FINAL TRANSCRIPT

Empire Company Limited

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PRESENTATION

Operator

Good afternoon. My name is Tracy (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Empire Company Limited Third Quarter Results 2015 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 this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Mr. Stewart Mahoney, Senior Vice President, Treasury and Investor Relations of Empire Company Limited, you may begin your conference.

Stewart Mahoney — Senior Vice President, Treasury and Investor Relations, Empire Company Limited

Thank you, Tracy, and good afternoon, everyone. Thank you for joining us today. Our comments will focus primarily on the financial results for our third quarter ended January 31st. 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 Marc Poulin, President and Chief Executive Officer; François Vimard, Chief Financial and Administrative Officer; and Clinton Keay, Executive Vice President, Finance.

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. 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 François, who will provide a review of Empire's financial results, and Marc will then discuss Sobeys.

François Vimard — Chief Financial and Administrative Officer, Empire Company Limited

Thank you, Stewart, and good afternoon, everyone. Consolidated sales in the third quarter were 5.94 billion, a decrease of 63.4 million, or 1.1 percent. The decline in sales, as expected, was primarily a result of previously announced retail store divestiture, store closure associated with network rationalization, and a decline in oil price, which impacted fuel sales. These factors were partially offset by food inflation.

Gross profit for the quarter was 1.48 billion, an increase of 8 million over last year. Third quarter gross margin improved 40 basis points to 24.91 percent compared to 24.51 percent in the third quarter last year.

Consolidated EBITDA in the third quarter was 322.5 million compared to 188.9 million in the third quarter of last year, an increase of 133.6 million, or 70.7 percent. EBITDA margin increased to 5.43 percent from 3.15 percent last year, a 228 basis point improvement.

The increase in EBITDA was primarily the result of reduced transaction cost associated with the Canada Safeway acquisition, a onetime inventory adjustment last year, and synergies realized from the Canada Safeway acquisition.

An offset to these cost reductions were additional expenses for viable component of compensation, including stock-based award recorded during the current quarter.

After adjusting for items that are considered not indicative of the underlining business operating performance, consolidated adjusted EBITDA for the quarter was 310.1 million, an increase of 30.2 million, or 10.8 percent over the third quarter last year.

Adjusted EBITDA margin in third quarter was 5.22 percent, up 50 basis points from 4.66 percent in the same period last year.

Finance costs net of the finance income in the third quarter were 36.9 million, down 12.8 million over last year due to decreased debt level as a result of strong free cash flow used for debt reduction. As of today, we have repaid over 1.3 billion funded debt since the acquisition of Canada Safeway.

The Company's effective income tax rate for the third quarter was 25.1 percent compared to 72.4 percent in the same quarter last year. The decrease in the effective tax rate is due to partial non-deductibility of certain Canada Safeway acquisition costs, combined with lower earnings before income tax on which the effective tax rate was calculated in the same quarter last year.

In the third quarter, Empire recorded adjusted net earnings from continuing operations net of noncontrolling interest of 120.3 million, $1.30 per diluted share, compared to 86.2 million, $0.94 per diluted share last year, a 39.6 percent increase over prior year.

With respect to our overall consolidated financial condition at the end of the third quarter, Empire's consolidated ratio of funded debt to total capital was 32.1 percent compared to 34.7 percent last quarter.

Cash and cash equivalents equalled 322.8 million. Free cash flow for the quarter was 327.7 million versus 21.5 million last year. And fiscal year to date, free cash flow was 859.7 million versus 261.8 million last year.

The increase in free cash flow was a result of an increase in cash flow from operating activity, coupled with an increase in proceeds from divestiture of Safeway manufacturing assets and the sale of nine properties to Crombie REIT.

We announced today that we have filed a notice with the TSX to purchase for cancellation up to approximately 1.78 million, or 3 percent of Empire issued and outstanding non-voting Class A shares. Purchases will commence on March 17, 2015, and end no later than March 16, 2016. This buyback program is meant to offset dilution associated with the issuance of stock options.

Investments and other operations reported operating income of 37.8 million in the third quarter versus 6.5 million in the same period last year, an increase of 31.3 million.

Equity accounted earnings from Genstar were 24.2 million in operating income in the third quarter, an increase of 15.8 million compared to 8.4 million recorded in the same period last year. This increase was primarily driven by strong lot sales.

Equity accounted earnings from the Company investment in Crombie REIT were 7.3 million, an increase of 7.1 million over the same period last year. We refer you to Crombie Q4 news release of February 26th for details on its most recent quarterly results.

At the end of the third quarter the fair value of our 41.5 percent equity accounted ownership interest in Crombie REIT was 729.9 million on a carrying value of 269.7 million.

I will now turn the call to Marc.

Marc Poulin — President and Chief Executive Officer, Empire Company Limited

Thank you, François, and good afternoon, everyone. During the third quarter, Sobeys same-store sales, excluding fuel sales, increased 3.0 percent. Our internal food inflation for the quarter was calculated at 3.9 approximately.

We did see fuel price deflation in the quarter, so including fuel sales, same-store sales increased 1.9 percent.

Third quarter gross margins increased 40 basis points from last year as a result of synergies realized from the Canada Safeway acquisition, coupled with new retail selling square footage, the majority of which was offset, as expected, due to store divestiture and network rationalization.

I'll now provide some highlights on our progress with our integration of the Safeway business and also on recent initiatives.

As previously disclosed, we surpassed our first targeted annual run rate cost synergies of $100 million, and we have completed the IT conversion at all Safeway stores and in all 10 retail support centres.

Subsequent to the quarter-end, we achieved another milestone by moving Safeway onto our SAP platform. The implementation of SAP is a critical milestone in the Safeway integration, as all back-end processes in Safeway operations are now operating off the Sobeys' IT ecosystems. The next few months will be dedicated to stabilizing the ecosystem and ensuring full adoption of the new processes.

As a consequence of the switch-over, we will be terminating the transitional service agreement we had with Safeway, and therefore realize the IT cost synergies envisioned in the business plan.

As we discussed in the past, since the closing of the Canada Safeway acquisition the priority of the first 18 months have been technology integration, and we are getting very close to being in a position to move forward with the second phase focused on other integration initiatives.

The second phase will allow us to realize cost synergies associated with distribution and logistics, modernization of offerings at store level, and SG&A savings. We cannot underestimate the time and effort that will be required to deliver on those opportunities now enabled by common systems.

Overall, we remain confident in our ability to deliver $200 million in annual run rate cost synergies at the end of year three. We continue to identify incremental opportunities for improvement, and we remain committed to reducing costs wherever possible across the organization.

During the third quarter, one of our four dairy manufacturing facilities was sold to Agropur for proceeds of 62.6 million. Subsequent to the end of the quarter, we sold two additional manufacturing facilities to Agropur for total proceeds of $221.4 million. These proceeds were used to repay bank borrowings. The sale of our remaining facilities is expected to occur during our fourth quarter of fiscal 2015.

During the third quarter, we also entered into an agreement to sell to Canada Bread the two bread-manufacturing facilities for proceeds of approximately $32 million. This transaction is expected to close in our fourth quarter of this fiscal year as well.

During the third quarter, Sobeys through its wholly-owned subsidiary sold nine properties and leased back eight properties from Crombie REIT for a cash consideration of $103.5 million. The majority of the proceeds were used to pay back bank borrowings.

Subsequent to close of the third quarter, Sobeys sold and leased back 22 properties to a third party for total proceeds of 61.6 million. These funds were used to repay bank borrowings as well.

We continue to successfully roll out new programs which are clearly resonating with customers. We are seeing strong same-store sales growth in stores where we launched these programs, as well as in stores which deliver on our Better Food For All, or plaisir de mieux manger strategy.

I am pleased to say with the launch of Air Miles reward programs at Sobeys, Sobeys Urban Fresh, and Foodland stores across Ontario beginning March 27th that Sobeys will become the loyalty program coast-to-coast grocer, and only one coast-to-coast to issue Air Miles reward miles.

Our private label harmonization continues as we combine the Safeway and Sobeys private label portfolio to create the best-in-class line of products for the entire company. To date, over 1,200 products have transitioned at Safeway stores, and we are on target to complete conversion by May 2015.

We remain confident that we will continue to profitably grow the business and grow our free cash flow. We now have SAP as well as Air Miles coast to coast; we have a modern and highly scalable distribution network in place; and we are confident in our ability to achieve operational efficiencies and cost reductions across the organization.

Our long-term growth prospects remain firmly intact, and we believe strongly in our ability to deliver on these promises we make to our investors with the Safeway integration, both in terms of execution and in terms of synergies.

We are now happy to respond to your questions.

Q&A

Operator

In order to ask a question, please press *, 1 on your telephone keypad.

And your first question comes from Peter Sklar with BMO Capital Markets. Your line is open.

Peter Sklar — BMO Capital Markets

Thank you. If you look at your grocery EBITDA, it was pretty much flat year over year and notwithstanding that you had the additional synergies, and I believe last year was a relatively weak period for your grocery business because that's when you were implementing the Better Food For All program and I believe you had some shrink issues. So I'm just wondering, are you able to articulate what the negative impact on EBITDA was of all the assets that you've sold since last year? And talk about some of the pressures that you're seeing on the business as well?

François Vimard

I can talk, Peter, I can talk a bit about the pressure coming from the manufacturing. We didn't disclose exactly what it is, and you have to look back in the context off of the reduction in the finance costs we have on the other side. We said net—on the net earnings side it will be immaterial. And that's why you see a lot of reduction on our finance costs. We have to take that in account.

And clearly one element you have to consider, clearly I'm sure you see that the gross profit percentage went up, and then explains a bit the shrink aspect because shrink goes on the gross profit side, but also most of our synergies so far is more on that line than on the SG&A line, so that's another element.

And on the SG&A side, clearly we're mentioning there's one element clearly because—and a different element that moved compared to last year that the variable competition has a bigger impact than usually, and so that affected our G&A expense.

Peter Sklar

Sorry, François, I didn't understand the explanation on the SG&A.

François Vimard

What I was saying on the SG&A side, between I would say the performance we had last year and this year and what happened in the market, we think that the variable compensation has a higher impact than usually because of that in this quarter, and that's an explanation that they explain why the SG&A went up by that much.

Peter Sklar

Okay. And just lastly on the inflation, the retail inflation numbers that you discussed, Marc, in your comments of 3.9 percent. Is that on your total? Or is that ex fuel?

Marc Poulin

That's food.

Peter Sklar

That's food. Okay. Thank you.

Operator

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

Jim Durran — Barclays Capital

Yeah. I was just wondering, like obviously we're all focused on what the drop in oil price is going to do to consumer spend. Did you see any material changes move through the quarter in Alberta and Saskatchewan as a result of what's going on?

Marc Poulin

To be honest, not really. We're very pleased with the way the business performed. So on that, and to be honest, we did sell a lot of lots in Genstar in Western Canada during that quarter as well, so probably too early to tell.

That being said, I think customers have a little bit more money in their pocket from what they're saving on gas, but that's counterbalanced by the fact that prices of food is being impacted by the lower Canadian dollar-induced inflation, so difficult to see how it's going to pan out. But clearly we're going to work the best we can to convince them to spend in the food store what they're not spending at the gas pump.

Jim Durran

And, Marc, on gross margin, if you took out the synergies that were in the COGS number and then looked at the gas margins—and gas margins in Canada were up quite substantially, both on a dollar basis and a percentage basis in the quarter—how materially down would the remaining food operations margin have been down?

Marc Poulin

Not really material because even though we're talking gas, I mean we're not—gas is a part of our number, but not that big of a part of our numbers that it influences that much. I think gross margins were marginally in the same range that we had, so it's not really—we've been able to sustain gross margin by reflecting in our selling prices the cost increases that have come through in terms of currency fluctuations with some impact, foreign exchange impact.

We did have some foreign exchange impact and losses during the quarter because the swing in the currencies were sudden and fluctuated a lot on a daily basis. So I think overall the team managed the gross margins pretty good, given the environment.

The big challenge in an environment like this one is finding a way to get customers to accept that the reality of the prices is changing because a lot of it is induced by the Canadian dollar, and we've got to find a way to bring that reality to our customers. And it's not always an easy task.

But I think, honestly, the team has been very disciplined about it in this quarter, and we're pleased about how the team performed, given that challenging environment from a gross margin perspective.

François Vimard

And, Jim, just maybe on the gas side, I don't think you should conclude that the gross margin went up because depending on the market, as you know, depending on the regulation, as you know, we're doing business mainly in gas in Atlantic and Quebec.

And Atlantic the gas being regulated you have to reduce your price at the pump faster than you have time to reduce inventory that you bought at a higher price…

Jim Durran

Yeah.

François Vimard

And it's the reverse in Quebec. So overall margin in gas you shouldn't conclude that the margin went up.

Jim Durran

Okay. No, that's very helpful. Thank you. And last question, just on Genstar. So was the sale of new lots predominantly in Western Canada as opposed to the US?

François Vimard

Yes. It was primarily out in Western Canada.

Jim Durran

Okay. Thank you.

Operator

Your next question comes from the line of Perry Caicco with CIBC World Markets. Your line is open.

Perry Caicco — CIBC World Markets

Yeah. Thanks. On the SG&A front, with square footage down about 4.5 percent from last year and SG&A almost identical to last year, the difference—well, I would have expected SG&A to be down a little bit more than it was. I understand variable compensation's a bit of it, but it certainly couldn't be all of it. Can you just talk a little bit about what other pressures you've got on SG&A right now?

François Vimard

I would say, Perry, the SG&A overall, clearly and as you know, we did invest also with integration, so we disclosed those announcements. There's a bit of that work going on right now.

But in terms of the operation, pure operation by itself, I can tell you that we are at least or closely to be at least as efficient as we were before.

Perry Caicco

And so the level that we're at now, we could expect it, what, to improve a little bit going forward?

François Vimard

Clearly, as you know, we were pretty adamant over the past few years to work on SG&A. Now we are in a transition mode, so clearly it does affect somewhat the SG&A plus the variable compensation.

But we have—as you know, part of the synergy you're going to see coming forward over the next 18 months will be towards mainly SG&A; and secondly, we're going to have other activities. As you know, even in Ontario we're looking at opening a new permanent DC that's going to have Sobey's (phon). So we're still working on reduction in SG&A; that's a trend you should see over the next 24 months.

Perry Caicco

On the inflation front, how bad is the pressure right now on inflation? And I'm also wondering what the various tools are you're using to push inflation through? Is the number that we saw this quarter kind of a reasonable rate for the foreseeable future?

Marc Poulin

Well, as you know, a lot of the inflation is commodity or US dollar driven, so what are we going to see on that front is for everybody to predict. What I can say is that we've been very disciplined in trying to reflect the true cost of the commodities to the customers, and our plan is to continue to do so.

Some players, some retailers play tricks around this one trying to—we clearly—at one point you've got to reflect it to the customers, and we're not shying away from it. It's an unfortunate fact of life in 2015 price of produce is going up, and we have to reflect it.

Perry Caicco

And was it clear that putting—that taking the increases the way you did put some pressure on your same-store tonnage?

Marc Poulin

I think that that's a fair assessment.

Perry Caicco

Okay. And just one last question; you've talked about the next steps for Safeway now that you've got the systems on a common platform. You talked about the harmonization of Safeway and Sobeys. What do you mean by that? And what might observers and customers and suppliers expect as you move forward with that harmonization?

Marc Poulin

Well, obviously, I'll give you just one concrete example. Because now we're on the same system, we were in a position to announce that we're closing a warehouse in Winnipeg and consolidating most of that volume in another warehouse. So that couldn't have happened had we not been in the position to harmonize the system.

So these kinds of things are now enabled. Obviously we can start comparing assortments; we can start asking suppliers to fill one sheet of costs rather than two; less people will be involved, but administratively it's going to simplify the processes.

Because now we have the same systems, back office can start to be integrated. We're going to behave more as one company in the next 18 months making decisions based on the total business rather than be limited by systems and being forced to make decisions on one side of the business separate from the other side of the business.

Perry Caicco

Would consumers see changes in the offering?

Marc Poulin

Well, they're already seeing some, to be honest. Compliments, for example, is showing up—more than half the private label now is switched as we speak, and it will be switched completely within two, two-and-a-half months. So there's starting to be some changes. There's also lots of best practice that is starting to be shared between the two companies.

So slowly but surely our goal of building a food operation in Western Canada based on the best of both worlds is starting to take root, and it's a lot easier to compare results of initiatives when you're talking the same financial language.

Perry Caicco

Okay. Thank you.

Operator

Your next question comes from the line of Vishal Shreedhar with National Bank. Your line is open.

Vishal Shreedhar — National Bank

Hi. Thanks for taking my questions. On the other income line there was a gain of 16.4 million in that related to asset sales. Is the—the gain that you backed out in your adjusted EBITDA, is that included in that 16.4?

François Vimard

Yes. It is.

Vishal Shreedhar

Okay. So why did you only back out a portion of it and not the entire thing?

François Vimard

That was because the one we backed out is related to manufacturing, which was an asset which we have just three of those. The rest is the in and out that we have with all of the (unintelligible) on sale on real estate assets that we have in our business.

Vishal Shreedhar

Okay. In terms of the synergy number, the 39.2, is that cumulative? Or incremental year over year?

François Vimard

The synergies, I would say, the current quarterly number, so it's the number that we generate during the quarter.

Vishal Shreedhar

Okay. So does that include the 6 and change, I believe, that you reported in Q3 fiscal '14 as well?

François Vimard

Yeah. Clearly, the 39 is total that we have generated this quarter.

Vishal Shreedhar

Okay.

François Vimard

So the 6 we have generated last year in Q3 are somewhat included because they are last year's.

Vishal Shreedhar

Got it.

François Vimard

So you don't add up those numbers.

Vishal Shreedhar

In terms of the share repurchase program...

François Vimard

Yup.

Vishal Shreedhar

You intend to fully execute?

François Vimard

That's a go.

Vishal Shreedhar

Okay. So should we expect your share count to remain stable after? Completely offsetting dilution? Or will there be any reduction in your share count?

François Vimard

It will be in the same range. The goal is to really overcome the dilution coming from the option.

Vishal Shreedhar

Okay.

François Vimard

The count at the end will be the same that it was, I would say, two months ago because we already issued some option as you know.

Vishal Shreedhar

Okay. And I might have missed it, but the internal inflation number was...

François Vimard

Three-point-nine.

Vishal Shreedhar

Okay. All right. Thanks a lot.

François Vimard

Thanks, Vishal.

Operator

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

Chris Li — Bank of America

Hi. Good afternoon. Just a few, I guess, number-related questions. First one is just a follow-up to the question about the Sobeys gross margin up 40 basis points, and I understand your answer about how a few margins might not have gone up a lot in Canada. But I guess my question is the fact that fuel sales did go down quite a bit during the quarter that would have kind of skewed up your gross margin percentage, all else being equal. So I was kind of wondering if you normalize for that impact what would the 40 bps increase have been if you didn't have that big drop in fuel sales.

François Vimard

Yeah. The fuel is material for us, but it's not that material where the gross profit impact have a big impact on the 40 basis points. It has some, but not—you can't see that as a big impact.

Chris Li

Okay. So not material. Okay. That's fine. And then with respect to the four manufacturing facilities that you're selling to Agropur and then the one to Canada Bread…

François Vimard

Yeah.

Chris Li

Can you share with us just, again, purely for more modelling purposes what's the impact to your external sales that you're giving up from the sale of those five facilities?

François Vimard

At the end on the sales side it's kind of minimal. There is, because it's some margin left Agropur, which is not internal, but it's not that material because, as you know, those sales we're going to add that in milk in our stores anyway.

Chris Li

Yeah.

François Vimard

And we had that in bread. It's just external sales and we have a process that some of them we'll lose, but not that much.

Chris Li

Okay.

Marc Poulin

But there's also the—obviously there's some external customers, especially on the milk side, that obviously these sales Agropur will get from now on, but it's relatively minimal.

François Vimard

Yeah.

Chris Li

Minimal. Okay.

Marc Poulin

Not a big thing.

Chris Li

And then the sale leaseback off the properties that you did, I think eight during the quarter and then 22 subsequent to the quarter…

François Vimard

Yeah.

Chris Li

Roughly speaking, what's the incremental rent expense that you expect to incur from those sale leaseback?

François Vimard

If you put the normal cap rate on it you can do the estimating.

Chris Li

Okay. So it's about 6, 6.5 percent? Is that…

François Vimard

Yeah. That's depending on the market, but you have a good range.

Chris Li

Okay. And then just in terms of your capital expenditures. I guess with two months left to go in the fiscal year, what are you expecting for CapEx for this current fiscal year? And maybe what is your expectation—

François Vimard

Yeah. Yeah.

Chris Li

—for the next fiscal year?

François Vimard

As you know, Chris, we said we're going to spend around 600 million or 700 million. I think this year we're going to be in the low range of it, even a bit lower than that due to some delay in term of capital, I would say, process. But overall next year we should be in the same range of our 600 million to $700 million.

Chris Li

Okay. Great.

François Vimard

Full range this year, even a bit lower, but next year between the 600 and 700.

Chris Li

Okay. Thank you very much.

François Vimard

Okay.

Operator

Your next question comes from the line of David Hartley with Credit Suisse. Your line is open.

David Hartley — Credit Suisse

Thank you. I'm just wondering about your real estate holdings. I noticed you've been—you're active there with some properties. I'm just trying to get a sense of how much more property—or what's the value of the property that you have left that you're looking to vend into the Crombie REIT?

François Vimard

We've said, David, that we're going to sell around $100 million a year to Crombie. That's kind of not the formal commitment, but kind of the range we're giving that Crombie said. So that's what it's going to be.

David Hartley

Mm-hmm.

François Vimard

But what we have internally and we said that when we acquire Safeway we sold to Crombie around $1 billion, and we still have another $800 million we could have sold to Crombie.

David Hartley

Mm-hmm.

François Vimard

But we're still developing, because part of our CapEx between 600 to 700 million is to develop some shopping mall strips still there, so I put part of my $700 million is capital development that I sent to Crombie. So it will be a pool of asset that will never go to zero because we're still developing close to 100 million a year anyway. So if I sell anything to Crombie I will always have a pool that I can sell.

David Hartley

Okay. Thank you very much.

François Vimard

Good.

Operator

As a reminder, in order to ask a question, please press *, 1 on you telephone key pad.

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

Michael Van Aelst — TD Securities

Thank you. Just one question actually remains for me, and it actually has to do with the real estate, but more on the residential side. That Genstar profit has been rising pretty incredibly the last few quarters, and I think you hit a five-year high on your profit number from Genstar. So can you give us a sense as to where you see that number going? And what's the inventory remaining of lots that could still be sold?

François Vimard

Yeah. Michael, we don't give the pure inventory. Clearly, like you said, it was a good year for Genstar overall. And as we said last year when we acquired Safeway, the plan is over the next five years try to get, I would say, liquidating, and I think that's the plan of Genstar Group to liquidate most of their assets over the next four years. I would say that would be the plan.

And it depends how the market reacts. So to understand exactly how much churning we're going to get out of it it will really depends. As you know right now, in the west things are going to slow down. That's what everybody says, so we should have some impact on that.

So I don't foresee that same trend over the next few quarters, but the only thing I can say about Genstar, they always surprise me.

Michael Van Aelst

Were you trying to accelerate that liquidation of the properties, given the stronger markets this year? So in other words, was there a higher percentage of properties being sold than, say, the 20 or 25 percent?

François Vimard

We don't think so, Michael, because what we learned from Genstar also that they have a way to find with time to create value. And so with the partner we have it's an agreement that over the next four years that's the timing we have in place, so some year maybe more than 20, 25, some year maybe less than that, but not saying a fire sale of 75 percent.

Michael Van Aelst

All right. Thank you.

François Vimard

Good.

Operator

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

Keith Howlett — Desjardins Securities

Yes. I was wondering if you would have any interest in the Imperial Oil retail fuel sites that are up for sale.

Marc Poulin

I don't think we speculate on future acquisition possibilities; we don't do that.

Keith Howlett

Okay. And then just I was wondering on your relationship with Agropur, I wasn't exactly sure what the broad marketing arrangement meant. Does it sort of mean like a national partnership on certain product categories? Or what exactly does it mean?

Marc Poulin

Yeah. Obviously it's—you can imagine that we sold the milk plant in Western Canada and associated that for the long-term supply agreement with them. But it is also fair to say that Agropur is a supplier with whom we have a very good relationship across the country and across multiple categories.

So through this agreement we could say we grew closer together even more, and we really feel that they're a very good supplier to our business. And our customers through this are enjoying high-quality products.

Keith Howlett

And finally, I just wondered if you might comment on some of your sort of newer store formats or repositionings or tinkering with store formats. I'm thinking of the IGA Express, Quebec City what your thoughts are there? And also more importantly, I guess, your larger format Sobeys stores?

Marc Poulin

Yeah. So we've opened a few more Express format in the quarter, and as with any format there's quite a bit of learning occurring right now with this, some pleasant surprise; some things that we wish worked a little bit differently. Overall, we're pleased with the customer reaction. And to be honest, we're getting a better handle on the necessary conditions for success of that format as we were experimenting with it.

On the Sobeys Extra format, we are very, very, very encouraged by customer reception how they react to the store, how positive they are the customers who are shopping those stores they are about their experience at store level. So it's clearly something we believe showcases our commitment to Better Food For All.

As expected when we started the initiative, we really believe we're on the right track with this and truly excited about the potential of this for the business as a whole.

Keith Howlett

Thank you.

Operator

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

Jim Durran

Yeah. I just wanted to go back to the gas price impact in the quarter. As we look out it certainly looks like gas prices are going to be down year over year for the next several quarters. Is there any reason to believe that we shouldn't assume the same relationship in terms of what gas prices have done in your core market's year-over-year decline relative to the drain on your reported comp store sales number?

François Vimard

If it stays that low, clearly it will have the same impact, Jim, but it's tough to know. But if it stays at the level it was in our Q3, you can imagine it's an impact.

Jim Durran

Yeah. So there's nothing unique about the quarter that would muddy the sort of mathematical relationship?

François Vimard

Shouldn't be. No.

Jim Durran

And is volume growing in gas for you guys or not?

Marc Poulin

I'll be—again, we're not putting numbers on that front, but we—let's put it that way. We are far from being displeased about our performance in gas.

Jim Durran

Okay. And last question just on harmonization of the two businesses. Are we ever going to see sort of an elimination of the Safeway banner name and going with Sobeys solely in that market? And secondly, any chance of FreshCo being introduced into the Western Canada market?

Marc Poulin

So I'll start with FreshCo. FreshCo, as we mentioned in previous quarters, we're in the consolidation phase of our five-year business plan in FreshCo. The first three years were centred around conversion of the network to FreshCo renovation. And we always said the next two would be focused on tying up all the loose ends that currently exist in the business to make sure that the formats would deliver all it can deliver, both to our customers, but also to our bottom line.

And we are very encouraged by the progress the team has made around that mandate. But we always said it would be a two-year mandate, and we're not even finished the first year of that. So we'll give them the time to keep working on what they have to work on what they have to work on.

That being said, we remain extremely pleased with the performance of FreshCo and the customer reaction to the concept.

On your first question, which was around…

Jim Durran

Well, I guess it's about the relationship between the Safeway banner and the Sobeys banner...

Marc Poulin

Yeah. Safeway and—so we've just turned the switch on to SAP and we're in the stabilizing phase of that integration, and again, times come in due time. There's no reason for us to make any decision, final decision on branding until systems are fully integrated and, therefore, we haven't crossed that bridge yet.

And as time passes we're learning more and more about the customer and how they would react to all the options available on that front. But one thing I can say, though, is that putting all of our Western business under the same loyalty program delivered exactly what we were expecting from that move.

So we are achieving cost synergies as promised, but we're also achieving soft synergies associated with a stronger customer proposition from a unified loyalty program. And it showed up in our food business and pharmacy business significantly in the quarter. But you can also imagine that now with the unified program we're learning more and more about the customer, and that will inform the decision we're going to make on that.

Jim Durran

Great. Thank you, Marc.

Operator

Your next question comes the line of Kenric Tyghe with Raymond James. Your line is open.

Kenric Tyghe — Raymond James

Thank you. Good afternoon. We're rapidly approaching the Club Sobeys termination and the Air Miles rollout in Ontario. I wonder if you could provide a little colour on the attach, the sales attach rate in Ontario to Club Sobeys, just to get some sort of order of magnitude here on the transition risk, to the extent there is any. And sort of how you're viewing that currency switch. I know you have transfer programs in place and the like, but just wondering what your thoughts are as we look to the fourth quarter and what colour you can provide on attach rates historically.

Marc Poulin

Honestly, we've just done the conversion, as you can imagine, in the west from Club Sobeys to Air Miles, and it's been very well received by our customers as very positive. So we're looking forward to that conversion for our Ontario business.

And it's going to be good from a synergy perspective because instead of running two programs, once we've done the conversion in Ontario we'll be solely running on one platform, and so it brings efficiencies from a cost perspective. It also brings the ability to shift analytics capabilities from one region to another. What we're learning in Western Canada we can apply to Ontario. Hopefully customers will react in similar ways.

So in our mind this is all positive, and we believe that being Air Miles from coast to coast is a competitive advantage for us.

Kenric Tyghe

Great. And thank you. Just to follow up on the analytics piece, is it the plan to remain with your previous analytics partner, or rather with the analytics partner in Ontario? Or is there a change as to how you'll be approaching the analytics going forward, bringing it in-house or otherwise?

Marc Poulin

So we currently work with two partners. The Sobeys business is with Aimia, and the Safeway business is with another provider. Obviously down the road we're going to look at this and see what makes sense. But the currency, which is Air Miles or Club Sobeys, didn't prevent us to work with the same analytics partner as far as data analytics.

You've got to distinguish the two. One is the currency that the customers is getting; the enticement, I guess, to show the card at point of sales, and then once the data is recovered and associated with a card number then there's an analytics that goes on in terms of building a better category plan. And that's independent of the currency.

Kenric Tyghe

Thanks very much. I'll leave it there.

Marc Poulin

Thank you.

Operator

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

Jim Durran

Last question, I promise. With respect to SAP I just want to make sure my recall is correct. There was a point in time when the completion of SAP on the Sobeys platform was done prior to the Safeway acquisition.

Marc Poulin

Yes.

Jim Durran

And you were talking about cost savings on the older part of the business at that point in time. When we think now of the Safeway SAP being completed, are all of the cost savings related to SAP now being complete across your whole platform going to be reported as part of Safeway synergies? Or is there savings to be had outside of the synergy number?

François Vimard

No. What we talked about synergies is things rated to Safeway or how do we leverage as a company what's going on because we acquired Safeway. Other activity we're doing like I was talking about the DC in Ontario or other activities related to SAP across the country in terms of improvement is not reported as synergy.

Jim Durran

And will there other related savings then beyond just the Safeway?

François Vimard

Yeah. There will be, frankly, I will tell you, Jim, our goal was once we finalize implementing Thrifty, which was our last one, was to put the team to continue to improve. But now we put that team on the Safeway integration, so we didn't do as much improvement on the rest of this SAP as much as we would like to.

So now that the team have finished or almost finished supporting the Safeway integration, they're going to be able move and now getting at that, I would say, efficiency improvement across the country.

Jim Durran

Okay.

Marc Poulin

And may I add something to this part? It's also the opportunity to start working at what we call the reverse synergies. There are things that we didn't have in our system that we saw in Safeway's system that clearly we were impressed with, and now we will also dedicate some resources in trying to bring that into not only bring that back into the Safeway business because they used to have it, but obviously once we've done that it's going to be available for roll out across the country.

Jim Durran

Great. Thanks again.

Operator

There are no further questions in queue at this time. I turn the call back over to the presenters.

Stewart Mahoney

Thank you, Tracy. Ladies and gentlemen, we appreciate your continued interest in Empire, and look forward to having you join us for our fourth quarter fiscal 2015 conference call on June 25th.

Good bye.

Operator

This concludes today's conference call. You may now disconnect.

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