FINAL TRANSCRIPT

Empire Company Limited

Third Quarter Results Conference

Event Date/Time: March 12, 2013 — 2:30 p.m. E.T.

Length: 33 minutes

CORPORATE PARTICIPANTS

Paul Beesley
Empire Company Limited — Executive Vice President and Chief Financial Officer

Paul Sobey
Empire Company Limited — President and Chief Executive Officer

Marc Poulin
Sobeys, Inc. — President and Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Perry Caicco
CIBC World Markets — Analyst

Michael Van Aelst
TD Securities — Analyst

Jim Durran
Barclays — Analyst

Emily Foo
BMO Capital Markets — Analyst

Patricia Baker
Scotiabank — Analyst

Keith Howlett
Desjardins Securities — Analyst

PRESENTATION

Operator

Good afternoon. My name is Steve (phon), and I'll be your conference Operator today. At this time, I would like to welcome everyone to the Empire Company Limited Third Quarter Results Conference Call.

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 that time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

I would now like to turn the conference over to Paul Beesley, Executive Vice President and Chief Financial Officer. Please go ahead.

Paul Beesley — Executive Vice President and Chief Financial Officer, Empire Company Limited

Thank you, Steve. Good afternoon, and welcome to Empire Company Limited's third quarter fiscal 2013 conference call.

Our comments today will focus primarily on the financial results of the third quarter ended February 2, 2013, after which we'll be open to your questions. This call is being recorded live, and audio on our website at www.empireco.ca.

Joining me on the call this afternoon are, from Empire Company Limited, Paul Sobey, President and Chief Executive Officer; and Stewart Mahoney, Vice President, Investor Relations and

Treasury. From Sobeys we have Marc Poulin, President and Chief Executive Officer; François Vimard, Executive Vice President; and Paul Jewer, 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 from such statements.

This morning we released Empire's financial results for the third quarter ended February 2nd. Empire reported consolidated sales in the third quarter of $4.34 billion, a $357 million or 9 percent increase over last year. Excluding sales of $247 million related to the acquisition by Sobeys of 236 retail gas locations and related convenience store operations in the fourth quarter last year, consolidated sales increased by $110 million or 2.28 percent.

Net earnings net of minority interest in the third quarter were $75.2 million or $1.11 per diluted share compared to $80 million or $1.17 per diluted share in the third quarter last year. Consolidated adjusted net earnings net of minority interest were $79.6 million or $1.17 per diluted share in the third quarter compared to $73.1 million or $1.07 per diluted share during the third quarter last year.

Items which are not considered indicative of underlying business operating performance which impacted after-tax earnings in the third quarter this year and the last year included first, a one-time charge from our equity accounted investment in Crombie REIT in Q3 this year of $4.8

million, which was partially offset by dilution gains of $3.3 million; second, Sobeys organizational realignment costs of $2.4 million versus $1.5 million last year; third, Sobeys Quebec distribution network restructuring costs of 400,000 versus 900,000 last year; and finally, a gain on disposal of assets of $9.3 million last year. These items are disclosed in a table in our news release, which reconciles reported net earnings to adjusted net earnings.

Empire's liquidity remains strong with cash and cash equivalents of $371 million at the end of the quarter and unutilized bank lines of $644 million. And our debt ratio continues to improve, with debt to capital at the end of the third quarter equal to 21.6 percent versus 25 percent at the start of the fiscal year.

I'll now turn the call over to Paul Sobey.

Paul Sobey — President and Chief Executive Officer, Empire Company Limited

Thank you very much, Paul and good afternoon, everyone. We continue to grow in both our food retail and real estate businesses in a very competitive environment, and we continue to make good progress on our key strategic initiatives.

During the third quarter, Sobeys' sales increased 344 million or 8.7 percent to 4.27 billion. Sobeys' same-store sales grew by 1.2 percent in the quarter in an operating environment with negligible food inflation in aggregate.

Sobeys' Q3 adjusted operating income contribution to Empire was 106.1 million versus 102.7 million last year. Empire's investment in other operations recorded adjusted operating income contribution to Empire of 13.8 million versus 12 million last year.

Crombie REIT contributed equity earnings before one-time items of 5.9 million in the third quarter compared to 5.2 million last year with cash distributions received from Crombie REIT in the quarter of 8.4 million versus 7.4 million last year. And at the end of the third quarter, the market value of our 42.9 percent ownership in Crombie REIT was 580 million on a carrying value of $204 million.

For detailed information on Crombie REIT's performance, please see their latest quarterly release dated February 28th.

On the residential property side in the third quarter, Genstar contributed equity earnings to Empire of 6.7 million versus 6.4 million last year.

And now what I'll do is turn it over to Marc for his comments on specific performance of Sobeys.

Marc Poulin — President and Chief Executive Officer, Sobeys, Inc.

Thank you, Paul. First a few comments on Sobeys' financial results. During the third quarter, Sobeys' sales increase of $344 million included $247 million of sales related to the acquisition of 236 retail gas locations and related convenience store operations. Excluding these sales, Sobeys' sales increased $97 million or 2.5 percent. Same-store sales grew by 1.2 percent in the quarter.

Gross profit increased 33 million to $980 million, with gross margin declining 118 basis points to 22.93 from 24.11 percent last year due primarily to the lower margins of the fuel business. Excluding the impact of lower margin fuel sales, gross margin was 24.17 compared to 24.30 last year.

Selling and administrative expenses as a percentage of sales declined 95 basis points to 20.83 percent from 21.78 last year. Sobeys' Q3 adjusted EBITDA increased to 192.3 million from $183.1 million last year. Sobeys' Q3 adjusted net earnings contribution to Empire increased 5.3 million to $71.7 million.

We continue to invest across the entire company in our store network and infrastructure. During the third quarter, Sobeys' CapEx totalled $108 million on new stores, enlargements, and renovation, as well as land purchases and infrastructure.

During the quarter, seven corporate and franchise stores were opened or acquired, and three stores were re-bannered. Net retail stores square footage increased by 128,000 square feet during the third quarter, with total square footage of 29.6 million square feet at the end of the quarter, a 2.1 increase from last year.

After including proceeds on the disposal of properties, Sobeys generated free cash flow of 63 million in the third quarter and 187 million fiscal year to date.

Now an update on key initiatives. The Terrebonne, Quebec automated distribution centre has started to service customers. Stores that used to be served out of Montreal North facility are now served by Terrebonne.

During the fourth quarter, we expect to transfer the customers presently served by Quebec City, Rouyn, and Rivière-du-Loup and ramp down all of our dry grocery facilities in the province. We are also looking forward to inaugurating our semi-automated unit pick (phon) facility within Terrebonne. This will greatly improve our cost structure in serving our c-store business.

SAP implementation at our Quebec IGA operations business unit has been successfully deployed, and our team expects to have all areas of the business coast to coast operating in an SAP environment by the end of calendar 2013.

We continue to be pleased with the customer response to our FreshCo discount business in Ontario. Sales were strong in the quarter in an intensely promotional environment. Two new FreshCo stores were opened in the quarter, bringing a total store count at 76 for that banner.

The upgrade of our gas pumps at our Quebec Shell asset continues, with 75 percent of the locations now completed. During the quarter, we started to cross promote food for fuel and results have been positive. Work will continue to enhance the cross-promotional capabilities of the network.

Through these and other initiatives we are confident that we will continue to grow and excel in a competitive environment.

Now over to you, Paul.

Paul Sobey

Thanks very much, Marc. So we continue to make good progress. We intend to remain focused on productivity and innovation, on initiatives that will continue to enrich the shopping experience of our customers, and strengthen our competitive position in an ever-changing retail landscape.

And we will now be happy to respond to any of your questions.

Q&A

Operator

Ladies and gentlemen, as a reminder if you would like to ask a question, please press *, then 1 on your telephone keypad.

And your first question comes from the line of Perry Caicco from CIBC World Markets. Your line is open.

Perry Caicco — CIBC World Markets

Thanks. On your last quarterly call you said that you'd begun to see a deflationary environment. In this quarter you refer to inflation as negligible. Was that sort of a change? Or are we splitting hairs?

Marc Poulin

I'll take this one. I think we're splitting hairs. As you know, it's very difficult to get the real handle on inflation as it's part of the selling, the price of the product, and also the commodity increases, but overall what we're seeing is very flat, a very flat line.

Perry Caicco

Okay. And then on the same-store sales increase, I'm just wondering what were some of the notable features of the 1.2 percent number. Was it mostly basket? Was it stronger out west? And how did it trend coming out of the quarter?

Marc Poulin

It's about evenly split between customer count and basket, and as you know, we don't divulge numbers on a regional basis. So we won't divulge trends on comp sales from a region-to-region basis. And as it's going for the quarter, we only have a few weeks in the next quarter, so it's a little bit, but the trend in comp sales was pretty consistent over the quarter.

Perry Caicco

Okay. And, Marc, is there any chance that you'll be able to improve your gross margin rate this year? Or will sort of the pricing and I guess slightly deflationary pressures be greater than whatever work you might be able to do on mix or purchasing power?

Marc Poulin

The current intent is not really to work at improving gross margins, especially if it's going to be at the expense of tonnage growth. So obviously we are playing the market on a weekly basis like everybody else, and what's going to be the trend in future competitive activity you are probably better at predicting it than I am.

So from that perspective it's very difficult to comment. But what's important is that we will remain very competitive in our pricing with the consumer, and we want to make sure that we don't lose tonnage nor consumer growth because of our pricing.

Perry Caicco

Okay. That's good for now. Thank you.

Operator

Your next question comes from the line of Michael Van Aelst from TD Securities. Your line is open.

Michael Van Aelst — TD Securities

Yeah. Thanks, guys. I'm just wondering if you've done anything to prepare for Target's arrival. And what do you expect from them in terms of being a formidable competitor?

Marc Poulin

Okay. I'll take this. Well, obviously we did some preparation, but more in the sense of how we'll be in a good position to service the contract we have with them on the wholesale business. As you know, we are going to provide Target on a wholesale basis for temperature-controlled products. And that work has been underway, and now the result of it is that we're shipping product to Target as they open stores.

From a competitive point of view, we're linking this with all the other mass merch present in the marketplace. They are another player that's trying to get at the food dollar in an untraditional form. We don't have a specific response to Target versus it's more a channel-driven response, and our response to the non-traditional players selling grocery is actually working very much at the elements that make our own offering more compelling, i.e. our ability to service fresh product in a distinctive way that really enhances the customer experience, and provide the customer with a full shop of food products in an environment, in a service environment that cannot be replicated in that format.

Michael Van Aelst

Okay. And just on the Terrebonne DC, when do you expect to be fully ramped up and start seeing some benefits from efficiency gains?

Marc Poulin

Fully ramped up by the end of Q4 this year, plus or minus a few weeks; I mean it's really around that timing. But we're rolling in new stores as per schedule so far, and things are going well.

By then—we are working to get all the stock that's currently in the other warehouses rolled into Terrebonne concurrently to this ramp-up/ramp-down activity, so give or take a few weeks by the end of this year.

Michael Van Aelst

Okay. Have you experienced any initial hiccups in the opening?

Marc Poulin

Well, there's always hiccups. I mean this is a huge facility, and there's always little things that need to be adjusted. That being said, it's also part of the plan. I mean that's why the ramp-up, ramp-down period takes about—in the Quebec case it's a 17-week process, so it's not unusual, and we've gone through a ramp-up/ramp-down of that nature before in Vaughan in Ontario, so nothing that came up through this process wasn't expected, so so far so good.

We're pleased with the way the facility is developing, and this week we're already bringing in new customers into the facility. So hopefully by the end of this fourth quarter we'll be able to say that we're fully operational.

Michael Van Aelst

Okay. Thanks, guys.

Operator

Your next question comes from the line of Jim Durran from Barclays. Your line is open.

Jim Durran — Barclays

With respect to the SAP situation, at what point in time would we expect to see further headcount reduction as a result of SAP being largely in place?

Marc Poulin

The plan is SAP is the system. What we have to do is work at Sobeys on more common processes around the various what used to be divisions. Now that we have regrouped Atlantic, Ontario, and West under the Sobeys' multi-format business unit, now we're working very hard on getting all those businesses with common processes, common definition.

And in the various elements of the business there are plans to generate headcount reductions associated with that, but that's not going to happen as one big blow. It's kind of more continuous improvement, and we're doing little steps at the time where opportunities lie. And it's not something where you'll see an announcement that we have x numbers of positions being abolished because of that implementation. It's more the natural nature of the business where we continuously strive at getting the lowest SG&A cost possible.

Jim Durran

And from your experience, I know you've done this in several regions, like how long does it take before SAP as a system allows you to optimize the performance of your business?

Marc Poulin

It all depends. We've had the SAP in some parts of the business for a number of years, so it's not only SAP dependent. It's very much dependent on the ideas of the people who are running the system and how we can optimize our way of doing business. So it's kind of—I have a tough time answering this one from that perspective. It's a very much an infrastructure system.

The other element is that SAP is not only a design at billing efficiency from a system point of view, but it's also a move from a transactional system to more informational system where it gives us access to data in a more timely fashion that builds better decision making in the operation.

So it's not only a pitch for lower headcount, but it's also—it's—not also, but I would even argue foremost a system that allows us to take and make better decisions.

Jim Durran

Okay. And just last question just on FreshCo. Can you give us an update on what your sort of roll-out plans are for FreshCo for the rest of this calendar year?

Marc Poulin

Well, FreshCo we're basically down to seven Price Choppers left, and I think there's one that's scheduled to be converted to FreshCo in the fourth quarter. And our plan for the Price Chopper conversion is to be finished by the end of next year. As per the rest, we have new store openings being scheduled, but I'm not definitive that we have one in Q4.

I mean the problem with our Q4 is that it's in the spring, and sometimes depending on construction there may be delay. But roughly speaking I think what's important from your point of view is that by the end of next year all the Price Choppers will have been converted virtually.

Jim Durran

And on a fully-loaded basis is FreshCo profitable at this point?

Marc Poulin

Well, we don't give results on a regional basis, nor do we give results on a banner-by-banner basis.

Jim Durran

That's okay. Thanks, Marc.

Operator

Your next question comes from the line of Emily Foo with BMO Capital Markets. Your line is open.

Emily Foo — BMO Capital Markets

Hi. It's Emily Foo for Peter Sklar. Can you give us an update on what you have seen or heard with Walmart supercentre openings in the Maritimes and if you've made any preparations for it?

Marc Poulin

Well, preparations, we're obviously preparing to always give the best offering possible for our customer. As far as we know, unless you know otherwise, no stores of supercentres have opened in the Maritimes, and we don't really know when the competition will decide to move in that regard or if they will do so.

But that being said we're very strongly focused on giving our own customers the best shopping experience they can expect in the Atlantic Provinces.

Emily Foo

Okay. And also with respect to Terrebonne, were there any start-up costs this quarter? And then will there be more coming up?

Marc Poulin

Yes. So in Terrebonne, obviously there are costs associated with ramping up and ramping down the operations. And some of those costs have been in the numbers that you see have been embedded into those numbers and we will have some in Q4, and they've been absorbed by normal operations. So these costs are not all capitalized, but some of them have just been expensed.

Emily Foo

I see. And with the Price Chopper conversions done next year and all of them converted to FreshCos, do you have any further plans for the expansion of the banner beyond Ontario?

Marc Poulin

At this site we're working very hard on taking the banner to its full potential in Ontario. There are plans for new stores next year in Ontario as well, and our focus really is to make FreshCo, the success it is, even greater next year.

Emily Foo

Okay. Great. Those are my questions.

Operator

Your next question comes from the line of Patricia Baker with Scotiabank. Your line is open.

Patricia Baker — Scotiabank

Thank you very much, and good afternoon. Just a very quick question about the backdrop; you talked about once again it being very competitive. Can you tell us what you're seeing on a sequential basis with respect to the competitive activity? And also the consumer, whether it has worsened or it's pretty much flat with where it was in the second quarter?

Marc Poulin

We're still living the same trends we've been living since the beginning of the year. We still have a customer that's fairly fickle. The trend on a week-to-week basis is difficult to establish. Some weeks are better than expected, some weeks are worse.

And as retailers, and I don't think it's only the case of the food retailers right now, you really have to work very hard at putting your best foot forward to convince a consumer to take dollars out of their pocketbook, and put it for purchasing products you have on the shelf. So we're experiencing the same thing.

And we—basically we have to work harder at getting the consumer to make a full shop, and everybody in the organization has an understanding that you have to earn your sales on a daily basis in this environment.

Patricia Baker

That's very helpful, Marc. Thank you.

Marc Poulin

Thank you.

Operator

And your next question comes from the line of Keith Howlett with Desjardins. Your line is now open.

Keith Howlett — Desjardins Securities

Yes. I had a question on the new Terrebonne facility that will help your c-store distribution. Do the c-stores get serviced by the same physical truck fleet as the other stores?

Marc Poulin

No, they don't. In Quebec we have a different truck fleet for the c-stores than the other stores in most cases. We may have some exceptions. For example, Wayne; once the distribution centre and dry grocery will be closed, it will still serve as a distribution platform for all of Northern Quebec, for example, but typically it's a different network.

Keith Howlett

And when it comes to the convenience stores, is the intention to continue with the same trademark? Or might you switch it to another trademark?

Marc Poulin

Well, we currently have actually lots of trademarks...

Keith Howlett

I see.

Marc Poulin

In the convenience store in the province. We have BoniChoix, we have Le Depanneur, we have Voisin, and now with the Shell acquisition we have Select. The Select brand is not going to stay on forever. We have an agreement with Shell under which we can operate the c-stores under that brand for a certain period of time. Eventually there's going to be a re-branding of these stores, but I think more importantly is that the brand is one thing, but the concept inside the store is a different one. And we're working at enhancing the offering from a c-store perspective on all the Shell we acquired last year.

Keith Howlett

I see. So they'd be co-branded Shell and eventually Shell and another brand?

Marc Poulin

You're correct.

Keith Howlett

And just on that Target contract, when you say temperature controlled, does that mean refrigerated and frozen, but you don't do the shelf stable? Is that what that means?

Marc Poulin

Exactly that.

Keith Howlett

I see. Okay. And just have you—I was wondering about your pharmacy business in Alberta. I know it's just last week, but have you had any opportunity yet to look at how that might be affected?

Marc Poulin

We are still looking at the total impact, but it is true that our pharmacy business has been impacted both in Lawtons, which is our pharmacy chain in Atlantic Canada, and in the in-store pharmacy operations that we have in the Sobeys multi-format business by the change in regulations that have happened over the last years in the Canadian environment. And this last impact in the budget we still are trying to figure it out; working on what it means for our business plan.

Keith Howlett

And then I know that a lot of work went into streamlining and coordinating your multi-formats outside of Quebec, so I hesitate to ask this, but would you be looking at—would you consider any other additional formats outside of Quebec?

Marc Poulin

Can you be more precise?

Keith Howlett

Well, I was thinking of like a fresh market concept or something of that nature?

Marc Poulin

Well, the current priority of Sobeys in regard to format is really, now that we've got a good format in discount with FreshCo and that we're working to ramping up to its full potential, is to work on the full-service format right now with the Sobeys banner. And we're working diligently as a team to bring improvement to our offering so that we can continue to service the customer in that format in a compelling way that will drive our sales in the future.

Keith Howlett

Great. And then in the Province of Quebec, I presume that the current banner—the current formats are what you'll go forward with?

Marc Poulin

The current formats in Quebec are performing very well. We're very pleased with the results so far, and as we said we're bringing new elements to the consumer offer in the form of cross promoting fuel and gas together in that province, and that will continue in the next year.

Keith Howlett

Thanks very much.

Operator

As a reminder, if you'd like to ask a question, please press * then 1 on your telephone keypad.

And you have a follow-up from the line of Michael Van Aelst from TD Securities. Your line is open.

Michael Van Aelst

Yeah. I was just wondering if you could maybe talk to us about where you're seeing some of the toughest competition and if you would chalk it up to the increasing square footage coming into the market or just a tough economic backdrop.

Marc Poulin

I think right now the biggest hurdle that we as retailers have to face is the consumer psychology. And really our focus has been on trying to convince the consumer to spend dollars with us and trying to convince them that they should purchase more food from our store.

So it's not a—that's the biggest challenge right now in the environment. It's a low inflation environment with, you could argue, low consumer confidence overall that makes it for a weak demand environment.

Michael Van Aelst

Thanks. That's very helpful.

Operator

I’m showing there are no further questions at this time.

Paul Beesley

Thank you very much, Steve. Ladies and gentlemen, we appreciate your continued interest in Empire, and look forward to having you join us for our fourth quarter conference call scheduled for June 27th.

Good-bye.

Paul Sobey

Thank you.

Marc Poulin

Thank you.

Operator

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

*****