't be—it doesn't need to be a big announcement saying I'm opening a new DC that's going to save me \$100 million. There's many aspects we can do in that business if we do things well to reduce our cost base, and that's what we're going to work on.

Vishal Shreedhar

Okay. Regarding execution, how do you improve that? Like what do you do differently versus your predecessor?

François Vimard

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



I won't say versus my predecessor. What I'm doing is just refocusing. My predecessor put a lot of good strategy in place that we're implementing, but by doing that I think we focused—we forgot some focus that has to be done at store level. Execution at store level, if you've been in store, it's tonnes and tonnes of detail that has to be wound up: Be sure that all the product are on the shelf; be sure that the cashier has all the training, all the tools she needs to do a great job; be sure that everybody in the supply chains can support that. And there's a tonne of detail.

And when you implement strategic elements sometimes you forget about those details because you're disturbed about all those changes. And I always mention the fact that people sometimes still forget that we have 15—more than 15 million transactions in our stores per week. So refocusing everybody to go back to those details because we know how that business works, and being sure we're all doing our job well, it's going to show at the store level and customers are going to see a difference.

Vishal Shreedhar

Okay. In terms of the Board's review for management, is it fair to say that they're looking for internal and external candidates? They're looking either internal or external?

François Vimard

I would say I can't comment on that. What I can comment is the Board has a good process put in place, and they have the help of an external third party to go through the process. The process going well, but in the mean time I'll do whatever I can to improve the business.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Vishal Shreedhar**

Okay. Do you have any indication how long you'll be in for the interim? Or is that too tough to call?

François Vimard

Too tough to call at this stage, Vishal.

Vishal Shreedhar

Okay. And just the last one here; I think last fiscal year you were pretty active with real estate sales. In the past you've said we should expect around 100 million. I'm just wondering if there are any updates there?

Clinton Key

No, that's a consistent that you'd expect from us in the future.

Vishal Shreedhar

Okay. Hey, fellas, thanks a lot.

Operator

The next question is from Patricia Baker with Scotiabank. Your line is open.

Patricia Baker — Scotiabank

Yeah. Good afternoon. First of all, François, just going back to the beginning of the Q&A and the question that Mark Petrie asked you, and I just want to clarify the answer that you gave because I—or rather I hope I misheard what you said. It was about the promotional penetration. Did

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



you indicate that promotional penetration was up in markets where you did not roll out Simplified Buy & Sell?

François Vimard

Exactly. That's what I said.

Patricia Baker

Okay. I heard the opposite, which almost sent me into a big panic here. Okay. Now my questions; when we look at Western Canada, and as you said you rolled out Simplified Buy & Sell September 2nd, so you've given us some good indication of what to expect there, but it's pretty early to ask about it. But the merchandising and the changes that you made to the meat and the produce, can you give—can you talk about what that experience was like? Are there any metrics? What did the customer do with respect to those changes? And is there anything we can learn from that?

François Vimard

Yeah. Clearly what we saw from those changes back in January is the tonnage improvement, so we saw a change in the tonnage trend, but that didn't compensate for—and as you know, produce and meat price change on a regular basis, so tougher to give the message to customers in terms on the pricing side. They can compare, but the pricing moved a lot and there are different, as you know, different spec on produce and different spec on meat that the conversion it's tougher.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



But we saw increase in tonnage overall. And what we hope—not what we hope—the strategy by launching the grocery piece is the overall basket now the customer is going to see a better value, and that's going to have an halo effect not only in grocery, but in store overall.

Patricia Baker

So because meat and produce are inherently more volatile than other parts of the store, and if you're changing your pricing strategy there, are you suggesting that in those particular categories it'll take a longer time for the customer to believe that you're permanently going to be priced differently than you had been in the past on a relative basis?

François Vimard

It is way more tougher to make the customer understand. You're right, Patricia.

Patricia Baker

So it'll just take a bit more time. Okay. That's great.

François Vimard

Yeah.

Patricia Baker

And just another question on the West; when you talked about Simplified Buy & Sell you didn't mention Thrifty's when you were discussing that. What's the strategy going to be there?

François Vimard

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



We didn't launch Thrifty, as I stated, because we want to be sure—it's already three banners, as I said: Sobeys, Safeway, and IGA.

Patricia Baker

Mm-hmm.

François Vimard

But Thrifty is going to be part of the equation at one point, but not this time.

Patricia Baker

Okay. All right. That's fair. And just my last question is on the SG&A increase in the quarter. Were there any elements associated with the deploying of the Simplified Buy & Sell, whether that would have been extra costs associated with getting the program out there that would have hit Q1?

François Vimard

There were a bit, but don't forget we launched Mosaic September 2nd, which is already a month in Q2, so it's not everything in Q1.

Patricia Baker

Yeah. I was just curious whether any of the Quebec costs hit Q1?

François Vimard

Yeah. Yeah. Quebec was launched April 7th.

Patricia Baker

Okay. Thank you very much.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

François Vimard

Thanks.

Operator

The next question is from Kenric Tyghe with Raymond James. Your line is open.

Kenric Tyghe — Raymond James

Thank you, and good afternoon. François, just with respect to your store experience and perhaps also tying that into your ability to monetize or capitalize on the Buy & Sell, are there any technologies or focused initiatives that would allow you to change the absolute and relative store experience? And I guess where I'm going with that is is there a possibility of something—and I'm just throwing it out—in the beacon technology or otherwise that will drive improved promotional efficiency, facilitate the messaging, and getting that messaging through on the Simplified Buy & Sell without causing a deterioration in that store experience? Is there a way to with technology be taking costs out while improving promotional efficiency and helping you better monetize the Simplified Buy & Sell and simplify the messaging? Is there—are there some levers here you can pull to sort of accelerate the adoption or the monetization of these initiatives you have in market?

François Vimard

Okay. I'm going to try also to answer your question because that's a long one. One aspect clearly is there is different technology you can use to communicate now with your customers to help with the messaging, so all the digital aspects. You don't need always to have 24/7 marketing

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

messaging on TV to communicate with your customer. You can do it differently, more efficiently, and that's a critical element we're going to work on. And we're already working on to make sure that messaging goes well. So that's the part of the question, I think, I understood from you. And that's clearly something we're going to leverage as much as we can.

Then other technology, as you know, we're always trying to innovate on technology that can support our business. And at this stage on the Simplified Buy & Sell, which is critical more anything than else, is to ensure that the messaging in-store that will the customer understand that, and that's why we simplify the way we communicate that, maybe less on the technology side. I don't know if you were insinuating electronic shelf, things like that. We're not looking at that right now. We're looking more as how can it be simpler when a customer come in our store understanding the pricing position.

Kenric Tyghe

Great. That actually answered the question. Thanks, François. I'll leave it there.

François Vimard

Thanks.

Operator

The next question is from Keith Howlett with Desjardin Securities. Your line is open.

Keith Howlett — Desjardins Securities

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Yes. I was just wondering in Western Canada whether the pricing of Sobeys and Safeway is now equivalent?

François Vimard

Yes.

Keith Howlett

And in terms of the consumer, would they now view the stores, the flyers the same? The private labels the same? And if the pricing's the same, do they tend to view them as substitutable for one or the other?

François Vimard

There's still an offering difference between the two, Keith, so that's why there's still a difference in terms of banner offering. So, yeah, the merchandising aspect, the same team doing the merchandising. We have the same flyer now; we have the same pricing strategy, so we're getting closer and closer to be more similar, but there's still a big change, I would say a difference, on the offering side, and the customer can notice a difference.

Keith Howlett

And then just on the penetration of Air Miles amongst the shoppers at Safeway. Is it sort of tracking as you'd expect? And does it—I don't know how long it takes to get up to the Sobeys' level, but is it moving that way or getting close?

François Vimard

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

It's the reverse. It was with Safeway way before and we changed it Sobeys out West from the Club Sobeys to Air Miles. And clearly...

Keith Howlett

Oh, I'm sorry.

François Vimard

Yeah. But they are pretty much at the same, not exactly the same, but pretty much they're the same because we already had a good penetration with Club Sobeys.

Keith Howlett

Right. Great. Thank you.

Operator

The next question is from Jim Durran with Barclays. Your line is open.

Jim Durran

François, I was just wondering on the banner situation in Western Canada with Safeway and Sobeys—sort of where Keith might have been going with the questioning—is the idea of going to one banner in the conventional segment off the table permanently or under review? Like where does that stand?

François Vimard

I would say it's not off the table, Jim. It's more that right now I think, like I said, there's still difference in term of the offering between the two, but we knew we had the same challenges on

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



the pricing side. So our focus was more to try to fix that element and improving the execution as sort of both—before thinking about the next step.

Jim Durran

There's been a lot of talk about the discount retailers being quite aggressive, I assume, seeing this as a structural change and a potential to grab market share permanently. Do you feel that the benchmark that you need to be establishing your premium to is stabilizing? Or is it continuing to ratchet down?

François Vimard

We're going to need to—and that's why cost structure is going to continue to be critical over the next few years. We're going to need to be sharper and sharper on the pricing side week after week after week. But on the other side, if I don't provide the value the customers are looking for in term of assortment, service, ease to shop, display, all those elements in my store, whatever the pricing I have I won't win.

So it is the two elements we need to continue to work on. And we know that if we provide that value to the customer we can compete against anybody. But the pressure on the pricing side, I think everybody try to grow. And as I said, with an environment where, Jim, I think we're starting to see less inflation, that's just going to take more pressure on everybody looking for sales.

So we shouldn't put our guard down. We need to be sharper on costs, and be ready to be even sharper on pricing the value we're providing the customer.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

Jim Durran

We're a couple of quarters away, I guess, from the FX trade actually becoming a deflationary risk. What's your sort of—how do you—how can you prepare for the possibility that we could actually be into deflation on at least the imported side of the equation?

François Vimard

We just have to be better at the way we operate at store level. That's something you can't control, Jim. The only thing you can control is what you're doing at store level. And so what I was saying since the beginning of the call is let's focus on the customer, let's focus on the store execution, and be sure on the other side we're working on efficiency to reduce our costs.

And we had cycles over the past. I've been in the business for 30-some years and I saw a cycle of 5 percent inflation and a cycle of minus 2 deflation. And it's more challenging in deflation because people are looking for sales, but if your cost structure and execution is strong you can go through it.

Jim Durran

Okay. Thanks, François.

Operator

As a reminder, ladies and gentlemen, please press *, 1 if you'd like to ask a question.

The next question is from Michael Van Aelst with TD Securities. Your line is open.

Michael Van Aelst

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



September 15, 2016 — 1:30 p.m. E.T.
Empire Company Limited First Quarter 2017 Results

Hi. You talked a little bit about reinvesting savings in your press release. So is the intention of decreasing your operating expense to restore margins or to reinvest into lower prices so that you can boost your sales?

François Vimard

I would say right now, Michael, my focus is sales. Top line. You saw the impact it had on my fixed costs and the leveraging of it, so at this stage I also want all the team to focus, and make sure we're delivering the customer what they're looking for.

And like I just said to Jim, I know and if I look at long-term focusing on stabilizing gross margin—and just to be sure we understand what we're talking about—gross margin is going to be a challenge; gross margin will always be under pressure. But if we change the trend on the top line at the same time reducing our cost base, clearly my net margin will be in a better position.

Michael Van Aelst

Okay. And on a separate topic, on the residential real estate can you update us as to how much you have left and when you expect to be done liquidating the Genstar portfolio?

Clinton Keay

Yeah. We still have a number of years with respect to that. So I would anticipate at least another five to six years plus.

Michael Van Aelst

Sorry. You got cut off there. How much?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Clinton Keay**

Five years plus.

Michael Van Aelst

Five years plus. Because at one point you had said you wanted to liquidate by early fiscal '19, I thought.

François Vimard

Yeah. At the end of the partnership. And as you see, it also depends how the market reacts. Clearly, we're not investing more in that partnership, and we're going to let the partnership find a way to create the most value they can.

Michael Van Aelst

All right. Thank you.

Operator

There are no further questions at this time. I'll turn the call back to the presenters.

Ken Chernin

Thank you, Chris. Ladies and gentlemen, we appreciate your continued interest in Empire, and look forward to having you join us for our second quarter fiscal 2017 conference call on December 15th.

Good-bye.

Operator

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »