FINAL TRANSCRIPT

Empire Company Ltd.

Third Quarter Results

Event Date/Time: March 10, 2016 — 7:30 a.m. E.T.

Length: 41 minutes

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PRESENTATION

Operator

Good morning. My name is Keith (phon), and I'll be your conference Operator today.

At this time, I'd like to welcome everyone to the Empire Company Limited Third Quarter Fiscal 2016 Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, we will have a question-and-answer session. If you would like to ask a question during this time, simply press *, 1 on your telephone keypad. If you'd like 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 very much, Keith. Hello, and thank you for joining us.

Our comments today will focus primarily on the financial results of the third quarter of fiscal 2016 ended January 30, 2016. Following our comments, we will then be open to your questions.

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

Joining me on the call this morning are Marc Poulin, President and Chief Executive Officer; François Vimard, Chief Financial and Administrator 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. Marc will then discuss Sobeys.

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

Thank you, Ken, and good morning, everyone. Before I begin to review the financial results, I would first like to speak to the impairment charge that was recorded this quarter. As a result of the recent financial results of our Western business unit, including the impact we will discuss related to gross margin and EBITDA, management determined it would be required to review and perform the appropriate financial analysis of the value and use of the assets of the Western business unit.

The specific assumption of this analysis has been disclosed with our—within our financial statement and MD&A. As a result of this analysis, management determined that an impairment charge of $1.73 billion would be required.

Western business unit will be a successful piece of our strategy for the future and we remain confident in our office and store employees throughout the Western business.

Empire consolidated sales in the third quarter were $6 billion, an increase of $86.7 million or 1.5 percent.

Sobeys same-store sales growth for the quarter was 0.4 percent. Excluding the negative impact of oil price on fuel sales, same-store sales would have increased 0.6 percent.

Our internal food inflation for the quarter was calculated around 2.4 percent.

As you know, following the close of Canada Safeway acquisition, we began the integration of the Safeway business with the existing operation which has resulted in a number of operational issue that have impacted the financial results.

Merchandising issues such as our private label conversion, along with produce supply chain issues, impacted the offerings being made to customers at store level. At the same times, the people transition portion of our integration efforts proved distracting and presented considerable short-term challenge to the business.

While these issues have been mainly resolved, all of these challenges had a lingering impact on customer traffic. Customer traffic was further impacted by increased promotional intensity across the region, as well as the difficult economic environment, mainly in Alberta and Saskatchewan, resulting in further sales and margin erosion.

All of these factors, combined to negatively impact our customer experience and resulted in same-store sales for the West business unit, excluding fuel, of a negative 2.9 percent for 13 weeks and negative 0.9 percent for the 39 weeks ended January 30, 2016.

Excluding the fuel sales and the retail West business unit impacts, same-stores would have increased 2.7 percent for the rest of our business. The majority of the West impact was the result of challenges for the Safeway banner.

The gross margin, the 58 million or 133 basis point decrease in Sobeys gross profit related to the same period last year was the results of the impact of lower customer spend and more aggressive merchandising and promotional activity, combined with our promotional penetration, especially in the Western Canada.

Gross profit was also impacted negatively by the continuity program investment and inventory adjustment in the quarter.

Consolidated EBITDA in the third quarter was negative $1.47 billion compared to $323.3 million in the third quarter last year, a decrease of $1.8 billion. The decrease in EBITDA was largely due to impairment recorded for goodwill and long-lived assets and the factors affecting sales and gross profit. Reduced expense for variable components of compensation, including stock-based awards, partially offset the operational decline.

After adjusting for certain items to better analyze trends in performance and financial results, consolidated adjusted EBITDA for the third quarter was $262.9 million, a decrease of $46.2 million or 14.9 percent over the third quarter last year.

Adjusted EBITDA margin in the third quarter was 4.4 percent, down 80 basis points from 5.2 percent in the same period last year.

Investment in other operations reported operating income of $48.4 million in the third quarter versus 37.6 million in the same quarter last year, an increase of 10.8 million.

Equity accounted earning from Genstar were $36.8 million in the third quarter, an increase of $12.6 million compared to $24.2 million recorded in the same period last year.

The increase, relative to last year, was primarily due to the sale of two real estate partnerships by Genstar which resulted in a gain in sales of $19.8 million. Equity accounted earnings from the Company's investment Crombie REIT were $7.2 million, a decrease of $0.1 million over the same period last year. We refer you to Crombie Q4 new release on February 24th for details of 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 $727.6 million and an accounting value of $351.4 million.

Finance costs, net of finance income, remained consistent with the same period last year.

The Company's effective income tax rate was 15.9 percent compared to 25.1 percent in the same period last year. The reduction is attributable to the impact of the impairment of goodwill and long-lived assets.

The effective income tax rate, excluding the impact of the impairments, would have been 27.3 percent in the third quarter compared to 25.1 percent in the same period last year. The rate was increased due to the higher proportion of income earned by the investments and other operations segment compared to the same period last year.

In the third quarter, Empire recorded adjusted net earnings, net of noncontrolling interests, of $82.5 million or $0.30 per diluted share compared to $118.6 million or $0.43 per diluted share in the same period last year, a decrease of $36.1 million or 30.4 percent related to the same period last year.

With respect to our overall consolidated financial condition at the end of the third quarter, Empire consolidated ratio of funded debt to total capital was 34.1 percent compared to 32.1 percent last year.

Cash and cash equivalent at the end of the third quarter equalled $294 million. Free cash flow for the third quarter was $139 million versus $327.7 million for the same period last year, a decrease of $188.3 million.

The decrease in free cash flow was attributed to a decline in cash flow from operating activity and the reduction in proceeds from the divestiture of noncore assets relative to the same period last year.

Partially offsetting these factors was a reduction in CapEx spend compared with the third quarter in fiscal 2015.

I will now turn the call to Marc.

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

Thank you, François, and good morning, everyone.

As noted during the quarter, we continued to experience sales challenges in our Western business, especially in our Safeway stores.

In order to address those challenges, we initially reacted by heightening the level of promotional activity. These promotions were met with disappointing consumer response. Considering the current sales trend in our West business unit, our focus over the coming quarters will be to reverse this trend and bring back customers, which I will speak to in a moment.

It is worth noting as well that we are nearing completing of the people transition portion of our integration efforts that were not without considerable short-term challenges.

Uncertainty in the workforce, as a result of the organization realignment, was a significant distraction and had a major impact on operational efficiencies and productivity.

The Western business unit organizational design and role selection process concluded during the quarter and transition plans are being executed. We expect the new team to be in place by the end of the fiscal year.

With the team solidly in place, we will be in a better position to focus on and structurally address the challenges in the Western marketplace.

I would now like to share with you some of the key initiatives that we are putting in place to strengthen our business in the West, with focus on three key areas: pricing; network renewal; driving efficiencies.

Let me start with pricing. With the completion of our Western Canada team integration efforts almost completed, we're now able to address the sales erosion challenges in a more structural way.

On January 29th, we launched a consolidated Sobeys Safeway flyer, which coincided with our produce affordability campaign throughout the West. Initial customer feedback is positive with an increase in tonnage, but we expect the benefits to build up over time as this is a long-term strategy.

Customer reaction has also been positive to the launch of our new meat program in the Safeway stores, benefitting from the knowledge of our market-leading program at Sobeys.

We are now focusing on areas such as margin and shrink management and continued forecasting, training, and improving service levels. Sorry.

We have identified our efforts to drive both customer traffic and basket size through such initiatives as our recently launched 100 percent satisfaction guarantee, which entails new service levels training standards for our employees to help create customer loyalty.

And we believe that our unfavourable Safeway private label sales trend, which resulted from brand consolidation, stabilized during the third quarter, and we are now seeing signs of improved customer acceptance of the Compliments brands.

In addition to the specific initiatives that we are putting in place in the West, we are also currently in the process of redefining our relationship with suppliers and our retailers under a program called Simplified Buy & Sell which is aimed at simplifying, standardizing, and harmonizing the Buy & Sell structure across Sobeys as a whole.

Simplified Buy & Sell will increase costs and transparency and enable better category management, ultimately allowing us to strategically improve shop pricing, competitiveness, and overall price perception across the country.

Related to our store renewal strategy and the continued rollout of our new concept store, we also plan to continue to accelerate capital investment across our Western Canada business in the coming quarters.

Where the right conditions exist, we expect to focus significant capital investment in renovating stores located in markets we believe can deliver a differentiated experience for our customers through our new concept format.

In this regard, in the third quarter we continued to rollout in the West our new concept stores with the opening of a Sobeys in Nolan Hill in Calgary and our second Extra concept store in the West with Pembina in Winnipeg.

We are pleased with customer response to the new concept, both in the West and across the country, and we'll continue to aggressively rollout these stores moving forward.

And while we continue to seek ways to grow our business, we remain unwavering in our focus to driving efficiencies in our distribution and logistics network in the West and across the country.

Subsequent to the end of the third quarter, we determined the future state for our distribution network in British Columbia. Going forward, four distribution centres will support our store network in the province. And as a result, we will close our Butler retail support centre near Victoria in fiscal 2017 and end a service contract with another facility in the Lower Mainland.

These changes are in keeping with our commitment to rationalize and strengthen our retail support centre network across the West, including an announcement in fiscal 2015 within our Manitoba and Alberta network.

We expect to finalize the end-stage requirements for the full Alberta distribution network by the fourth quarter. But in the meantime, work continues on building our 1.3 million square foot automated retail support centre in Rocky View, Alberta, which will distribute dry grocery to our stores in Alberta, Saskatchewan, and part of Manitoba.

We remain on track for this facility to be operational in mid-2017, which will result in the realization of additional efficiencies in our distribution network in the West.

So in summary, we plan to recapture customer and thus top line while returning to normalized margins in the next few quarters by focusing on pricing structure, changing to our pricing structure to address changes in customer behaviour on the back of the Western Canadian economic environment, produce price inflation, and heightened promotional activity.

We are addressing this with the launch of the affordable produce and meat campaign and the Simplified Buy & Sell initiatives which aims to restructure our centre store pricing structure.

Store renewal. Revitalizing our store in Western Canada with our new concept store format, and where conditions allow, allocating significant capital at targeted locations which have the potential to have the greatest impact. The store refresh and conversions will be funded from free cash flow.

We will also continue to improve on the customer offering by introducing best-of-class commercial programs such as we have done with meat.

Driving efficiencies. The continued focus on optimizing the cost structure which has been a primary focus since acquiring Canada Safeway. In this regard, despite the recent challenges, with the integration of the Safeway operation, we are now confident that we will surpass our $200 million run rate synergy at the end of the year three delivering synergies of between 225 million to 250 million.

And we continue to identify incremental opportunities for improvement. And we remain committed to reducing costs wherever possible across the organization.

We continue to aggressively tackle the integration challenges and are confident that performance will be brought back in line with our expectations.

Let me close by acknowledging that, in what remains a very competitive retail food environment, the rest of our business performed generally to our expectations, driven by the ongoing rollout of our Better Food For All strategy which continues to resent—resonate, sorry, with our customers.

We are now happy to respond to your questions.

Q&A

Operator

At this time, I'd like to remind everyone in order to ask a question, *, 1 on your telephone keypad.

Your first question comes from the line of Peter Sklar with BMO Capital Markets. Your line is open.

Peter Sklar — BMO Capital Markets

Okay. Good morning. Just looking back at the issues that you're experiencing with Safeway. It seemed that last quarter the senior management team had a good handle on the issues.

And I would have thought that the issues were stabilized at that time and may have actually seen some improvement. So I'm just wondering what happened? The management team seemed to be—seemed to have a good understanding of what the issues were, but the operations and the financial results have obviously deteriorated quite significantly since the second quarter. So I'm just wondering why things have gotten worse rather than better.

Marc Poulin

To be honest, from a pure operational perspective, our produce is back in shape. Service levels are where they should be. And the—our private label sales are on up trends and we have a better understanding of our market on the perishable side of things and then better control of that. So from that perspective, we've made significant improvements. What changed customer behaviour in Western Canada is putting oil on the fire, if I want to put it that way? And we're currently under pressure from a top line perspective, which obviously is creating all kinds of ripple effect through the bottom line.

Peter Sklar

And, Marc, when you say customer behaviour, you're talking traffic I assume?

Marc Poulin

Yeah. Traffic and overall promotional behaviour. We've seen a significant uptick in customer pickup on promotions which is creating issues on the mix—the merchandise mix overall. And clearly, the—we're not dealing with the same customer psyche that we were dealing with even a year ago. The behaviour of the customer has changed in Western Canada and we have to acknowledge that.

Peter Sklar

And it seems from your comments that your promotional programs during the quarter were not as effective as you had planned. Does that relate to what you're talking about; this change in the customer psyche out West? Or are there fundamental changes you need to make to your promotional strategies?

Marc Poulin

So the—we saw, as we had better control of our business, as you mentioned, we were kind of expecting that things would go back to a more normal status. But unfortunately, things didn't happen that way. So as this occurred, the normal reaction of most retailers is to heighten promotional activity to counteract the sloppiness, if you want to put it, on the top line. That's been the traditional way for Safeway to react on lots of fronts. And to be honest, this time around, it didn't pan the results that those actions usually resulted in, in the past which basically is telling us that we have to address the problem from a more structural point of view. And an example of that kind of a structural response is the new produce campaign that we launched where we basically totally redesigned the way we go-to-market in this very important category of our stores.

Peter Sklar

Right. And then just lastly on the gross profit, in the MD&A when you're discussing the gross profit, you talked about continuity program investment, and as well there was an inventory valuation adjustment. So I'm just wondering can you explain what is the continuity program investment?

Marc Poulin

Yeah.

Peter Sklar

And what was the inventory adjustment required? And what was the magnitude of that adjustment?

Marc Poulin

So I'll speak about the continuity program. If you shop our stores—and we had those similar programs across the country—but we have a promotion where consumers can collect stamps and redeem it for, in the Sobeys stores, for example, Jamie Oliver knives. In the Safeway store, they can redeem glassware. In Quebec, they could redeem on pots and pans and things like that. So we basically had that kind of a consumer promotion going on with most of our major banners across the country in the fall. And across the country, actually, these were met with overwhelming customer response. I think, unfortunately, we made the news in Atlantic Canada about some customer chasing some knives because we had some shorts in supply for a few days and things like that. So yes, very good customer response to the promotion. But they ended up costing a lot more in gross margin than anticipated and so that's what we're alluding to in that front.

Inventory adjustment; I'll let François speak about it as he can give you a more technical response than I can.

François Vimard

Yeah. And, Peter, that's a review on the inventory evaluation, the costing aspect concerning the promotional intensity going on out West and all the elements that we have to look when we evaluate inventory, so we had an adjustment of that. So combined with the continuity program, we can talk that it's in the range of between 30 and 40 basis point impact on the margin, both of them together so.

Peter Sklar

Okay. Thanks very much.

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 morning. You've probably answered my first question, but I'm going to ask it again. It refers to—it rehashes Peter's first question, but I really want to make sure that we all really understand what happened here. Essentially, when we look at the serious deterioration in the third quarter, as best I can tell, there were three factors that contributed to that: operational issues; promotional intensity in the environment in general; and then the consumer being weaker, or I guess more appropriately, the shift in consumer behaviour. Based on your discussion in the last couple of minutes, I was going to ask you of those three things, could we quantify which has had the biggest impact on the top line and the deterioration in the margin. I'm getting a message here that it is the change in the consumer that was the biggest issue in the quarter.

And secondly, in some of the things that you indicated in your remarks, Marc, you've actually indicated that some of the operational issues have improved. So can you just address, of those three factors, if I've got them right, in order of magnitude how they impacted the quarter?

Marc Poulin

So I think you get right the three factors. I'm not going to—to be honest, I think it's the combined impact of all of three together that's actually creating the situation we're dealing with, one reinforcing the other and that's really what's creating a very difficult situation for us in the Safeway stores especially. But the rest of the Western business has also been impacted by the shift in customer behaviour.

I think what you've got to take out of this is that we're looking at this as being a structural change and not something that will be fixed by short-term promotions or activity. We've got to, in all cases, we're really addressing it to get at the root of the issue and applying—and going at redesigning the way we go-to-business to structurally address the challenges that are being passed to us by those difficulties.

François Vimard

And if I may (unintelligible)…

Patricia Baker

So it's—go ahead. Yes. Sorry, François. Go ahead.

François Vimard

And if I can add additional information maybe to help you understand that. If you look at the impact on the sales side, half of it come from transaction, half of it come from basket size.

Patricia Baker

Yep.

François Vimard

So when you look at that clearly, through that you can try to define the impact coming in and what the reason. Transactions; maybe it's a customer that either shop less at our stores or go somewhere else or decide not to shop at all. So clearly, it's caused by a change in really and kind of the liking of our stores. Basket size coming up—shopping a bit more also so in the context of the environment and the pricing aspect. So when you look at that, it'll give you a sense of the customer behaviour.

Patricia Baker

Fair enough. So the answer is that these are interactive factors so they're not independent. There's a big structural shift in the marketplace. But you're in an interesting position I would've thought where you've got an embedded control group with Sobeys West.

Marc Poulin

Yep.

Patricia Baker

And if I read between the lines, the Sobeys West business was impacted but not as much as the Safeway. So are there specific things that you can take away from how your Sobeys business is positioned in that marketplace as a learning to how to handle the Safeway business?

Marc Poulin

Clearly, and we're exactly doing that. When we launched the new initiative—well, first we went to common flyer which obviously is a way to get at the core of benefitting from both banners. And that being said, there's also significant cost savings in doing that which we are in the position to reinvest into our pricing. We structurally address, with both, the produce initiative as it is a significant issue currently with customers. And we introduced the meat program of Sobeys into Safeway, and to be honest, with great customer response so far to the offering. So we're clearly, as you said, between the Sobeys and the Safeway, are in a position to apply the best of both worlds to the combined operation. And we're—as the team is now combined, we are in a position to rollout those initiatives. So the offer, the way we go-to-market between Sobeys and Safeway, is going to be more and more going-to-market as one, pulling on the best experience of either operation and combining it into a customer offer that's going to be better on both counts.

Patricia Baker

Okay. Thank you. Then if we look at the same-store sales trend in Q3 and the gross margin deterioration, and I'm not asking you for guidance, but I would like you to share with us, where do you think you are in the Western Canadian businesses? Are either of those trends stable? Or should we look for a worsening trend? I definitely understand it's going to take time for the business to stabilize and for it to get better, but I guess essentially what I'm asking do you think we've bottomed? Or we've got a little bit further downside to go here?

Marc Poulin

Well, yeah. I'm not going to go at prediction. What I can—because it's difficult. And to be honest, it's kind of difficult to figure out what's going to be the economic outlook of Western Canada for foreseeable future. And that, in itself, is not an insignificant factor in what we're seeing because as we said in the press release Alberta and Saskatchewan are behaving differently than British Columbia, for example. So that doesn't help. It's tough to figure it out. That being said, we're clearly focused on building the top line again in this environment. And we will do whatever is necessary to bring back customers into the stores and regain their confidence after the episode that—where we probably didn't perform to their expectations. So now that we are in better shape operationally and what you'll see from us is an unwavering commitment to bring back the food experience that will regain the customer confidence that—and that will—whatever is necessary, we'll do to do that.

Patricia Baker

And continuing on that, my—yep.

François Vimard

Sorry, Patricia, again. And it's in that context also that we disclosed specifically the West comp store sales. Clearly, our focus will be to bring the top line first. So you should foresee improvement in margin percentages in the short term, like we said in our press release.

Patricia Baker

Mm-hmm.

François Vimard

We should—we gave you an indicator on the sales side. And you're going to see on the quarterly basis the progress we're making there so.

Patricia Baker

Okay. Fair enough. And I really appreciate, Marc, you're pointing out that there is still uncertainty we don't know where Alberta's going. In your remarks, I think you said something, Marc, about returning to normalized margins over the next few quarters, unless I dreamt that.

Marc Poulin

No. Two quarters but with a big S, Patricia.

Patricia Baker

Sorry, with a big, sorry?

François Vimard

S. With a big S at the end of the quarter.

Marc Poulin

The big S at the end of the quarter. At the end of quarters.

Patricia Baker

Yes. Yeah. I love it when grocers use the words tad, few, a little. We all have to guess what that means. But when you talk about returning to normalized margins, are you talking about the gross margins here? Or are you talking about operating margins?

Marc Poulin

We're focused on the operating margins.

Patricia Baker

Yep. Okay.

Patricia Baker

We're—I'll be honest, I'm not sure. At the end of the day, we've got to structurally address how the business is going, and it's finding out the balance between the sales and price investment that will be necessary to regain the traction and the bottom line that we're seeking for.

Patricia Baker

Mm-hmm.

Patricia Baker

So we've got to adjust the way we go-to-market. And, for example, I'm not going to say that the produce initiative is neutral on gross margin. It is not. But obviously when we focus on the bottom line that's—you have a different story.

Patricia Baker

Absolutely. I will get back in the queue. Thank you so much.

Operator

Your next question comes from the line of Ryan Li with National Bank. Your line is open.

Ryan Li — National Bank

Hi. This is Ryan for Vishal. I just had a few questions, maybe a few points of clarification. You mentioned that the inventory evaluation adjustment and some of the continuity program investments had a 30, 40 shift impact on the gross margin. Should we expect this to be gone next quarter? Is it onetime, would you say?

François Vimard

I would say continuity program, as you know, come and go.

Ryan Li

Mm-hmm.

François Vimard

So clearly, it was a big one we had in Q3, some ripple effect in Q4. But then we'll decide if there's others like that. And the impact of those depends on the popularity of those programs. So this one was clearly way popular that we weren't anticipating. It has bigger impact on our gross profit than we thought so. And on the inventory, it just meant we believe it's a one-off.

Ryan Li

Okay. And then—and just one further question of clarification. You mentioned that the merchandizing with respect to private label and the produce procurement, that's improved? Or was that still an issue in Q3? Or is it better now?

Marc Poulin

Well, clearly better now.

Ryan Li

Okay.

Marc Poulin

Q3 saw improvement as we expected, as the team were put together as we—and it happened in produce and meat faster in organizational design than, for example, grocery. We saw what we expected, better margin control; better understanding of the pricing. We still are working out some shrink issues as the volume dropped and comp store sales are lower than expected. It creates issues on the shrink control side of things. But we're getting control of that. So as far as private label is concerned, we invested heavily in Q3 behind promotional activities of our private label to gain customer acceptance and regain—and also from a pure logistical point of view, we're past the transition issues as we were removing the Safeway product off the shelf and introducing the Compliments during that transition period. You're in a position where it's difficult to promote because you have a little bit of uncertainty about service levels and availability of stock. That's behind us.

And at the end of Q3, we're glad to report that our private label sales have—and trends have picked up significantly to the point where we believe that we're actually getting traction right now in private label. So it's—but Q3 was a period of investment behind the private label program. And those investments are continuing in Q4 as we don't take anything for granted on that part.

Ryan Li

Okay. Great. Thank you.

Operator

Again, if you would like to ask a question over the phone, *, 1 on your telephone keypad.

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

Michael Van Aelst — TD

Hi. Thank you. I might've missed some of this, but I think you mentioned that the trends were different in BC than they were in Alberta and Saskatchewan. Were you actually—did you actually see growth in BC?

François Vimard

We don't specify—

Marc Poulin

Exactly.

François Vimard

—Michael, but what we're saying; it's better than the rest of Alberta and Saskatchewan, that's for sure. Clearly, there's more impact in those provinces.

Marc Poulin

Yeah. Customer behaviour is different.

Michael Van Aelst

Okay. As for the West, I guess staying on that topic, how confident are you that the traffic trends are something that you can fix with the promotional and increased promotions and decreased pricing? Or this is a shift to discount that's a channel that's a bigger issue that you'll have to address differently longer term?

Marc Poulin

No. We clearly are looking at this from a structural point of view and not a promotional adjustment point of view. So we're taking the necessary step to look at it structurally and I would refer you back to the lower produce initiative and the way we're going-to-market in produce. This is not a promotion. This is something that's going on and that will keep going on. It's a new way of doing business in produce for us in Western Canada.

Michael Van Aelst

So your lower prices on produce in Western Canada, does that put you in line with the discounters? Or does it put you in line with the other—below the other conventional store or full service stores?

Marc Poulin

I think it puts us in line because—to be the retailer that delivers the best value in produce in Western Canada currently between the quality of the product, the sizing of the product that we offer, and the pricing, and the service we provide to our customer. I think we are very well positioned in produce overall to deliver great value to our customers. And to be honest, since we launched the program, there's been a very good response on this. So we're—but we only expect this response to continue to grow as customers discover the enhanced value we're providing in produce on a day-to-day basis. And I'll let them judge us and be able to compare. But I'm totally confident that with the strong produce team and the enthusiasm that's behind that product that customers will see that we have a lot to offer.

Michael Van Aelst

So I'd assume you're looking at a balance between pricing that is not as low as discount but better quality.

Marc Poulin

Clearly, our offer is multi-faceted. We are not a retailer that focuses only on one variable. But we do deliver a good value proposition. And that's really how we want to position ourselves in the marketplace with a total offer that delivers great value to our customers.

Michael Van Aelst

Okay. And then, just finally on the residential real estate side of it, where do you stand in liquidating the remaining properties? And what can we expect in the coming quarters given that those sales levels have been jumping around a lot?

François Vimard

Yeah. Clearly, and as you know, it depends on the market opportunity. And clearly, our Genstar partnership, we're bound to have a good deal over the Q3. There's still, I would say, another two years to go before going there—going to the final sales. But we are sometimes surprised about the capacity they have to generate good return on those assets, even in markets that are under pressure. So you can foresee still I would say two years' momentum of that business.

Michael Van Aelst

This quarter was, I guess, exceptionally high for you?

François Vimard

Yeah.

Michael Van Aelst

We shouldn't expect that going forward.

François Vimard

No. No. You should look at the average they had over the past three, four years. That's what we're forecasting. And that's what we should have for the next two years. But sometimes quarter over quarter, they have some good deal that can jump up.

Michael Van Aelst

All right. Thank you.

Operator

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

Ken Chernin

Thank you, Keith. Ladies and gentlemen, we appreciate your continued interest in Empire and look forward to having you join us for our fourth quarter fiscal 2016 conference call on June 29th. Good bye, and thank you again.

Operator

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

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