# FINAL TRANSCRIPT

## Empire Company Ltd.

## Fourth Quarter Results 2015 Conference Call

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## PRESENTATION

**Operator**

Good morning, ladies and gentlemen. My name is Aaron (phon), and I will be your Operator today.

At this time, I would like to welcome everyone to the Empire Company Ltd. Fourth Quarter Results 2015 Conference Call. At this time, all lines have been placed on mute to prevent any background noise.

After our speakers' remarks, we will have a question-and-answer session. If you would like to ask a question at that time, please press *, then the number 1 on your telephone keypad. And if you choose to withdraw your question, please press the # key.

I'd like to turn the call over to Mr. Ken Chernin, Director of Investor Relations. Mr. Chernin, you may begin.

**Ken Chernin** — Director of Investor Relations, Empire Company Ltd.

Well, thank you very much, Aaron. Good morning, and thank you for joining us.

Our comments today will focus primarily on the financial results of the fourth quarter and fiscal year ended May 2, 2015. Following our comments, we will then be open to your questions.

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

Joining me on the call this morning are Marc Poulin, President and Chief Executive Officer, and François Vimard, Chief Financial and Administrator—I'm sorry, Administrative 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. 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 Administrative Officer, Empire Company Ltd

Thank you, Ken, and good morning, everyone. Before I start, I wanted to take a moment to acknowledge and thank Stewart Mahoney, Senior Vice President, Treasury, and Investor Relation, on his recent retirement from Empire.

All you know—all of you who have worked with Stewart over the years will know him as a true professional and a trusted resource. And I hope you will all join us in wishing him well.

Now to our business. Consolidated sales in the fourth quarter were $5.77 billion, a decrease of $173.8 million or 2.9 percent. The decline in sales, as expected, was primarily a result of the previously announced retail store divestiture, store closure associated with the network rationalization, and a decline in oil price, which impacted fuel sales in the food retailing segment. These factors were partially offset by food inflation.

Sobeys same-store sales growth for the quarter was 0.8 percent. Excluding the negative impact of oil price on fuel sales, same-store sales would have increased 2.1 percent.

Consolidated sales for fiscal 2015 were $23.9 billion, an increase of $2.97 billion or 14.2 percent compared to last year. Same-store sales growth for fiscal 2015 was 1.4 percent compared to last year, and fiscal 2015 same-store sales were 1.9 percent, excluding the negative impact on oil price on fuel sales.

Consolidated EBITDA in the fourth quarter was $236.6 million compared to $147.4 million in the fourth quarter last year, an increase of $89.2 million or 60.5 percent. EBITDA margin increased to 4.10 percent from 2.48 percent last year, a 162 basis point improvement.

After adjusting for items considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for the fourth quarter was $340.1 million, an increase of $19.5 million or 6.1 percent over the fourth quarter last year. Adjusted EBITDA margin in the fourth quarter was 5.91 percent, up 50 basis points from 5.41 percent in the same period last year.

For the full year, consolidated EBITDA amounted to $1.23 billion compared to $755.3 million last year, an increase of $470.8 million or 62.3 percent over last year. Adjusted EBITDA for fiscal 2015 was $1.33 billion compared to $1.06 billion last year, an increase of $272.3 million or 25.8 percent.

Finance costs, net of finance income, in the fourth quarter were $34.6 million, down $13 million compared to the same period last year. Lower finance costs are the result of having repaid over $1.6 billion in funded debt since the acquisition of Canada Safeway.

The Company effective income tax rate on continuing operation for the fourth quarter of fiscal 2015 was 28.1 percent compared to 108.1 percent in fiscal 2014. The decrease in effective tax rate is primarily attributed to a reduction in partial, non-deductible acquisition costs attributed to the Canada Safeway, combined with the lower earnings before income tax, on which to calculate the effective tax rate in the prior period.

These factors were partially offset by the re-measurement of the Company's deferred income tax provisions completed in the fourth quarter of fiscal '14.

In the fourth quarter, Empire recorded adjusted net earnings from continuing operations, net of non-controlling interest of $138.7 million or a $1.50 per diluted share compared to $132.1 million, $1.43 per diluted share last year, a 5 percent increase over the prior period.

For fiscal 2015, Empire recorded adjusted net earnings from continuing operations, net from non-controlling interests of $518.9 million, $5.62 per diluted share compared to $391.4 million or $4.88 per diluted share last year.

With respect to our overall consolidated financial condition, at the end of the fourth quarter, Empire's consolidated ratio of funded debt to total capital was 27.7 percent compared to 38 percent last year.

Cash and cash equivalent at the end of the fourth quarter equalled $295.9 million. Free cash flow for fiscal 2015 was $1.44 billion versus $875.3 million last year. This increase in free cash flow was attributable to the increase in cash flow from operating activity combined with an increase in proceeds from—on the disposal of property, equipment, and investment property associated with the sales of 10 properties to Crombie REIT, sales of 22 properties to Econo-Malls, and the divestiture of manufacturing facilities.

Investment in other operations reported operating income of $29.9 million in the fourth quarter versus $16.9 million in the same period last year, an increase of $13 million.

Equity accounted earnings from Genstar were $11.1 million in operating income in the fourth quarter, an increase of $0.2 million compared to $10.9 million recorded in the same period last year.

Equity accounted earnings from Company investment in Crombie REIT were $7 million, an increase of $0.1 million over the same period last year. We refer you to Crombie Q1 news release on May 13th for detail of its most recent quarterly results.

I will now turn the call to Marc Poulin.

**Marc Poulin** — President and Chief Executive Officer, Empire Company Ltd.

Thank you, François, and good day, everyone. During the fourth quarter, Sobeys' same-store sales, excluding fuel sales, increased 2.1 percent. Our internal food inflation for the quarter was calculated at 3.9.

The system integration, combined with the private label program transition, had some impact on our Safeway sales momentum during the quarter. Our team is working to bring the momentum back.

We did see fuel price inflation in the quarter. Including fuel sales, same-store sales increased 0.8 percent.

Sobeys's fourth quarter gross profit was $1.46 million, a decrease of $57.3 million or 3.8 percent for the same period last year due to a $30.5 million noncash onetime inventory adjustment, as well as store divestitures and network rationalizations.

These factors were partially offset by synergies realized from the Canada Safeway acquisition, coupled with new retail selling square footage. Sobeys's gross margins for the fourth quarter decreased 22 basis points from last year.

After accounting for the $30.5 million onetime inventory adjustment, Sobeys's fourth quarter gross margin increased 31 basis points from last year to 25.76 percent.

We are also pleased with our cost control initiatives to date which had a favourable impact on SG&A, in addition to the progress made against our synergy target. This progress is not fully reflected in our results because, similar to the third quarter, we experienced higher incentive provision expenses.

This was largely the result of achieving, and in many cases, surpassing integration targets, improved operating performance relative to the same period last year, and the appreciation in our stock price, which impacts certain components of variable compensation.

Consistent with our growth and the improvement in our financial position, we announced today an increase in Empire's quarterly dividend per share from $0.27 per share to $0.30 per share, an 11.1 percent increase. This marks the 20th consecutive year of Empire dividend increase.

We have also recommended a three-for-one share split, which is subject to shareholder's approval at the annual general meeting of September 10, 2015.

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

Throughout fiscal 2015, and continuing into the fourth quarter, we have achieved significant milestones in the integration of Safeway, which includes the SAP transformation, liquor integration, SKU rationalization, and the continuation of our private label harmonization of the Safeway and Sobeys private label portfolios to create the best-in-class line of product for the entire company.

We are currently in the process of harmonizing the existing SKUs of fresh and non-fresh items for Sobeys West, Safeway, and Thrifty Foods. We remain focused on running our business while ensuring that the integration of Canada Safeway remains a top priority.

During fiscal 2015, Sobeys recognized cost synergies of $145 million associated with the integration.

With the sustainment phase of the technical transformation for Safeway concluded in the fourth quarter, we are now focused on the second phase of the integrations cost synergy initiative, which will capture cost synergies associated with distribution and logistics, modernization of offering at store level, and SG&A savings.

Overall, we remain confident in our ability to deliver our annual run rate cost synergy target at the end of year three. But we cannot underestimate the time and effort that will be required to deliver on those opportunities now enabled by common systems.

We expect the cost synergies from the second phase of the integration to be realized in late fiscal 2016 and fiscal 2017.

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

We recently announced a number of changes aimed at streamlining our distribution network, including the closures of our Milton facility in Ontario; Calgary, 42nd Avenue; and Winnipeg, King Edward Street retail support centres.

The closure of our Milton facility will occur after the go-live of the Vaughan automated facility expansion in October of 2016. And the Calgary 42nd Avenue RSC will close after completion of our new automated distribution centre in Rocky View, Alberta slated for mid-calendar 2017.

As you know, we were successful in acquiring the 1.3 million square foot former Target Canada facility in Rocky View, just north of Calgary, subsequent to the end of the fourth quarter, for the price of $50 million.

Detail design work is already underway to convert this building to a fully automated facility. Once operational, it will have the capacity to serve the dry grocery needs of our stores in Alberta, Saskatchewan, and parts of Manitoba.

We project that these closures, as well as the realignment of other back-office support functions which were initiated at the end of the fourth quarter, will reduce headcount by approximately 1,300 jobs.

Costs associated with these closures have been recognized in the fourth quarter. However, they are not expected to be implemented until the end of fiscal 2016 and beyond.

During the fourth quarter, we completed the sale of the remaining three dairy manufacturing facilities to Agropur Cooperative. The proceeds from the sale of these facilities, coupled with the facilities sold in the third quarter, generated total proceeds of $344 million, all of which were used to repay bank borrowing.

We also closed the sale of the two bread manufacturing facilities for $32 million. As we previously announced, during the fourth quarter, Sobeys sold and leased back 22 properties from a third party for total proceeds of $61.6 million. These funds were also used to repay bank borrowing.

Subsequent to the end of fiscal 2015, Sobeys entered into an agreement to purchase certain assets and liabilities of Co-Op Atlantics' food and fuel businesses. The agreement provides for the purchase of five full-service grocery stores, five fuel stations, other real estate assets, and other assets and selected liabilities.

Co-op Atlantic member owners have approved and the regular—regulatory, sorry, clearance was obtained from the Competition Bureau on June 12th of this year. The transaction closed effective June 21st.

And it's important to notice that we are now supplying food and gas to all but two of the 49 member-owned Co-op locations. And we are substantially complete in finalizing long-term supply or franchise agreements with them.

The additional volumes associated with this transaction are expected to offset lost wholesale food volumes resulting from the loss of wholesale customers in the back half of fiscal 2015.

We continue to successfully roll out new programs, which are resonating with more and more of our customers. We are seeing some strong same-store sales growth in our new concept stores, where we launched these programs, as well as in stores which deliver on our Better Food For All and Mieux Manger strategy.

During the fourth quarter, we continued to roll out our new full-service store concept in Stratford, Ontario, as well as the opening of our newest IGA Extra store in St-Canut, Quebec.

Subsequent to the end of the fourth quarter, we also opened our first new concept Sobeys store in Atlantic Canada, in Paradise, Newfoundland and Labrador, with an additional two stores in the region undergoing conversion as we speak. We are pleased with customers' response and acceptance.

During the fiscal 2015, Sobeys became the first grocer in Canada to issue Air Miles Reward miles from coast to coast, and successfully implemented SAP in Safeway. With these achievements, coupled with our modern and highly scalable distribution network and Better Food For All strategy, we remain confident that we will continue to profitably grow the business and grow our free cash flows.

Clearly a busy but productive year in fiscal 2015, with significant progress on a number of important initiatives designed to strengthen our business for the long term.

For fiscal 2016, we will continue to focus on delivering strategic objectives, and look forward to another year of achievement.

As I already mentioned, we will continue to roll out our successful new concept stores. We will implement our new national reporting structure that will better position Sobeys for continued growth while building a harmonized approach to how we run and develop our operations from coast to coast.

This organizational structure will support the West business unit and drive synergies. We will continue to streamline our cost structure through consolidation of distribution centres, as well as select back-office operations. And we will continue to work towards the realization of cost synergies as our integration of Canada Safeway progress.

So as we enter fiscal 2016, we continue with several initiatives which will be truly transformational to our business. We are confident in both the directions we are headed and in our ability to execute given our successful track record in fast transformational initiatives.

The completion of these initiatives will be our priority. And although there is always potential for projects of scale to be somewhat disruptive in the short term, the outcome will significantly benefit our performance for the long term.

We are now happy to respond to your questions.

**Ken Chernin**

Aaron, we are ready for questions when you are. Thank you.

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## Q&A

**Operator**

Certainly. At this time, if you would like to ask a question please press *, then the number 1 on your telephone keypad.

Your first question comes from the line of Perry Caicco from CIBC. Your line is open.

**Perry Caicco** — CIBC

Yes. Thank you. Just on the same-store sales number, and the role of inflation in that, how do you see inflation playing out for you over the next couple of quarters?

**Marc Poulin**

We're seeing a downward trend. And so clearly we expect inflation to be less of a factor than in the last few quarters. I'll also be honest that we're seeing also–we've experienced a little bit more difficulty in passing through inflation in this quarter than in the previous ones. On the meat side, in particular, we're seeing customers downgrading to different cuts and adjusting to the new reality of pricing, especially in beef, which is making it difficult for us at this stage, and we need to adjust merchandising plans to take that customer reaction into account.

**Perry Caicco**

And, Marc, you mentioned that the integration somehow impacted Safeway sales. Can you describe what happened?

**Marc Poulin**

Well, clearly in this quarter, we turned the switch on, if you can use that expression, on the SAP system. When you do that there's always little hiccups. Service levels to the stores were not what we typically experienced so there were things we needed to adjust. Also important to note that not only we turned—we changed the way we procure produce during the quarter as well because we were under a service agreement with the US on produce procurement. Now it's all—all produce procurement is done in Canada so that—there were some adjustments there as well. So clearly we lost some sales momentum as we did that.

And then, another element that we had to go through is our private label. We've basically now switched out of Safeway private labels under the Safeway labels and introduced Compliments in replacement. But that also impacted service levels as we made that transition. So painful things for the team to have to deal with in the sense that it's disruptive and unfortunately service levels to their stores were not. So we're recovering from that, but from an actual performance at store level but and after that we need to recover from a customer confidence perspective. But I think we're on the right track on that front.

**Perry Caicco**

So it'll take some time to stabilize. And on top of that, are you seeing any consumer weakness in the west at all?

**Marc Poulin**

We're seeing a bit of consumer weakness to be honest but to some very specific stores in our network. So I wouldn't describe that that overall weakness for the west in general. But I'll be honest there are some stores that—where you can see a weakness due to lower level of oil-related activities in those markets in the north.

**Perry Caicco**

And just one last question. I'm interested in the mix of sales, fresh versus grocery, compared to where you were last year and some of the challenges as you sell more fresh.

**Marc Poulin**

Well, clearly that's been a trend in our business, and it's going to be a trend for the future. Our differentiation is around fresh and we're getting customer—customers appreciate our fresh offer and clearly the focus of the business and of customer expectation is moving towards fresh. And I think that's a long-term trend.

**Perry Caicco**

Okay. That's good for me. Thanks.

**Operator**

Your next question comes from the line of Michael Van Aelst from TD Securities. Please go ahead.

**Michael Van Aelst** — TD Securities

Hi. Good morning. Are you able to quantify the dollar impact on EBITDA from the store closures and divestitures?

**Marc Poulin**

Yes, but I don't think we can give you the numbers.

**François Vimard**

Yeah.

**Marc Poulin**

It's not something we're ready to share.

**Michael Van Aelst**

Okay. I think you had said that the store closures weren't—the one—stores being closed weren't all that profitable, which would make sense—

**François Vimard**

Yes.

**Michael Van Aelst**

—but the divestitures I would assume would have had some impact there.

**François Vimard**

Yeah. It has an impact on EBITDA. What we were saying is net on the EPS level, the net of it is neutral with the savings on the finance cost side.

**Michael Van Aelst**

Okay. What is the—in the other operations, net of corporate expense, when you look at this year it was almost 12 million versus down a million last year. Is that all gains on asset sales less corporate expenses? Or is there something else?

**François Vimard**

No. There's some other element because of costs we had last year that we don't have this year because of the restructuring we had on the Empire level so that's why you have some benefit this year that are more onetime related than long-term related.

**Michael Van Aelst**

The benefits this year are onetime related?

**François Vimard**

Yeah. The benefit this year that are onetime related.

**Michael Van Aelst**

All right. Thank you.

**Operator**

Your next question comes from the line of Peter Sklar from BMO Capital Markets. Please go ahead.

**Peter Sklar** — BMO Capital Markets

Yeah. Thanks. Good morning. During your discussion, you talked about some of the reasons why the SG&A line was a little bit above trend both this quarter and last quarter. Do you anticipate that some of those factors are going to fall off as we roll through the remaining quarters of this year?

**François Vimard**

That's what we think, Peter, clearly. And also with the work we're doing on the SG&A, by the end of this next fiscal year we should additional benefit coming out of those activities. It won't come before, like we said, the end of fiscal '16, those additional activities. But the one you saw this year, they should slow down in the next two, two or three quarters.

**Peter Sklar**

Okay. And on the Target warehouse that you've acquired and are going to retrofit—

**François Vimard**

Yep.

**Peter Sklar**

— and automate, is like will it be as automated as say the Vaughan distribution facility? Or will it be something less than that?

**François Vimard**

We're looking at the same solution on the grocery side, and the analysis is not done on the fresh side. But clearly what you saw at Vaughan, that's what we're planning to put in at Target. As you know it's a big DC, 1.2 million. So the full DC won't be automated. We're going to use the rest for other let's say distribution activity that are not automated. But the grocery section clearly will be exactly like you saw in Vaughan.

**Peter Sklar**

Right. Okay. And lastly, there were some unusual items that you took. There was the DC restructuring charge and the organizational realignment. I mean do they all relate to the DC realignment, everything that Marc was referring to in his comments on the call on this?

**François Vimard**

On the DC side, yes, it's related to the closure we talked about. On the reorg element, part of it is clearly the realignment we're doing on the back office in Alberta. But also there's an agreement we reached with our BC unions for buyout of some labour force at the store level, that's going to reduce also costs at store level in BC.

**Peter Sklar**

Okay. And lastly, can you just refresh us on where you stand in both BC and Alberta in terms of using Air Miles in the pharmacy?

**Marc Poulin**

We're going to court in BC at the end of the year if I'm not mistaken, calendar year not fiscal. And in Alberta, for now, nothing has really moved from the previous quarters' situation.

**Peter Sklar**

So are you precluded? Like I'm not too sure, in BC, can you use Air Miles now in the pharmacy or?

**Marc Poulin**

We lost that right. We regained it. And now, through an injunction, and now this is going to court on the fundamental of the case. And in Alberta, we never really lost the right to do so, although we're being challenged.

**Peter Sklar**

Okay. Thank you.

**Operator**

Your next question comes from the line of Jim Durran from Barclays. Please go ahead.

**Jim Durran** — Barclays

Hi. Yeah. I wanted to look at–to have a chat about your CapEx outlook, not just for this year but over the next couple of years. You've obviously got some pretty significant initiatives going on with respect to logistics, et cetera.

**François Vimard**

Mm-hmm.

**Jim Durran**

Can you give us some idea of how much you're going to be spending in total in the upcoming—the new fiscal year? And how the dollars are going to be allocated between store and other initiatives?

**François Vimard**

I won't give you the detail. But like we said, I would say one year ago, Jim, is it's going to be in a range around 600 million and 650 million a year. We were a bit soft this year in fiscal '15. There were some timing elements. So we should go back up closer to 600 million in '16 and '17. Clearly, like we said a year ago, at the beginning would be more towards distribution and system because that's what's supporting the integration. And then the second phase of the three years would be more retail related. So '16, you're going to see a transition where it's still going to be some clearly on the distribution level but a bit more retail coming in '17.

**Jim Durran**

And do you see a time where that CapEx spend level in totality might come down materially? Or is that really sort of from an allocation standpoint your comfortable run rate?

**François Vimard**

At this stage with the network renovation we want to do out west and across the country with the new format we have, we think that level of CapEx will at least sustain at this stage, Jim.

**Jim Durran**

Yeah.

**François Vimard**

At least for the next two years, I think.

**Jim Durran**

And with respect to your merchandising strategy changes at Sobeys, and it sounds like you're now applying those to the Safeway banner as well. Is there any further thought with respect to the Safeway banner? Keeping it? Merging it into Sobeys? And what that might mean from a price point standpoint?

**Marc Poulin**

Well, we're—we haven't done any customer facing changes at Safeway apart from the introduction of our private label program at this stage. So that's the work that's coming in the next phase of the integration where we're going to put—we're creating one West business unit and integrating just the people into one unit and with the objective of aligning and harmonize our customer offerings between Safeway and Sobeys to come to the customers with a program that's the best of both worlds. So that work is getting done now that we have systems that are common. We couldn't achieve anything successful on that front before common systems. And the first phase of this effort is obviously creating that new combined western team that will be in charge of. So I think you can expect that it's not going to be immediate that we have changes at store level. We need the people and be organized to do so. So that's what we're really, really working hard on right now.

**Jim Durran**

Yeah. And last question. Just going back to the comp store sales results and some of the impact of disruption and change, like are you seeing any material improvement now? Or are we still quite a ways from kind of getting back on track?

**Marc Poulin**

So I would say it's in between the two. It's not quite a ways hopefully but it is also true that we haven't fully recovered the momentum we had in the Safeway business prior to the turning on the switch, if I could use that. So there's still work, but it's—people are working hard at it and we're optimistic about the future.

**Jim Durran**

Were you expecting to see a greater deterioration in the Alberta consumer spending than what you've seen?

**Marc Poulin**

No. I think at the end of the day, we are—there's some markets that are experiencing difficulty. But the labour trends in Alberta are still I think overall and for the long term good and the demographic trends remain pretty good in Alberta. So it's very–at this stage, it's very market specific.

**Jim Durran**

Okay. That's great. Thanks.

**Operator**

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

**David Hartley** — Credit Suisse

Yeah. Thank you, and good morning. Just back to the basket, could you break down how that basket's trending in terms of traffic and size of basket, et cetera? And also just wondering when you look at the promotional environment, can you give a sense of, whether it would be for your company or for the industry, how much product nowadays get sold on promotion. How that's trending.

**Marc Poulin**

Okay. So basket size, in our case, overall is pretty neutral. Traffic obviously is down because we lost some stores, so that's usually not very good for traffic. If you're talking for—about the promotional activity, it remains in our mind pretty competitive. I think all food retailers right now are trying to figure out meat, especially now with the change in the dynamics of the category. So it's an area that everybody I think pays a lot of attention to right now. And if you're asking I think it's—remains a competitive market from that regard.

**David Hartley**

Okay. So should I take away that if we take away the meat side of things that things are kind of trending sideways in terms of the promotional environment?

**Marc Poulin**

Yeah. No. I wouldn't say it's more competitive than it was the last few quarters. I wouldn't—but I wouldn't say it's uncompetitive at all.

**David Hartley**

Yep. For sure.

**Marc Poulin**

It remains fairly competitive. And the—I would argue though that, yeah, from a customer perspective, there's still very high interest in promotional activities from the customer. And we're still facing a customer that's very promotionally minded currently.

**David Hartley**

Okay. And so when you think about that and your move towards moving further along the path to differentiation with your Extra formats, have you seen any pullback in consumer response to that? Are you, yourselves, potentially going to slow down that format at all? Could you—or is there opportunity to do the opposite and accelerate it?

**Marc Poulin**

Well, actually we're more on the—that we've very pleased with what we're seeing with the Extra format. So in that respect, we envision to work on renovation of our existing assets under this format. I'll take Paradise, Newfoundland, we're—the first Extra format in Atlantic, very good customer response. So and I don't think there's a conflict between the two is that—I think customers nowadays are very sophisticated and they want the quality fresh experience that we can provide but they also want a good deal on it. So that's the nature of retailing in the 21st Century. We're dealing with customers who are very smart shoppers and they want it all, and it's our responsibility and our—to give better food to all Canadians. That means Better Food For All is also being responsive to their needs on eat better, do better. And the do better part is also very important so we got to respond to that. So customers don't want to compromise on anything. They want everything.

**David Hartley**

Fair enough. And just two quick ones, more just in terms of the new store openings, have you given the square footage increase you're expecting this year net of any further square footage being weeded out through divestitures?

**Marc Poulin**

We don't do future…

**François Vimard**

Yeah. But usually we are always in the range between 1 and 2 percent. And this year you should see the same kind of. Like Marc said, a bit more capital will be towards renovation expansion than new stores so.

**David Hartley**

Okay. Got it. And just in terms of the timing of the synergies, when we think about modelling here, other than the synergies you've already captured that continue to flow through, how should we think about modelling synergies into 2016 fiscal year? Should we backend weight it? Not really expect any in the first couple of quarters? Or will it be minimal amounts and then kind of heavier at the end of the year? How should I think about that, François?

**Marc Poulin**

I'll take this one. I think you got to read it from what our level of activities that needs to occur before those synergies can be realized. As we said on the call, yes, there's—now we're putting the team together. We are making everybody work together. The distribution—well, we need to build those DCs before actually getting the synergies. So I think the next six months are heavily into organizing ourselves under the new system that we've just implemented in order to deliver those synergies. So I think without giving you a forward-looking statement on a quarter-by-quarter basis of things to go, I think the logic of the activities that are necessary to realize on those synergies, we're more in a prep situation—preparing ourselves right now rather than actually opening a new DC or things like that. So I think you can read into it what it means.

**David Hartley**

Sure. That makes sense. Thanks, a lot guys.

**François Vimard**

Thanks.

**Operator**

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

**Vishal Shreedhar** — National Bank

Hi. Thanks, for taking my questions. On food retailing EBITDA, or EBIT rather, that was up about 15 million year over year. Synergies were 23. I was just hoping—I was hoping you can help me understand the delta. I think you called out a few items like variable comp and challenges at Safeway. But are there any other large items that would explain the discrepancy?

**François Vimard**

I think those explained the most of it I would say, Vishal.

**Vishal Shreedhar**

Okay. The—in terms of the quarter, I think you noted on the press release, management said that the quarter hit was in line with internal expectations. As you reflect over the last year, year and a bit, with Safeway, how is that relative to your internal expectations? And when you fast forward a year or two out, how will you measure success? Like what will success mean with Safeway? Will it mean like net promoter score? ROIC? Or EBITDA? Or how we should think about that?

**Marc Poulin**

Well, clearly our current focus on the Safeway business is to successfully integrate the business in ours so that we could build that platform for growth for the Company as a whole. So clear focus on having common systems, common processes around the businesses, a distribution system that's efficient and probably will be top of class with our new automated facility in Alberta, a team that’s—and customers that are starting to feel a more common thread between the two offerings. So we're very much focused on—in the next year a half now of our three-year plan on delivering on those synergies and delivering a store platform that will be built for future growth with the right systems, the right people, the right infrastructure. And so—and obviously that will lead into a better store experience for our customers. So how fast will it translate into customer acceptance of—there's always a lag and so you need to do the plumbing before you can enjoy the house.

**Vishal Shreedhar**

Okay. Yeah. In terms of metrics, I was just wondering, as investors look at the Safeway acquisition, or even the business, are there any key metrics that we should focus on that you guys focus on? Like do you have IRR targets? Or ROA? Or ROIC? Or anything like that? I was just hoping to get your thoughts on that.

**François Vimard**

Yeah. And clearly maybe I can comment a bit on the financial side. I would say the key element clearly on the retail side, you need growth. So for sure for us same-store sales is still an element that—it’s critical. So clearly when you're doing a transition, it's always tougher to focus on every element at the same time. But clearly, we're building a big base so we can continue to grow.

And that top line growth is going to transit because of better efficiencies we get on the SG&A side with better EPS and better returns. And that's the way we're going to measure I would say success, Vishal.

**Vishal Shreedhar**

Okay. Thanks for that. And just in terms of you noted some transient challenges at Safeway related to turning on the systems and changing some merchandising programs. Was that the key reason, as you look at your same-store sales growth and the internal inflation, the delta there? Or was some of the weakness on that metric, was that more broad based across the county?

**Marc Poulin**

Well, clearly this was a significant element versus let's say our previous quarter trends but the trends that have been affecting the business for the last few months are the same. There's some parts of the country are seeing growth in square footage. That continued in Q4. Some and overall a customer that needs to be stimulated that trend continues. So and the—little bit more, I would argue, a little bit more resistance from a customer perspective on the meat side than—due to continued inflation in beef in particular.

**Vishal Shreedhar**

Thanks very much for your time.

**Operator**

Your next question comes from the line of Perry Caicco from CIBC. Please go ahead.

**Perry Caicco**

Yeah. I just want to follow up on the distribution changes in Western Canada. It sounds like you've got a lot on your plate over the next couple of years. How do you plan on managing risk during that time period? And should we be cognizant of any additional costs that you may have to incur?

**François Vimard**

That's a good question. Clearly it's not the first time we're doing those kinds of change, but it's—the magnitude is a bit bigger because it does cover many provinces out west. And clearly, we have a good team in place that know how to manage project and plan in advance and transit. Like Marc said in his comments, clearly, there could be some I would say hiccup during the process. But we think that we have the right timing to do it. It's just that we have to be sure we're measuring it and being sure to control it.

**Marc Poulin**

And I think, to be honest, the fact that we've been able to secure the Target warehouse in Calgary significantly lowers the risk of—in the warehouse system. We had other plants for automation in Western Canada that—but being able to do it greenfield rather than brownfield if I want to use that expression lowers the risk so we got a lucky break on this one and we're going to take it.

**Perry Caicco**

And, Marc, just another one. How do you feel about your position in the Ontario market today and I'm thinking here you've got the role and perhaps expansion opportunities of FreshCo, the Sobeys banner, undergoing some type of revitalization. How do you feel about your position today in Ontario?

**Marc Poulin**

Well, yeah, our Ontario business is three segments, well actually four. So on the FreshCo side of things, very pleased about the performance of FreshCo. Customer acceptance continues to be strong. We're—and I'll be honest, I think we're building a bit of loyalty—strengthening the loyalty of our customer base around the concept. And there's three Price Chopper stores left so that's—and so that dynamic is very good.

On the Sobeys side, what we're seeing is good customer reaction to the new offer. So obviously our plan is to renovate the stores around that offer and build from there. But so our new Laird store, for example, has been very well received by our customer base. So the introduction of new programs, strengthening of our customer offer on the Sobeys side is the key to our future growth.

On the Foodland side, we've introduced a few new stores, like in Ayr recently, that have been very well received for the customers. So this—we're putting some capital behind some of those stores in the form of relocation or significant enlargement and that's driving growth in that segment. And the last part of our Ontario business that's doing—that we don't talk usually as much but the wholesale business in Ontario, we gained significant new contracts last year in wholesale. There's a lot of change in the tobacco world right now that are playing in our favour, so in terms of acquiring street business. So we're looking, and given our structural—cost structure on distribution that's favourable, we're envisioning that the wholesale business will be a growth driver for us in Ontario. So it's not an easy market, and it's never been, and I don't think it will ever be an easy market, but I think we can foresee progress on all fronts in that market.

**Perry Caicco**

Okay. Thanks.

**Operator**

Your next question comes from the line of Michael Van Aelst from TD Securities. Please, go ahead.

**Michael Van Aelst**

Thank you. I just wanted to follow up on FreshCo, and you talked a few years ago about wanting to spend, I think, it was three years to turn that business or get that business at a level that you want it to be. Are you at the stage now where you are getting closer to making a decision on rolling that out to other markets, particularly Western Canada?

**Marc Poulin**

So the plan was three years of heavy conversion which completed and two years of fine tuning of the operation. We're in that two years so a little bit early to make this call but the business is performing very well.

**Michael Van Aelst**

All right. Thanks.

**Operator**

Your next question comes from the line of Chris Li from Bank of America. Please go ahead.

**Chris Li** — Bank of America

Oh, hi. Good morning. Marc, for the dry grocery side, are you generally satisfied with your ability to pass on cost increases? Or is that more challenging because there's more competition from the mass merchants?

**Marc Poulin**

So I'm not sure I would phrase it in the context of passing on inflation, but it is true that this business is being challenged by a lot of different outlets selling similar products. So we're adjusting our plans. As far as inflation is concerned on the dry grocery side, there's a bit of that coming up. I think clearly, and I don't know how that's going to play out, but the full impact of the Canadian dollar hasn't hit this side of the business yet. And we'll—I don't know what are going to be the intent of manufacturers on that front. But clearly inflation on the dry side of the business has not followed the inflation on the fresh side of the business.

**Chris Li**

Okay. That's helpful. And I guess in your opening remarks you mentioned that the DC closures and the realignment will reduce your headcount by roughly 1,300 jobs. Is that a net reduction? Or will some of the employees be transferred to other DCs?

**François Vimard**

No. That's the net reduction, Chris.

**Chris Li**

That's the net. And just to also clarify, you don't expect to realize those cost benefits until fiscal 2017?

**François Vimard**

Like we said, on the DC side, the earliest one's going to be October of '16 and the other ones are going to be March of '17.

**Chris Li**

Okay.

**François Vimard**

So you can imagine on DC side, it's going to take some time. On the reorg side, it's going to be sooner. But like Marc said, it will be more—the latest part of F '16 and then beyond.

**Chris Li**

Gotcha. Okay. And then for the synergies that you achieved so far in the year, 145 million, can you give us a rough breakdown of the split between cost of goods sold and expenses?

**François Vimard**

Yeah. We didn't separate that, Chris, but like we said in the past, most of it at this stage are cost of goods sold, not related to procurement synergy. We had some in the SG&A with the stop of the PSA with Safeway US, but most of it is on the cost of goods.

**Chris Li**

And from a modelling perspective, can you help us out? We modelled the other income net of corporate expenses line for fiscal '16. How should we model it? Because obviously there was that 12 million impact this quarter. But going forward for the full year, what is the right number to use in our models?

**François Vimard**

Well, like I said previously what you've seen this quarter is something that was more onetime related so…

**Chris Li**

Okay.

**François Vimard**

We should go back to something more regular.

**Chris Li**

Okay. And last question. Just from the Co-op acquisition, it sounded like that's going to offset the loss of the wholesale customer in the back half of the year. So should we think of it as more of an earnings neutral impact?

**François Vimard**

I would…

**Marc Poulin**

I am not going to saying anything on that front. Obviously that's kind of giving margins on wholesale accounts, which I don't think we would like to do.

**Chris Li**

Okay. Okay. Thank you very much.

**Operator**

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

And we are showing no further questions in the queue. I'll turn the call back over to the presenters.

**Ken Chernin**

Great. Thank you very much, Aaron. Thank you, ladies and gentlemen. We appreciate your continued interest in Empire and look forward to having you join us for our first quarter fiscal 2016 conference call on September 10th of 2015. Good bye.

**Operator**

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

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